

FOREIGN ASSISTANCE REFORM

HEARINGS

BEFORE THE

COMMITTEE ON FOREIGN AFFAIRS

HOUSE OF REPRESENTATIVES

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FOREIGN ASSISTANCE REFORM IN THE NEXT ADMINISTRATION: CHALLENGES AND SOLU- TIONS

WEDNESDAY, APRIL 23, 2008

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

The committee met, pursuant to notice, at 9:30 a.m. in room 2172, Rayburn House Office Building, Hon. Howard L. Berman (chairman of the committee) presiding.

Chairman BERMAN. The committee will come to order.

And I would very much like to welcome our expert panel of witnesses to the committee today to discuss the daunting task that the new administration and the next administration and the Congress faces, the reforming and rationalizing of the U.S. foreign assistance system. It is painfully obvious to Congress, the administration, foreign aid experts, and NGOs alike that our foreign assistance program is fragmented and broken and in critical need of overhaul. I strongly feel that America's foreign assistance program is not in need of some minor changes but rather it needs to be reinvented and retooled in order to respond to the significant challenges our country and the world faces in the 21st century.

This year our committee will review our foreign assistance program to look at what actions are needed to achieve coherence and effectiveness in the U.S. foreign assistance framework. We will hold a series of hearings on various aspects of foreign assistance reform such as rebuilding U.S. civilian, diplomatic and development agencies, the role of the military in delivery and shaping foreign assistance, and improving America's image around the world. These efforts will help inform the committee on the direction that Congress and the next administration should take in reforming the U.S. foreign assistance.

Many experts are calling for a partnership between the Congress and the next administration to come together and work on improving our foreign assistance programs. I am committed to this partnership and will do everything I can to ensure that it yields results. Next year our committee intends to reform and rewrite the Foreign Assistance Act of 1961, that is assuming I have any input into what we do next year. That bill has not been reauthorized since 1985. This antiquated and desperately overburdened legislation, it is over 500 pages long, does not adequately provide the flexibility and necessary authorities for our civilian agencies to

tackle global extremism, poverty, corruption, and other threats to our long-term national security goals.

As Congress and the next administration come together on re-writing this legislation we must give greater attention to core development programs, particularly basic education, child survival, maternal health, cultural exchanges and agricultural development programs. Recently there have been a few stark examples of poorly performing programs which have resulted in waste, fraud and abuse, such as the United States reconstruction programs in Iraq and Afghanistan. Our foreign assistance programs have also been crippled by a lack of resources, coordination and a lack of critical capacity and authorities necessary to support such programs.

As a result, there has been an ad hoc effort to reform our foreign assistance programs through new programs such as the Millennium Challenge account, new mandates, and more congressional and administrative directives. I welcome the efforts to better coordinate our foreign assistance programs and to make those programs more accountable by providing merit-based assistance to good performing countries through the Millennium Challenge account. However, I am concerned that these efforts merely provide a stopgap to the problems which require broad-reaching and long-term solutions. With over 10 Cabinet departments and over 15 sub-Cabinet positions and independent agencies involved in implementing foreign assistance, our system has become plagued with poor oversight and accountability and a lack of meaningful coordination and coherency.

And I am also concerned by the Department of Defense's rapid encroachment into foreign assistance. Astonishingly, the proportion of DOD foreign assistance has increased from 7 percent of bilateral official development assistance in 2001 to an estimated 20 percent in 2006. DOD activities have expanded to include the provision of humanitarian assistance and training and disaster response, counternarcotics activities, and capacity building of foreign militaries. These activities should be carried out by the Department of State and USAID. The military is over-burdened and over-stretched and they must focus on the security threats facing our nation. While the civilian agencies should coordinate their activities with the military to ensure coherency of effort, we should not longer rely on the military to be the diplomatic and development face of America around the world.

I would again like to welcome our witnesses today who will address the various challenges facing the U.S. foreign assistance structure and their recommendations for moving forward in the next administration. And I am going to yield myself an additional minute and we do the same just to finish the last part of the statement.

I am looking forward to the witnesses to get their assessment of the current system and the organizational and legislative obstacles facing the current system and their recommendations for organizational and legislative reform. Specifically, should Congress and the next President merge USAID completely into the Department of State? Should we upgrade USAID to a Cabinet-level department for development or maintain the status quo? What should a foreign assistance reauthorization bill look like?

And I would also like our witnesses to answer the question how do we balance our national security objectives with our development goals in our foreign assistance programs? Or are they mutually reinforcing? What role should the U.S. military play in providing foreign assistance? And how do you propose to improve the capacity of U.S. civilian agencies to respond to the challenges of the 21st century?

I now turn to my friend and ranking member, Ileana Ros-Lehtinen of Florida, for her opening statement.

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

I am also pleased to welcome our witnesses, particularly our former colleague Chairman Kolbe who served as one of the most respected Members of Congress on issues involving foreign aid programs. We are so pleased that you rearranged your schedule in order to be with us, Chairman Kolbe.

As the chairman has pointed out, despite efforts over the years to reform our foreign assistance program over the years, and these changes have been attempted by truly great Members of Congress such as Senator Hubert Humphrey and several former chairmen of this committee, including Dante Fascell, Lee Hamilton, Ben Gilman and Tom Lantos, we essentially have not reformed the 1961 Foreign Assistance Act in any meaningful way since 1973. And I commend the chairman of our committee, Mr. Berman, for committing to the task of both authorizing our assistance and overhauling our foreign assistance statute which is now close to 50 years old.

And to reform and update the 1961 Foreign Assistance Act would entail addressing a range of really difficult issues. We would need to look at the categories of assistance, their objectives and their associated programs. The Congress would have to focus on addressing questions concerning aid for development and whether the concepts underlying these which go back to President Kennedy's day are relevant today and whether they are still effective. We would need to consider the many, many restrictions, the directives, the earmarks that have been placed on our assistance program, something that would raise concerns among many members, and not just inside Congress but outside as well, who see policy prescriptions as vital to specific efforts and programs that we most care about.

We would have to look at ways in which our foreign aid agencies and offices implement and oversee their particular programs. What we have today is something like a bowl of spaghetti with lines of authority and often uncoordinated pursuits of objectives that are difficult to follow. We would need to look at the organization and the structure of foreign aid agencies and offices and consider in a detailed manner questions having to do with personnel, with procurement, with contracting, with evaluation.

And I credit Secretary of State Rice for trying to address much of this on her own through the creation of the Office of the Director for Foreign Assistance at the State Department 2 years ago. However, that effort might not achieve the coordination and the evaluation of our assistance that we would all like to see. And there has been no congressional engagement in the creation of that new office.

Some have proposed the creation of a new Cabinet-level Department of Foreign Development but the question is whether a new

centralized agency would simply follow in the path of USAID. USAID was originally set up as a centralized agency in 1961 but as demands changed some of its programs were taken over or supplemented by spin-off agencies and entities and projects. So Cabinet-level status for a foreign development agency probably would not be enough to prevent the eventual spin-off of aid programs as a response to the need for specialized expertise in areas such as infectious diseases, transnational threats, trafficking in persons, cybercrime and similar areas.

Therefore, I would like to ask our distinguished panelists what do you view as an alternative structure to respond to current and emerging challenges, dynamics, needs and priorities? A recent commission established by the Congress to look at such questions, the HELP Commission, was unable to agree on this issue. But the HELP Commission did prepare a draft bill that provides a basis for discussion today and it places the onus on the President to develop a reorganization plan that would include the development of a new foreign assistance agency if the need is there, the abolition of USAID if appropriate, the termination of functions of certain agencies as may be necessary, the transfer of new foreign assistance programs, the functions, to each covered agency, and the consolidation and streamlining of the Department of State. So I welcome the panelists' remarks on these proposals.

And finally I would like, I know that Chairman Kolbe has spent so much of his time in Congress dealing with entitlement programs. And that may very well confront us with some difficult choices in the coming years. We may not have much in the way of available funds for foreign aid in the future, but if other programs place pressures on our overall budget. And one overarching goal must be to ensure that our foreign aid is neither wasted nor lost through corruption. And all of know how difficult it is to defend foreign aid programs when instances of waste or fraud arise and they become there for us all to see.

So any effort to reauthorize or reform our foreign aid program must have an assurance that the program is indeed effective. And that is what the taxpayers want to know. And any such efforts would have to be constantly evaluated and this oversight is such a necessary part. And maybe this can be accomplished through an independent agency for evaluation.

So I welcome all of your thoughts and I hope that we are able to succeed in your efforts, Mr. Berman, of truly looking at foreign aid to tie it to results and that funding would go to those topics and those issues and those programs that work the best for America's taxpayers. Thank you.

Chairman BERMAN. Well thank you very much, Ms. Ros-Lehtinen. And I look forward to a partnership with you as we go down this course.

Are there any other members of the committee who would like to give 1-minute opening statements? The gentlelady from California, Ms. Watson.

Ms. WATSON. Thank you so much, Mr. Chairman.

Fighting poverty is the most important humanitarian and security crisis facing the world today. The position of U.S. foreign assistance over the past several decades has been put to many admi-

rable uses. But as the Oxfam report notes, the problem has been coordinating the overall foreign assistance effort, and in particular combining shorter national security concerns with the longer term goals of smart and sustainable development.

I hope this hearing will begin the process of discussing ways to reform the U.S. provision of foreign assistance, how to reform the legislative and organizational structure and the implementation and foreign aid. When I was an Ambassador at the Federated States of Micronesia I was confronted with an outbreak of cholera. The USAID mission performed professionally and admirably. And I will always be impressed by the number of USAID officials I met who conducted themselves with the highest degree of professionalism and knew the culture and knew the environment in which they had to work.

That being said, I am also aware of the bureaucratic structure at the State and the fact that an FSO's rise through the ranks to a DCM, deputy chief of mission—may I have just another minute to finish?

Chairman BERMAN. An additional minute to the gentlelady unanimously.

Ms. WATSON. Yes, I will finish.

And I just want to say we need the proper political and economic support from both the Congress and the executive branch so that we can have a foreign mission that really serves our goals of this country and serves our foreign policy well. So I hope to hear from our witnesses this morning, Mr. Chairman, ways in which we can improve our foreign assistance.

Thank you very much.

Chairman BERMAN. The time of the gentlelady has expired.

The gentleman from Texas, Mr. Green.

Mr. GREEN. Thank you, Mr. Chairman. I will be brief. And I ask unanimous consent that my full statement be placed in the record.

Chairman BERMAN. Without objection.

Mr. GREEN. In my short time on this committee and having an opportunity to meet with lots of leaders from other countries and visits particularly to Latin America I found that, and following our Ambassador, I was never so proud to see our USAID folks in a rural area of Bolivia providing internet hookup in a country that is really difficult politically for the United States now, or the Peace Corps in northern Ecuador. And I am convinced that our country needs to lead with the soft assistance in the world. Our military will always be there but it is much better to have our folks there earlier doing some of the good things our country is known for instead of having to do the military side of it.

And with that, Mr. Chairman, I appreciate your effort to do this. Our committee has already done some things this year with the international tuberculosis effort and things like that and your leadership on the bill on HIV. So I look forward to continuing to work with you.

[The prepared statement of Mr. Green follows:]

PREPARED STATEMENT OF THE HONORABLE GENE GREEN, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF TEXAS

Thank you, Mr. Chairman, for holding this hearing today, and I would like to welcome our witnesses.

In my short time on this committee, meetings with leaders of other countries, and visits to Latin America, I believe that our country needs to lead with soft assistance in the world.

Our military is shouldering the burden, and our soft assistance must be used earlier.

Since the last successful major overhaul of the U.S. foreign assistance program in 1973, the international community has changed with the end of the Cold War, the rise in globalization, and the security implications of a post-9/11 world.

Nevertheless, many of the issues that the Foreign Assistance Act set out to address in 1961 still exist today.

Global health has become a significant focus of our country's foreign assistance program in recent years.

As a member of the House Energy and Commerce Health Subcommittee, I support strong health initiatives and have worked with Mr. Engel of this committee for several years on addressing tuberculosis, in particular.

The bulk of U.S. international health funding has been targeted at infectious disease, as reports indicate that persistent infectious disease burdens in developing countries likely increases the risk of economic decay, social fragmentation and political destabilization.

Reports also indicate that the economic costs of infectious diseases—especially HIV/AIDS, malaria, and tuberculosis—take a heavy toll on a country's productivity, profitability and foreign investment and significantly, reduce the Gross Domestic Product of sub-Saharan African countries in particular.

Additionally, the U.S. funds global health through the State Department's Child Survival and Health Program, which includes funding for basic education initiatives, reproductive health and population activities.

Specifically, Child Survival and Health Program funding is utilized for immunizations, health and nutrition education, water sanitation, displaced and orphaned children and the treatment, research and prevention of infectious diseases.

I believe that the United States should continue to fund these types of initiatives as well as promote education globally.

Education raises incomes, reduces infant mortality, slows the spread of HIV/AIDS, and is key to lifting millions out of poverty globally, yet today 77 million children around the world don't attend school because neither their families nor their governments have the resources necessary to provide them with a basic education.

I am concerned that funding for the International Affairs Budget remains low by historical standards, and still falls short of what we spent in this area during the Cold War adjusted for inflation.

Increasing this budget will provide our country more capabilities to wage the diplomatic component of the war on terrorism, honor our commitment to fight the scourge of HIV/AIDS, and support other programs that serve our national interests.

I believe that our foreign assistance program should continue to focus on these problems, but I want to ensure that these programs are carried out as efficiently as possible and this is what we are here to discuss today.

Therefore, I am interested in how our witnesses recommend doing this and I look forward to their testimony.

Do we need to completely reform the Foreign Assistance Act or can we can we streamline our efforts within the current legislative authority?

How can the U.S. continue to promote and fund the initiatives that I discussed above while dealing with a lack of civilian capacity and interagency coordination as well as the security implications of a post 9/11 world?

Thank you, Mr. Chairman, and again, I thank our panel for being here today.

Chairman BERMAN. The gentleman's time has expired. We will go to introduction of really an exceptional panel and to discuss the challenges and solutions of reforming our foreign assistance program.

Dr. Lael Brainard is the vice president and director of Global Economy and Development Program and holds the Bernard L. Schwartz chair in international economics at the Brookings Institution. Dr. Brainard served as deputy national economic advisor and chair of the deputy secretary's Committee on International Economics during the Clinton administration. Previously she served as associate professor of applied economics at the MIT Sloan School. She received her master's and doctoral degrees in economics from

Harvard University and has authored many studies on foreign assistance, global poverty, and international economics.

Steven Radelet is a senior fellow at the Center for Global Development and I think has been talking about this subject for a very long time because he is very familiar to the committee. He works on issues relating to foreign aid, developing country debt, economic growth, and trade between rich and poor countries. He was deputy assistant secretary of the U.S. Treasury for Africa, the Middle East and Asia from January 2000 through June 2002. And in that capacity he was responsible for developing policies on U.S. financial relationships with the countries in these regions, including debt re-scheduling programs with the IMF, World Bank, and other financial institutions. Prior to that Mr. Radelet was on the faculty of Harvard University where he is a fellow at the Harvard Institute for International Development, director of the Institute's Macroeconomics Program, and a lecturer on economics and public policy. He served as an advisor to the Indonesian Government, the Ministry of Finance and Trade in The Gambia and currently serves as an economic advisor to the President and Minister of Finance of Liberia.

Raymond Offenheiser is the president of Oxfam America, a non-profit international development and relief agency and the U.S. affiliate of Oxfam International. Before joining Oxfam America he served for 5 years as the Ford Foundation representative in Bangladesh and prior to that in the Andean and southern cone regions of South America. He has also directed programs for the Inter-American Foundation in both Brazil and Colombia and worked for Save the Children Federation Mexico. Mr. Offenheiser holds a master's degree in development sociology from Cornell University and earned his bachelor's degree from the University of Notre Dame.

And we are all quite pleased to have our former colleague, the distinguished Congressman Jim Kolbe to the committee. Congressman Kolbe currently serves as senior trans-Atlantic fellow for The German Marshall Fund of the United States. He advises on trade matters as well as issues of effectiveness of U.S. assistance to foreign countries, on U.S./EU relationships, and on migration and its relationship to development. He is co-chair of the Trans-Atlantic Task Force on Development and serves as an adjunct professor in the College of Business at the University of Arizona.

For 22 years Jim Kolbe served in the House of Representatives, for 11 consecutive terms from 1985 to 2007. While in Congress Congressman Kolbe served for 20 years on the Appropriations Committee of the House and was chairman of the Treasury, Post Office, and Related Agencies Subcommittee for 4 years. And where we most worked with him, of course, on this committee was for the last 6 years in Congress he served as chair of the Foreign Operations, Export Financing, and Related Agencies Subcommittee responsible for the State Department, USAID and other foreign assistance programs.

I think it is fair to say, although, that at no time during the 6 years you served as chairman of that subcommittee did the House Foreign Affairs Committee ever give you the benefits or problems of an authorization bill to work with. Congressman, we intend to change that.

Congressman Kolbe graduated from Northwestern University with a B.A. degree in political science, received a master's in business administration from Stanford University.

I look forward to the witnesses' testimony and, Dr. Brainard, why do you not begin.

STATEMENT OF LAEL BRAINARD, PH.D., VICE PRESIDENT AND DIRECTOR, GLOBAL ECONOMY AND DEVELOPMENT PROGRAM, BROOKINGS INSTITUTION

Mr. BRAINARD. Well thank you very much, Chairman Berman, Ranking Member Ros-Lehtinen, and distinguished members of the committee. It is a pleasure to be with you this morning. I will attempt to summarize my remarks.

I think the issue before you today is of vital importance and long overdue. In a world where remote threats can metastasize into immediate emergencies, the fight against global poverty is truly a fight of necessity, not simply because of personal morality, but also importantly because of national security. America's engagement in this fight harkens back to the best traditions of the Marshall Plan, the founding of the Bretton Woods institutions, and John F. Kennedy's Alliance for Progress. But today it appeals to a new generation of Americans who are actively engaged as never before in advocacy campaigns, global service commitments, and philanthropy on behalf of the world's poor.

Our consciences, our hearts and our faith demand that we tackle deprivation because it is the right thing to do. But helping the poor around the world does a lot more than making Americans feel good: It makes the world feel good about America and builds support for our vital interests in other areas.

At this moment when hard power assets are stretched thin and when we face new threats, new 21st century threats, we need a national security strategy that recognizes that development should be elevated alongside defense and diplomacy and deploys foreign assistance strategically as a key instrument of American soft power and a key determinant of that face that poor people see of America around the world.

Regrettably, at the current time our aspirations and our aid dollars are exceeding our impact on the ground. And the reason was already alluded to in remarks made by the chairman, ranking member and the committee: Although we have seen very rapid expansion of foreign assistance in the last 7 years, the administration has responded to each new challenge by creating a new ad hoc institutional arrangement instead of modernizing an infrastructure that was created for the Cold War. Meanwhile the Department of Defense, I think more by default than by design, has taken on a growing role and now accounts for about one-fifth of our official development assistance.

In what Ranking Member Ros-Lehtinen mentioned as a spaghetti bowl and what others call the chart from hell which I included in my testimony, it visually shows we have 50 separate units sharing responsibility for aid planning and delivery in the executive branch, with a dizzying array of 50 objectives. Different agencies are pursuing overlapping objectives with poor communication and coordination, with the inevitable result that oversight and account-

ability have suffered. Instead of clarifying missions and rationalizing offices, State/F, while well conceived, superimposed yet another layer of bureaucracy into this mix.

The year ahead I think offers a unique opportunity for this committee to update and upgrade America's foreign assistance capability. I think instead of the 50-odd often outdated objectives that the executive branch is currently pursuing, the Foreign Assistance Act should narrow the focus to roughly five strategic priorities: Addressing poverty and need, supporting the emergency of capable foreign partners who share our values, and countering security, humanitarian and transnational threats. Instead of the current spread of 50 offices managing aid, we should have one agency with the authority and the operational capability and the accountability to carry out these missions effectively, complemented by inter-agency coordination located at the White House.

In terms of what that reform should look like let me mention briefly four guidelines. Firstly, I think it is vital to elevate both development and diplomacy, not just in principle alongside Defense, as in the 2002 National Security Strategy, but also in practice. Elevating development will be absolutely critical to attract and retain the most talented professionals in the field.

Although it is outside the scope of my testimony here, recent commissions have also highlighted the need to strengthen the diplomacy pillar. I strongly agree with that recommendation and think these two recommendations are mutually reinforcing. Establishing a strong and separate voice for development will enable the State Department to strengthen its core mission of diplomacy which is in many instances quite different from development and sometimes require working with different entities overseas in different means, and also often brings to a conflict short-term political objectives versus those long-term investments in development and democratization that need to continue.

Importantly, I think Defense has significantly expanded its direct provision of foreign assistance in weak and failing states. And I believe that this is due to perceived gap filling because of the perceived weaknesses in civilian capabilities. With an already overstretched military going forward it is critical to upgrade our civilian capability in order to create separate and complementary roles by design, not by default.

In order to do so the second thing it is critical to invest in our operational civilian capabilities. We currently have a readiness deficit on the civilian side. USAID staff has fallen by a third at a time when spending has risen dramatically. And by some estimates, nearly a third of remaining USAID foreign service officers are eligible for retirement. At a time when the premium on technical expertise is higher than ever, USAID has only five engineers on staff and over half of its professionals work in generalist areas.

Third, it is critical to achieve coherence across policies. Increasingly in today's world trade, investment policies, debt policies are force multipliers for our foreign assistance and we can no longer to choose those strategies in separate cones. Nowhere is this more apparent than on agriculture where currently our development agenda and our domestic farm and biofuel policies are working at cross purposes at a moment where we are seeing food riots threatening

important developing country governments around the world. And, of course, it is critical to achieve that coherence by having high level coordination at the White House, as we do on national security.

Finally, I think it is critical to rationalize agencies in order to clarify missions and improve accountability. I personally, having chaired a task force on this topic, have arrived at the conclusion that a Cabinet-level Department of Global Development would be the best way to eliminate redundant bureaucratic layers and address today's fragmentation, while ensuring against the subordination of long-term investments in democratization, development, to short-term political objectives. And I think the U.K. Department for International Development has shown this is both achievable and can measurably boost effectiveness.

So let me just summarize by saying I think this committee is the right place to lay the groundwork for the next President to capitalize on what I see as a growing consensus in favor of modernizing our aid infrastructure. Larry Knowles, formerly of the Congressional Research Service, who I believe is here today, did a study of past episodes of successful transformation. And one clear conclusion is that those successful transformations occur in the first months of a new administration; so the countdown has begun.

Successful reform is going to require the personal commitment both of the President and congressional champions—that is also very clear from that analysis. The recommendations that I am making here today do not importantly require big budgetary resources, in fact, they magnify the impact of every dollar spent. So I think starting with these kinds of hearings, with expert analysis, with authorizing a new Foreign Aid Act this committee could uniquely transform the foreign aid enterprise to make it effective and accountable for our 21st century challenges.

Thank you.

[The prepared statement of Mr. Brainard follows:]

TESTIMONY OF
LAEL BRAINARD¹
COMMITTEE ON FOREIGN AFFAIRS
U.S. HOUSE OF REPRESENTATIVES
APRIL 23, 2008
WASHINGTON, DC

Chairman Berman, Ranking Member Ros-Lehtinen, distinguished members, I appreciate the opportunity to testify before the House Committee on Foreign Affairs and applaud you for taking up the critical and timely subject of U.S. foreign assistance reform for the next administration.

Foreign Assistance Advancing National Security, Interests, and Values

In a world where remote threats can rapidly metastasize into immediate emergencies, the fight against global poverty has become a fight of necessity—because national security demands it no less than personal morality. Impoverished states can explode into violence or implode into collapse, imperiling their citizens, neighbors, and the global community as they become a spawning ground for terrorism, trafficking, environmental devastation, and disease. Extreme poverty exhausts governing institutions, depletes resources, weakens leaders, and crushes hope—fueling a volatile mix of desperation and instability. And just as poverty leads to insecurity, so too conflict makes it harder for leaders, institutions, and outsiders to promote human development.

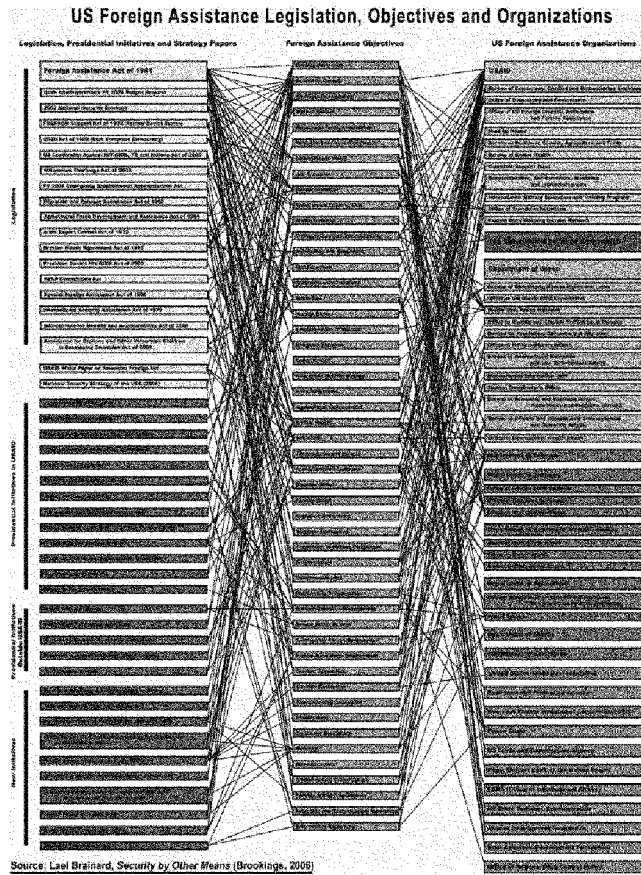
America’s engagement in the fight against global poverty hearkens back to the best traditions of the Marshall Plan, the founding of the Bretton Woods institutions, and John F. Kennedy’s Alliance for Progress. But it also appeals to the best instincts of a new generation of Americans who are engaged as never before in advocacy campaigns,

¹ Vice President and Bernard L. Schwartz Chair in International Economics at Brookings and Co-Chair, Task Force for Transforming Foreign Assistance for the 21st Century.

global service commitments, and philanthropy big and small on behalf of the world's poor. Individual donations from the United States to the developing world have surged to roughly \$26 billion a year, exceeding official assistance, and, more than 50,000 Americans volunteer their time in overseas service each year. Our consciences, our hearts, and our faith demand that we tackle deprivation because it is the right thing to do. But helping the poor gain access to shelter, medicine, sustenance, education, and opportunity does more than make Americans feel good: it makes the world feel good about America. When the United States leads in helping lift the lives of the poor, we enhance our own influence and authority in the world community – building support for U.S. interests in other areas.

With hard power stretched thin and facing 21st century threats from poverty, pandemics, and terrorism, we need a national security strategy that elevates development alongside defense and diplomacy. We need a national security strategy that deploys foreign aid as a key instrument of American soft power and a key determinant of the face of America seen around the world, while leveraging the dynamic engagement of the American public, NGOs, and private sector.

An Outdated System



America's aspirations and aid dollars will surely exceed our impact on the ground unless and until we refocus our foreign assistance strategy, modernize our aid apparatus, and build our civilian capability. The urgent demands of post-conflict reconstruction in Iraq and Afghanistan and humanitarian disasters have led to a faster

rate of expansion of foreign assistance dollars in the last seven years than at any point since the Cold War. But instead of modernizing our Cold War era aid infrastructure, the administration has responded to each new global challenge by creating new ad hoc institutional arrangements along side the old ones, such as the President's Emergency Plan for AIDS Relief (PEPFAR), the President's Malaria Initiative (PMI), the Millennium Challenge Corporation (MCC), and the State/F bureau. Meanwhile, by default rather than design, the Defense Department is taking on a growing role, now accounting for 1/5th of U.S. Official Development Assistance (ODA).

As shown in the chart above, fifty separate units share responsibility for aid planning and delivery in the executive branch, with a dizzying array of fifty objectives ranging from narcotics eradication to biodiversity preservation. Different agencies pursue overlapping objectives with poor communication and coordination. At best, the lack of integration means that the United States fails to take advantage of potential synergies; at worst, these disparate efforts work at cross purposes. Meanwhile, at a time when aid dollars have grown rapidly, the number of civilians with the training and experience to direct and implement assistance programs effectively has diminished sharply. As a result, the impact of American foreign assistance falls short of the value of aid dollars expended – which remains unmatched among bilateral donors.

Despite the recent creation of the State/F bureau and the energetic efforts of its staff and leadership, lack of coherence remains a significant problem for U.S. foreign assistance and development policy. Instead of clarifying missions and rationalizing offices, State/F superimposed another layer of bureaucracy into the mix. Little progress has been made in addressing the confusion captured in the chart because the reforms to date are piecemeal. Ultimately, a truly consultative process across the legislative and executive branches of government and with outside stakeholders will be critical to building support for the statutory changes necessary for fundamental reform.

Nonetheless, the State/F process offers some valuable lessons for reform, which are reflected in my recommendations below.

Recommendations for Reform

Past episodes of successful reform suggest that the year ahead offers congress and this committee in particular a unique opportunity to lay the foundations for a new administration to update and upgrade America's foreign assistance capabilities in line with today's challenges. Instead of the 50-odd often outdated objectives the executive branch is currently expected to pursue, a new foreign assistance act could narrow the focus to the five strategic aid priorities facing the nation today—addressing poverty and need, supporting the emergence of capable foreign partners and countering security, humanitarian and transnational threats. Instead of the current spread of 50 offices managing aid, we should have one agency with the authority and operational capability to carry out these missions effectively, complemented by capable interagency coordination led by the White House. Experience suggests five principles to guide the reform of foreign assistance:

Elevate Development and Diplomacy: To advance American interests, security and values, the development mission must be elevated to equal status and independent standing alongside defense and diplomacy not just in principle but also in practice. The development mission—vital to America's interests as well as to global peace and prosperity—must be prioritized in order to improve morale and attract and retain the most talented professionals in the field.

Many applauded when the President's 2002 National Security Strategy recognized development alongside defense and diplomacy as a third critical pillar of national security. Many now worry that the 2006 establishment of the State/F bureau with oversight over USAID at best confused development and diplomacy, and more likely

subordinated development to diplomacy—a concern heightened when the State/F framework failed to make reference to “poverty.”

While complementary, development and diplomacy are fundamentally different missions. The primary function of diplomacy is state-to-state relations, whereas development and democratization often require working around foreign governments, and sometimes with groups opposed to them. Development seeks not solely to develop state capacity—the overarching objective of the State/F framework—but societal capacity more generally to ensure that poor communities have the tools and resources to lift up their lives. Importantly, maintaining the integrity of independent diplomatic and development functions makes it easier to manage the frequent tension between short term political objectives—which often require working with undemocratic regimes-- and longer term economic and political reform objectives.

Although outside the scope of my testimony today, recent commissions and articles have also highlighted the need to strengthen the diplomacy pillar. I strongly agree with that recommendation, which is wholly consistent and mutually reinforcing with making the development pillar strong and separate.

Meanwhile, the Department of Defense has initiated its own reforms in light of our weak foreign assistance infrastructure, significantly expanded its direct provision of foreign assistance in weak and failing states, and increased its share of U.S. official development assistance by more than 15 percent of the total between 2002 and 2005. These activities, as well as the wide-reaching mission initially envisaged for the fledgling African Command, are symptomatic of a growing tendency for the military to fill a perceived void associated with weak civilian capacity. Over time, reliance upon this military gap-filling tendency in a range of conflict prevention and stabilization interventions extending to permissive environments would tax an overstretched military in roles that it was not trained to undertake and undermine investments in

civilian capacity in a self-perpetuating spiral. To reverse this trend and unburden the military will require systematic strengthening of our civilian capabilities.

Invest in Operational Civilian Capabilities: Development, humanitarian, and post conflict missions are by nature operational —informed by policy but not policymaking functions per se. The U.S. organizations entrusted with managing foreign assistance must recruit personnel with the right technical, operational, and project management skills; reward effective performance; and work relentlessly to improve on-the-ground results. Unfortunately, recent years have seen systematic weakening of our operational civilian capabilities while responsibilities and disbursements have grown. As a result, there is a readiness deficit in civilian development, humanitarian, and post conflict missions, and an urgent need to invest in specialized expertise on science, engineering, economic analysis and program evaluation. Defense Secretary Gates emphasized this need in his recent Landon Lecture: “Indeed, having robust civilian capabilities available could make it less likely that military force will have to be used in the first place, as local problems might be dealt with before they become crises.”

Since the 1990s, the number of professional USAID staff has fallen by a third. Between 1998 and 2006, reductions in direct-hire staff were accompanied by a sharp increase in foreign assistance spending, with the result that aid disbursement per staff member grew by 46 percent to \$2 million. By some estimates, nearly 1/3 of USAID foreign service officers are eligible for retirement.

Paradoxically, at a time when the premium is greater than ever on specialized expertise for addressing development challenges, USAID has had to reduce technical expertise in favor of general management skills. From USAID’s earliest days, scientists, engineers, and other technical experts were central to its mission. Today, the agency has only 5 engineers on staff, and of 1,821 professionals at the agency, over half work as generalists. The government’s thin bench on science and technology for development

means we are poorly equipped to leverage the considerable capacity of the U.S. private sector, universities, and foundations. In addition, economic analysis and program evaluation capabilities have declined at a time when these skills are vital in order to improve outcomes based on rigorous evaluations of impact.

Support Country Ownership: Aid works best when it supports priorities determined locally, and recipients are invested in achieving success. Of course, the extent of U.S. oversight and control of aid implementation should vary with the quality of local governance, with poorly governed countries less likely to formulate national strategies based on the priorities of poor communities, thus requiring greater oversight in the aid process. But the principle of stakeholder ownership applies to the entire aid enterprise—even if it requires different mechanisms of implementation depending on circumstances on the ground.

Indeed, the critical role of stakeholder input is one of the chief lessons from State/F's early experience. The planning system for country operations developed through the State/F process met with criticism in large part because of the top-down way it was developed, the hasty way it was introduced, and the fact that it placed significant information requirements on the field while centralizing decision-making. As a result, the country planning system lacked critical engagement from key stakeholders in the field, the broader development community, and Congress.

Achieve Coherence across Policies: Foreign assistance is but one of several tools to support development. The United States could wield greater influence per aid dollar spent than any other nation simply by deploying its influence in trade, investment, debt, and financial policies in a deliberate manner as a force multiplier. Nowhere is this more apparent than on agriculture, where our development and trade policies too frequently work at cross purposes. Regular mechanisms for policy integration are vital

–through a combination of interagency coordination at the White House for high level decision making and assigning authority to an appropriate lead agency for each set of responsibilities. Policy integration is also important in planning and operations, as illustrated by recent post conflict experiences. Improving integration requires removing disincentives and creating positive incentives, such as reserving budgetary funds to reward collaboration on priority goals and tying career advancement to participation in joint operations.

Rationalize Agencies and Clarify Missions: Ultimately, the mark of a successful reform will be a reduction in the number of players and the elimination of overlapping jurisdictions. This will allow for more accountability and unity of voice. Creating a **Cabinet-level Department of Global Development** would be the best way to insure against the subordination of long-term investments in democratization, development, and poverty alleviation to short-term political objectives. Ultimately, this approach holds the greatest promise of boosting U.S. standing in the world and transforming the United States foreign assistance enterprise to address the global challenges of the 21st century. Interestingly, Secretary Gates seemed to open the door for such a bold reform when he argued that, “New institutions are needed for the 21st century, new organizations with a 21st century mind-set, rather than repopulating institutions of the past or expanding current agencies.” The creation of the UK Department for International Development (DFID) in 1997 demonstrates that this approach is both achievable and likely to improve effectiveness. DFID boosted the overall coherence of UK development policy and impact, while elevating the stature of development and improving recruiting.

* * *

This committee can lay the groundwork for the next president to capitalize on the growing consensus in favor of modernizing our aid infrastructure. Successful

instances of transformation here and in the UK have been initiated early in the course of a new administration. Thus, if America is to develop an effective soft power response to new global challenges in this decade, the countdown has begun.

Successful reform requires agreement on the urgency of the mission, support from key groups outside government, and the personal commitment of the president and congressional champions. Congress has an integral role in shaping the organization and delivery of U.S. foreign assistance by holding hearings such as this, mandating independent analysis of the current structure and operations, and requesting expert recommendations with the goal of passing a **new Foreign Assistance Act** designed for today's complex challenges. The conditions for fundamental reform are favorable if there is sufficient political will. Improving the effectiveness of foreign assistance commands bipartisan support. The recommendations discussed today do not require big budgetary resources but instead magnify the impact of every dollar spent. And as *American Idol: Idol Gives Back* suggests, Americans wish to show a more compassionate face to the world and support the fight against global poverty in growing numbers.

Chairman BERMAN. Thank you, Dr. Brainard.
Dr. Radelet.

**STATEMENT OF STEVEN RADELET, PH.D., SENIOR FELLOW,
CENTER FOR GLOBAL DEVELOPMENT**

Mr. RADELET. Thank you very much, Chairman Berman, Ranking Member Ros-Lehtinen, and other members of the committee. Let me try to briefly summarize my remarks.

In my view today's complex global challenges requires a new vision of American global leadership that really promotes our values, enhances our security, helps create economic and political opportunities for people around the world, and helps restore America's faltering image abroad. To do so we cannot rely exclusively or even primarily on defense and security to meet these goals. We need to make greater use of all the tools of statecraft to do so, including diplomacy, defense, trade, investment, intelligence, and a strong and effective foreign assistance program.

We have at hand today, I believe, the best opportunity we have had for many, many years to modernize and strengthen our foreign assistance programs. The combination of the challenges that we face abroad, concern about U.S. standing, the broad agreement on the importance of foreign assistance, and the upcoming change in the administration creates the opportunity for deep change. I hope we can seize that opportunity. If we are content with multiple bureaucracies, overlapping functions, outdated legislation, inefficient spending and only mixed success, then we should continue with the status quo or just make marginal changes. But if we wish to make foreign assistance a vibrant tool to strengthen U.S. leadership abroad, to fight poverty, and to build a better and safer world, then it is time to take on the challenge of bold modernization, reform and change.

I fully concur with Dr. Brainard's diagnosis of some of the problems and the key components of the reform strategy, but let me focus on three key areas: First, the need for a global development strategy; second, the need for a new Foreign Assistance Act; and third, how our assistance should fit together with the efforts of other countries and multilateral agencies.

One the key weaknesses in our approach is the lack of clarity in our goals, our policies and our objectives. Our efforts to promote global prosperity and reduce poverty should be treated as a principal, not a subordinate element of our global engaged, alongside defense and diplomacy. But the first step to develop a strategy along these lines is to elevate global development as critical to both our national interests and to the broader interests of the world. It should lay out our principal objectives and goals and the basis framework for foreign assistance, both bilateral and multilateral, that we will use to achieve those goals.

One of the key issues is articulating and balancing two of the key goals of foreign assistance: Enhancing our national security and promoting American values by fighting poverty around the world. In the long run both of these are important and they are mutually reinforcing. When the U.S. pursues them strategically it positions itself as a pragmatic and principled world leader. But since September 11, foreign assistance has been dominated by national secu-

rity interests in fighting terrorism. That is wholly appropriate. But it risks obscuring the equally important imperative of fighting global poverty which in and of itself is a means to address the causes of conflict, terrorism, and unhappiness around the world. Supporting development will help build a world where capable, open, democratic and economically viable states can act together as our allies and our partners.

A national development strategy should describe the major programs that will be used to meet these objectives going beyond foreign assistance to also include how we will use trade, our foreign international finance policies, diplomacy, defense, immigration, investment and other policies. It should also summarize the key budgetary requirements. And, critically, it must include how we will monitor and evaluate our programs. We need to be clear on what we are trying to achieve and how we are balancing these objectives and how we are progressing and meeting these goals. Right now our monitoring and evaluation processes are very weak and we do not know actually what we do well and what we do not do well. And we cannot very well achieve our goals without seriously strengthening our ability to measure our progress for achieving those goals.

I would like to turn my attention now to the second key issue which is rewriting the Foreign Assistance Act. It is way past time to write the Foreign Assistance Act. It is over 50 years old. It is grounded in Cold War threats. It is over 500 pages long. It is full of earmarks, restrictions, and all kinds of other things that are just a burden to effectively delivering our foreign assistance. It provides very little flexibility to those operating on the ground.

The issue is not about no earmarks or eliminating earmarks or restrictions or waivers or anything else, the issue is that there is just way too much on it and the legislation is really crushing itself under its own weight. And with the combination of all of the earmarks together, even if individually they make a lot of sense, the combination of them provides just too little flexibility for those operating on the ground to meet our primary interests.

Rewriting the Foreign Assistance Act would provide the basis for a grand bargain between the congressional and executive branches with a shared vision on the balance of responsibilities, on authorities, and the key objectives and mechanisms for foreign assistance. Although several pieces of critical reform can be achieved without legislation, such as creating a new strategy, strengthening monitoring evaluation, and improving procurement, I believe that without a rewriting of the Foreign Assistance Act we cannot fully implement the reforms and changes that are needed.

As part of this we need to agree on the objectives and goals, as I have mentioned. We need to reduce the extent of the earmarks and other restrictions, in concert with also reducing executive directives. It is the balance between both of them and the balance between the executive and legislative branch that I think that rewriting the Foreign Assistance Act would provide the opportunity to redress.

Part of the new act would be addressing the organizational issue. And we have already talked about that a little bit today. There is a little bit of a danger that we focus too much on the organizational

reform because there are a lot of other things that need to be done. But having said that, I think organizational change is necessary to reduce the bureaucracy and eliminate the inefficiencies.

I think that a Cabinet agency is critically important precisely so it does not get fragmented in the future. I think one of the reasons that USAID has faced this fragmentation is because it has not had the independence and the strength and it has been burdened with this burgeoning Foreign Assistance Act that has led to other agencies trying to do what USAID was trying to do. A stronger, independent agency coupled with a new, stronger Foreign Assistance Act would provide the basis so that our foreign aid does not get fragmented going forward.

I believe that it would be a mistake to fold foreign assistance programs more fully into the State Department. I think in the long run that would undermine the effectiveness of our programs because our development goals would be subordinated to diplomacy and all too often long-term development objectives would be undermined by the short-term focus on pressing diplomatic and political issues. The core objectives of the State Department are quite different than those for development. And just as we recognize it is important to separate some of our other tools of foreign policy such as trade policy, such as international financial policy, such as our intelligence policy and our defense policy from our diplomacy at the State Department, so too it is important to separate and give the independence to our development policies and our foreign assistance while coordinating closely with the State Department.

Let me briefly turn to the third issue which is working with our development partners. A big part of modernizing our foreign assistance is to rethink much more strategically how our assistance works together with others. A major lesson over the last few years is that our foreign policy leverage is much stronger when we work in concert with our friends and our partners through multilateral approaches. And the same is true with foreign assistance. Unfortunately, today only about 10 percent of our assistance goes through multilateral channels. The rest, 90 percent, we do on our own. This 10 percent figure is down from 20 percent just a few years ago and compares with other donors that provide 33 percent of their assistance through multilateral channels.

The United Kingdom has now replaced the United States as the major contributor to the World Bank's concessional finance arm for the first time in history. Two key problems come along with that. One is that our money goes much further when we leverage it with our partners and our allies. And the second is that as we provide less funding to the multilateral agencies we lose our influence in the direction and the policies of those agencies. Many of them do need reform but we are not going to be able to affect that reform if our share of the funding is being reduced.

Taking on these challenges for foreign assistance reform will not be easy. It has been tried many times before. But I believe that the moment is here and is ripe that we can do that. I think it is time to take advantage of this opportunity to modernize and strengthen our assistance so that we can more effectively combat poverty, widen the circle of development and prosperity, fight terrorism, en-

hance U.S. security, and further our other strategic interests abroad.

Thank you very much.

[The prepared statement of Mr. Radelet follows:]

PREPARED STATEMENT OF STEVEN RADELET, PH.D., SENIOR FELLOW, CENTER FOR
GLOBAL DEVELOPMENT

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

I. INTRODUCTION

Today the United States and its partners face many complex global challenges, including new security threats, the spread of virulent diseases, the opportunities and tensions arising from the process of globalization, climate change, rapidly rising food and energy prices, and fallout from the war in Iraq. Meeting these challenges will require a new vision of American global leadership based on the strength of our core values, ideas, and ingenuity. It calls for an integrated foreign policy that promotes our values, enhances our security, helps create economic and political opportunities for people around the world, and restores America's faltering image abroad. We cannot rely exclusively or even primarily on defense and security to meet these goals. Instead, we must make greater use of all the tools of statecraft through "smart power," including diplomacy, defense, trade, investment, intelligence, and a strong and effective foreign assistance strategy.

In today's world, foreign assistance is a vital tool for strengthening U.S. foreign policy and restoring American global leadership. Foreign policy experts on both sides of the political aisle now recognize the importance of strong foreign assistance programs. But they also recognize that we significantly under-invest in foreign assistance programs, and that our foreign assistance programs are out of date and badly in need of modernization to meet the challenges of the twenty-first century.

The combination of the recognition of today's great foreign policy challenges, the broad agreement on the importance of foreign assistance as a critical foreign policy tool, the successes we are seeing around the world in economic and social development, and the upcoming change in administration creates the best opportunity in decades for modernizing and strengthening our foreign assistance programs. Taking on the challenge of reform will not be easy. It will require passion, bold vision and concerted bipartisan leadership by Congress and the Executive Branch. But taking up this important challenge will enhance the leadership role of the United States in the world, strengthen our ability to forge alliances to achieve our broader goals, enhance our security, and help fight poverty around the world.

But as we move forward—and I sincerely hope we do—on this important agenda, let us remember that foreign assistance is no panacea. Stronger and larger foreign assistance programs alone will not be enough to achieve U.S. foreign policy goals. Policies affecting trade, migration, capital flows, governance, and climate change, among others, all influence America's standing in the world and our relationship with other countries, and the most important factors in the development process are the policies of developing countries themselves. Stronger, more effective assistance programs alongside other policy tools can help the United States further its own interests and help low-income countries at the same time.

II. THE NEED FOR MODERNIZATION AND REFORM

U.S. foreign assistance deserves more credit than it usually receives. U.S. foreign assistance programs have been long criticized as being ineffective. However, it is important to recognize that often the criticisms are unfair or overblown. Many of our programs, in fact, have been successful. U.S. foreign assistance was central to supporting the Green Revolution that modernized agricultural production and provided the foundation for Asia's economic miracle; for eliminating small pox and substantially reducing polio, river blindness, maternal mortality and childhood diarrheal diseases; for helping to secure peace in countries such as Liberia and Sierra Leone; for helping to save lives by providing anti-retroviral medicines for over one million HIV/AIDS patients in Africa today; and for supporting sustained economic growth in Korea, Taiwan, Botswana, and more recently Mozambique, Tanzania, Ghana, and several other countries.

Nevertheless, there is wide agreement that our programs can be significantly strengthened. Today's foreign assistance structure dates back more than 45 years

to the early days of the Kennedy Administration. It was built in the early days of the Cold War to meet goals and objectives that were very important at the time, but that differ significantly from today's foreign policy objectives. Over the years new programs, goals, directives and restrictions have been added, typically in an ad-hoc manner. U.S. foreign assistance programs are now a hodge-podge of uncoordinated initiatives from multiple institutions without a coherent guiding strategy. They are heavily burdened by out-of-date organizational structures, legislation, procedures, and approaches.

The key challenges include the following:

- *Lack of clarity on policies, goals and objectives.* There is no overarching policy for global development or strategy for U.S. foreign assistance. The rhetoric of elevating global development to standing alongside diplomacy and defense in the 2006 National Security Strategy was never translated into policy. The Foreign Assistance Act of 1961, as amended—the key strategy document for setting foreign assistance priorities and objectives—is badly out of date and contains dozens of goals, objectives and priority areas. Executive branch directives add more. These multiple goals are more than just an administrative burden: they make it very difficult for the United States to design effective programs and achieve clear development results.
- *Heavy bureaucratic requirements.* Many programs are subject to heavy bureaucracy that ensures that some funds never get close to their intended recipients. Foreign assistance flows are heavily earmarked and subject to myriad directives, procedural rules, and restrictions that add significantly to administrative costs and slow the delivery process. As a result there is far too little flexibility to respond effectively to meet the key needs on the ground in recipient countries.
- *Substantial fragmentation across policy and executing agencies.* More than 20 executive branch agencies administer our foreign assistance programs. Sometimes these agencies work at cross purposes with each other with different objectives and techniques. Other times they are aiming to achieve the same goals, but duplicating each other's efforts without realizing it. Each agency has their own different processes, rules and procedures, which can put significant strain on countries.
- *Weakened professional capacity.* As programs have spread across agencies, bureaucratic requirements have grown, and administrative funding has been cut, the professional capacity within USAID has dwindled. The Departments of State and Defense are playing larger roles in foreign assistance, but the core objectives and professional capacities of these Departments are not consistent with long-term effectiveness in our foreign assistance programs. There is much less capacity within the government to develop and analyze the range of policies affecting developing countries and to design, implement and measure the impact of programs and approaches.
- *Poor and incoherent allocation of funds.* Sixty percent of U.S. foreign assistance goes to ten countries for three objectives: political/military; counter-narcotics and HIV/AIDS. The remaining forty percent is spread over 140 odd countries. We provide larger amounts to middle-income countries than to low-income countries. Only one-quarter of U.S. assistance goes to countries in sub-Saharan Africa. In recent years the share going to the poorest and best governed countries in Africa has declined. While supporting our immediate geopolitical partners and allies is sensible foreign policy, too often large amounts go to middle-income and poorly governed countries to meet short-term diplomatic goals at the expense of longer-term development objectives. In addition, only 10 percent of our assistance now goes through multilateral channels, significantly undermining our leverage in these organizations.
- *Lack of accountability for achieving results.* Monitoring and evaluation systems are weak and tend to focus on whether funds are spent where they were supposed to be, rather than whether programs achieved important strategic or development objectives, which in turn is partly due to the multiple objectives and lack of clear strategy of our assistance programs. And because our foreign assistance programs are scattered over so many different agencies, it is often impossible to hold any one agency responsible for success or failure.

In recent years foreign assistance has received greater prominence, and there has been much more constructive debate about how to strengthen our programs. The Bush administration deserves credit for increasing the amounts of foreign assistance and beginning to change how it is managed. It increased assistance from \$12.6 billion in 2001 to \$21 billion in 2007 (in constant 2005 dollars), although the vast ma-

majority of the increase went to Iraq, Afghanistan, and other allies in the war on terror. It introduced several new programs, most prominently the President's Emergency Plan for AIDS Relief and the Millennium Challenge Account. And during its second term, it introduced several organizational changes, albeit with at best mixed results, through the so-called F process, including naming a new Director of Foreign Assistance and developing a strategic framework for foreign assistance.

But these changes were either add-on programs, or in the case of the F process, attempts at deeper change that did not involve Congress or the public. In many cases the reforms moved in the wrong direction and exacerbated more fundamental problems. As a result they fall far short of what is needed to modernize U.S. foreign assistance programs and make them more effective.

III. AN AGENDA FOR MODERNIZING U.S. FOREIGN ASSISTANCE

Partial reforms are not the solution. Making U.S. assistance programs more effective requires a bold, ambitious vision for updating these programs for the 21st century and strengthening America's role in the world. There are five key steps that should be taken.

1. Develop a National Strategy for Global Development

Our efforts to promote global prosperity and reduce poverty should be treated as a principal—rather than subordinate—element of our global engagement and international policies, alongside defense and diplomacy. The first step is to develop a comprehensive strategy that elevates global development in our national interest and lays out the principal objectives and basic framework for foreign assistance—bilateral and multilateral—as part of our broader policies for engaging with the world. The strategy should describe the major programs that will be used to meet these objectives, and detail strategies for coordinating and communicating across agencies.

Reaching agreement on the balance of goals and objectives is critical. Since its origins after World War II, foreign assistance has served U.S. national interests in three fundamental ways: enhancing national security, expanding global economic opportunities, and promoting American values by fighting poverty. In the long-run all three are important and mutually reinforcing, and when the U.S. pursues them each strategically and in tandem it positions itself as a pragmatic and principled world leader. In some individual countries these interests align even in the short-run. But in other cases these goals dictate different priorities about which countries should achieve more assistance. Differentiating between and balancing among these motivations is crucial for the effectiveness of our assistance. The countries that have strategic significance to us are not necessarily the ones who are the best development partners; and other good development partners are not always as strategically significant.

Since September 11, 2001, foreign assistance has been dominated by national security interests, with a particular focus on fighting terrorism. This focus is clearly appropriate, but it risks obscuring the equally important imperative of fighting global poverty—which is itself a means to address the causes of terrorism and conflict, as well as a host of other urgent challenges. Supporting development will help build a world where capable, open, and economically viable states can act in concert as allies and partners of the U.S. to build a better, safer world.

The Strategy should go beyond foreign assistance to demonstrate how all of the policy instruments for U.S. engagement with developing countries—trade, diplomacy, defense, immigration, investment, etc.—work in tandem, and not at cross-purposes, to achieve stated objectives. And it should summarize the budgetary requirements necessary to achieve those goals. Developing this strategy should not be a one-time process: each administration should be expected to renew and revise the strategy as a Quadrennial Global Development Review, much like the Quadrennial Defense Review Report of the Department of Defense, charting a course ahead for the next decade as it confronts current and future challenges.

2. Reach a "Grand Bargain" on Authorities and Enact a new Foreign Assistance Act.

The Foreign Assistance Act is nearly 50 years old, grounded largely in Cold War threats and outdated challenges. It does not reflect current demands confronting the United States. Over time, in an effort to update without reauthorizing the FAA, hundreds of amendments have added multiple objectives and priorities that in some cases conflict with one another, rendering it ineffectual as a rational policy framework. It has become administratively burdensome and does not enable achievement of foreign assistance program results. In addition, as foreign assistance has increasingly involved multiple government agencies and actors, often lacking in coordination and a sense of common purpose, these activities have been authorized by legis-

lation falling outside the FAA with different and inconsistent authorities. Lastly, the foreign assistance authorization process, which once reviewed and modified the FAA nearly every year, has not functioned in over twenty years.

Replacing the FAA would re-invigorate the foreign policy authorizing committees and provide a strong basis for them to work in concert with the Administration. It would help to restore trust and respect both between the two branches and with the interested development, diplomatic, and security communities. Although several critical pieces of foreign assistance reform can be achieved without legislation—creating a national development strategy, strengthening monitoring and evaluation system, improving procurement and contracting procedures, building human resource capacity—no broad-based foreign assistance modernization initiative can be fully implemented without major legislative modifications.

The legal and regulatory authorities governing foreign assistance must be brought more closely in line with streamlined organizational structures and principles of effective assistance. This will require a “grand bargain” between the Executive branch and Congress—both play a unique role in the management of U.S. foreign assistance. This bargain should reflect a shared vision of the role and management of U.S. foreign assistance, provide the Executive branch with the authorities it needs to respond to a rapidly changing world, and ensure rightful and effective legislative oversight. Done purposefully, inclusively and transparently, this bargain would reestablish confidence in the foreign assistance system among the U.S. public and non-governmental development organizations and reduce the ability of special interests to secure self-serving earmarks. Partially amending the FAA, rather than rewriting it, would run the risk of exacerbating the fragmented and incoherent nature of the existing Act, continuing to layer modernized legislative provisions on top of outdated and irrelevant policy authorities.

3. Streamline the Organizational Structure and Strengthen Organizational Capacity

U.S. foreign assistance cannot be fully effective when programs are spread among nearly twenty agencies with different objectives and implementing procedures, and when its key agency (USAID) has been severely weakened over time. There is broad agreement that rectifying the fragmentation and institutional weaknesses are at the heart of modernizing and strengthening foreign assistance to meet today’s challenges. And that policy, implementation, and budget authority for foreign assistance should be consolidated in order to maximize the effectiveness of our programs in support of economic and social development, humanitarian assistance, post-conflict reconstruction, security-sector reform, democracy and governance, and civil society development.

The best way to streamline the organizational structure and to give real meaning to the rhetoric of elevating development to more equal standing with diplomacy and defense in U.S. national security strategy is to create a Cabinet-level Department for Global Development with core organizational capacities that are enabled by a sufficient cadre of experienced development professionals. The department should have the budgetary authority and mandate to lead policy formulation, coordinate with programs and policies that remain under other departments (e.g., Treasury oversight of the IMF, State assistance for diplomatic purposes, Defense emergency response programs), and manage the implementation of civilian-led U.S. foreign assistance programs in the field. Its mandate would be to protect long-term development oriented assistance from being subordinated to short-term security or geopolitical objectives. Creating a new Department would not add to government bureaucracy, as some have suggested. Rather, it would help reduce bureaucracy, eliminate waste, increase efficiency, and streamline decision-making. The Agency would be complemented by a development coordination capacity in the Executive Office of the President.

Some argue that the best way forward is to fold all foreign assistance programs into the State Department. But this step would be likely to undermine the long-run effectiveness of our assistance. It would subordinate development to diplomacy, risk allocating larger amounts of funding to meet short-term political and diplomatic objectives at the expense of longer-term development objectives, and place responsibility for development policy in a department with only limited expertise in development. It would require a massive transformation of the culture, mission, and staffing of the State Department to avoid the pitfalls of past experiments of this kind (for example, the merger of United States Information Agency into State). While the alignment of development and diplomacy is important, so too is the alignment of defense and diplomacy and trade and diplomacy, yet no one would advocate submerging the State Department into the Defense Department, or folding the Department of Commerce into the State Department.

The reorganization proposed here will take time. While it is underway, more immediate steps must be taken to staff, rebuild and transform civilian institutions such as State and USAID so that they can more effectively play their appropriate roles in the interagency and multilateral arena.

The organization structure is a key piece of a bold, effective modernization of our foreign assistance apparatus to meet the challenges and opportunities confronting America today. Much attention gets put on this individual issue and it is important to put it in the context of a package of reforms which, as a whole, will constitute real and effective change. Isolating one issue as distinct and actionable from the rest is not advisable.

4. Increase Funding for and Accountability of Foreign Assistance

More money by itself will not help the United States to better achieve its foreign policy goals in developing countries. But more money, better spent, is an important part of the answer. The steps outlined above are central to spending U.S. funds more effectively. So too is allocating our funds more effectively, with more funding going to low-income countries that need assistance, and to better-governed countries that can use it well. But additional funding also will be necessary. Although the increases in funding in recent years are welcome, they were on top of a very low base, and are inadequate for the United States to fight poverty, state failure, and instability in low-income countries around the world. If we invest in solving global problems early-like halting the spread of new infectious diseases before they reach the U.S., and easing the suffering and indignity that foster anger and violence—we save both lives and money.

To ensure stronger accountability for funds spent, we must establish much stronger monitoring and evaluation processes aimed at keeping programs on track, guiding the allocation of resources toward successful activities and away from failures, and ensuring that the lessons learned—from both successes and failures—inform the design of new programs. In addition, it is crucial that measures of ultimate impact be conducted independently of the designers and implementers of the programs. For that reason, regardless of organizational structure, the United States should support and ultimately join the International Initiative for Impact Evaluation, which would join together foreign assistance providers from around the world to provide professional, independent evaluations of the impact of development initiatives.

5. Place a Higher Priority on Multilateral Channels of Assistance

The United States provides a very small share of its foreign assistance—just 10 percent in 2006—through multilateral channels; other major donors average 33 percent. This imbalance is a missed opportunity for the United States to leverage its funding and to exert greater influence over the programs and priorities of the major multilateral agencies. The United States provides 15–20 percent of the funding for the major multilaterals and other shareholders look to the United States to take the lead in determining their own funding levels. Many shareholders feel that the United States has abandoned the multilaterals. There is no question that the performance of the major multilateral agencies can be strengthened. But the United States can only play a diminished role in the debates and efforts to reform these organizations when it provides such a small share of funding. The next administration should work more closely with and strengthen multilateral channels of foreign assistance, and allocate a greater share of funding for these organizations. Responsibility for the multilateral development banks currently rests with Treasury, and could shift over to a new Cabinet department (or strong sub-Cabinet agency). There are pros and cons to such a shift. Moving this responsibility would allow for stronger coordination between our bilateral and multilateral approaches and would place authority for multilateral development bank policy in the context of the full range of development policies affecting low-income countries, but it would separate it from IMF and debt relief policies, which would remain at Treasury. Treasury does not have strong expertise in development, but neither does USAID currently have strong expertise in economic growth and the U.S. role in multilateral development agencies. Placement of this responsibility could work either way. But either way, it will require beefing up the expertise in either Treasury or USAID, and will require strengthening channels of communication and joint decision-making between the two agencies.

CONCLUSION

Taking on these challenges will not be easy. Modernizing development assistance into an effective instrument for smart and strong U.S. global leadership will require major organizational and legislative changes and changing bureaucratic mindsets.

Several attempts at modest reorganization or rewriting the Foreign Assistance Act have been made in the last two decades; all fell short because of lack of support in either the administration or on Capitol Hill. But today there is strong backing on both sides of the aisle for elevating the importance of development, with growing consensus around missions, mandates, and strategies. It is time to take advantage of this rare opportunity to modernize and strengthen U.S. development assistance to more effectively combat poverty, widen the circle of development and prosperity, fight terrorism, and further other U.S. strategic interests abroad.

Chairman BERMAN. Thank you. Mr. Offenheiser.

**STATEMENT OF MR. RAYMOND C. OFFENHEISER, PRESIDENT,
OXFAM AMERICA**

Mr. OFFENHEISER. Thank you, Chairman Berman and thank you as well to the distinguished ranking member, Ms. Ros-Lehtinen. I want to thank all the members of the committee who have made time this morning for this hearing.

And, Mr. Chairman, I would like to begin just by applauding your efforts in particular to put this issue on the congressional agenda and say that we very much at Oxfam share your sentiments that America must rebuild our capacity to engage in the fight against global poverty.

For those who may not know Oxfam, we are a global organization working to reduce poverty in over 120 countries around the world. We take no U.S. Government funding. Our U.S. support comes from the American citizens and organizations that care about global poverty.

The perspective I would like to bring to today's hearing is from the field, from the poor, and from the customers of our aid programs where Oxfam witnesses on a daily basis the best and worst of U.S. foreign assistance. And overwhelmingly I must report the customers of U.S. foreign aid as currently designed feel that it is failing, failing in particular to help people realize lasting change in their communities and in their lives.

This morning's headlines I think tell part of the story. Skyrocketing food prices are setting off riots in countries around the world where people are already living on a knife's edge. What this vividly illustrates is that poverty anywhere in the world can threaten global as well as our own national security. To deal with the unique challenges of a 21st century globalizing world we desperately need a 21st century strategic vision that addresses all three pillars of our national security strategy: Defense, diplomacy and development.

When we see the military using foreign aid as a force multiplier or diplomats using it to persuade a foreign government to cooperate with us politically, our experience in the field is that you are unlikely to have any impact on the deeper issues of poverty that plague a society and may cripple its government. When we see the Department of Defense spending one-fifth of our development funding while our civilian agencies suffer from a depleted capacity and resources in the field, we believe that our short-term tactical concerns are trumping our long-term strategic interests.

My colleagues have already made the case for major fundamental reform: A new Foreign Assistance Act, a new Cabinet-level Department for Global Development, and a new strategy for reducing poverty and supporting economic growth in developing countries. At

Oxfam we endorse all three of these proposals. I would like to take a few moments now to explain why from our point of view, from the basis of a customer's perspective, these reforms are important, drawing from the kinds of experience that we and other agencies represented in this room have working directly with the poor.

Because the United States has no development strategy and no clear institutional leadership of our overall development policy, many countries where Oxfam works confront a plethora of U.S. agencies working at cross-purposes in non-strategic ways. Take Afghanistan: With at least eight United States Government agencies working there, the U.S. military, political and development efforts are coordinated on the ground only when U.S. officials make a special effort to talk to each other. When they do not, and they often do not, they work at cross-purposes, burden local officials with too many meetings, waste United States taxpayer money, and fail to keep our promises to the Afghan people.

Our lack of a strategy is compounded by an out-of-date legal framework that confuses rather than guides the prioritization of our aid. Illustrative of this program is the fact that the body of law governing U.S. foreign aid today contains the phrase, and I quote, "notwithstanding any other provision of law" 252 times. This complexity of the law might be worth it if the law addressed global challenges, today's global challenges in some detail. But, in fact, it does not.

For example, Congress appropriated \$1.8 billion for child survival and health in 2008 alone. Yet this program has never been authorized by this committee. The Foreign Assistance Act makes no more than a few passing references to it and the law provides absolutely no strategic guidance as to how Congress expects the funds to be spent or what results they should achieve. Given this type of strategic absurdity in the current law, how can a USAID employee on the ground do their job? Indeed, how can you here in Congress have any confidence that they are doing their job?

It is our experience again in the field that if you really want to tackle global poverty you need to change the practice on the ground. Specifically, U.S. foreign aid must do more to put poor countries and poor people in control of their own future, give them a sense of agency, engender a sense of ownership. The end goal of any sensible foreign aid policy should be to put itself out of business. We need to help governments and citizens find ways to finance their own development needs. Eventually we want to see a world that does not need U.S. foreign aid because it does not have poverty. But if we, as the United States, ever hope to get out of the foreign aid business, then we need to deliver aid in a way that strengthens rather than undermines the relationship between citizens and governments in poor countries.

Afghanistan's National Solidary Program illustrates this concept. In 2003 this program gave rural villages ownership over their own economic development. In one village near the Pakistani border where Taliban insurgents have been active for some time villages chose to build their own hydropower plant that will bring electricity to about 300 families. Near the site villages record government aid disbursements in a public square for the entire village to see. Quoting one villager, "This is our money. All the time we are

checking whether it is being spent correctly.” Because villagers are actually creating these projects, of course they want to protect them. What is more, the Taliban feels less comfortable attacking village-led projects than it does clearly branded foreign aid projects.

Smart development means that we have to stop telling poor people what they need and let them tell us what they need. We need to adopt the approach taught in our best business schools here in the United States: Listen to your customer; understand his or her needs on his terms. True partnership means ceding a measure of control, something that is hard often for Washington to do. But when we fail to take time to listen to poor people we waste our tax dollars and we waste our time.

Another example, during the Asian tsunami in 2004, the United States Government responded rapidly and effectively with humanitarian relief. But when it came time to rebuild, villages in Thailand were delivered unsolicited boats from the United States Government and other aid agencies. Villagers who were day laborers, not fishermen, before the tsunami felt obliged to become fishermen in order to put the boats to use. One villager told researchers, “We got too many boats and there are not enough people or fishing spots to go to.” One fisherman in the village quipped, “I think there are more boats than fish.”

In another case development aid dollars literally went up in smoke. An Afghan NGO described a project to deliver roofing timbers to people in Afghanistan’s Central Highlands. The agency overseeing the project based in Geneva took 20 percent of the \$30 million assessed for administrative costs and then subcontracted to a Washington-based NGO that took another 20 percent which in turn subcontracted to an Afghan NGO that took another 20 percent. Then they paid an Iranian trucking company to haul the timber. Once the timber arrived it was found to be useless as roofing timber. It was too heavy for the mud brick walls of the local homes. So, rationally, the villagers chopped up the wood and used it as firewood.

Conversely, when poor people are put in charge of their own development we can see real success. Oxfam America, for example, has a microfinance program called Saving for Change which differs from traditional microfinance. The participants save, lend and pay each other interest without taking on debt from a bank, credit provider or money lender. They can use these loans to start small businesses or buy much needed supplies for their families. The people who benefit would have usually been left behind by traditional banks and credit unions; they are the poorest of the poor.

The program self-replicates on a large scale under low costs, serving those who need a safe place to save or access to a small loan. By supporting village groups that act as their own community banks the program has improved the livelihoods of poor people and increased their access to financial services. Since this Savings for Change program was launched in 2005, more than 100,000 people in Mali, Senegal, Burkina Faso and Cambodia have joined and the program grows rapidly day by day.

When aid is used in this way it works more than just a gap filler. Instead it becomes a catalyst that mobilizes local resources. It is the difference between charity and investment. Smart development

again means that we invest in poor peoples and poor countries' success as partners and view our efforts in the context of other forces at work in their societies.

There is no quick fix for global poverty. I do not think any of us in this panel believe that. This is a long-term effort and it involves significant investment in institution building. Enabling equitable growth demands patience. Unfortunately, right now our political process undermines this patient effort by creating unrealistic expectations, demanding instantaneous results, and issuing confused and constantly changing directives. By relying on the annual budget cycle to fund our foreign aid we are essentially moving the goalposts every 12 months for the billions of poor people who are asking for our help and for the aid officials who are trying to organize a 5-year strategic plan within their missions.

Government after government has told Oxfam in the 2004 study that we did that U.S. foreign aid creates more headaches for them than aid from any other donor. NGOs tell us that U.S. foreign aid is the most burdensome of any to administer. When President Kennedy laid out his vision for USAID in his 1961 inaugural address he painted a vision of American leadership based on our values. He called us to public service and committed us to fight for the world's poor, and I quote, "not because the Communists may be doing it, not because we seek their votes, but because it is right." Like 1961, this is another once-in-a-generation opportunity. We seek the leadership of the members of this committee to fix foreign aid. You have begun this process with this hearing. We hope there will be many more such hearings this year to highlight the issues and educate the members and the public.

Amongst those of us in the room from Oxfam and from the InterAction community, we are working to convince the Presidential candidates that foreign aid reform must be a high priority early in the next administration. And we firmly believe that if you exercise the leadership to address this challenge the American people will support you. The energy is out there, the enthusiasm is out there, and there is a firm belief that America must re-engage the world in a positive way around its values. And I can promise you that many organizations represented in this room and many others not here today in our community will work tirelessly to mobilize the public support you will need to delivery this 21st century vision.

Thank you very much for this opportunity.

[The prepared statement of Mr. Offenheiser follows:]

PREPARED STATEMENT OF MR. RAYMOND C. OFFENHEISER, PRESIDENT, OXFAM
AMERICA

Thank you, Chairman Berman, for holding this hearing. Thank you as well to the distinguished Ranking Member Ms. Ros-Lehtinen for your opening comments. And I would also like to thank all the Members of the Committee who have made time for this hearing in your busy schedules.

Mr. Chairman, I would like to applaud your efforts in particular to put this issue on Congress's agenda. I share your sentiments that America must rebuild our capacity to engage in the fight against global poverty.

INTRODUCTION

Oxfam is not here because we care about bureaucratic reshuffling or because we want funds for our programs. We take no U.S. public funding—our U.S. support comes from American citizens and organizations who care about global poverty.

We are here because, as a global organization working to reduce poverty in over 120 countries, Oxfam witnesses, on a daily basis, the best and worst of U.S. foreign assistance. We work directly with the end-users of U.S. foreign assistance, both poor people and their governments.

Part of our mission is to bring their voices to this debate. Overwhelmingly, they feel that U.S. foreign aid, as currently designed, is failing. Built for the challenges of the Cold War, U.S. foreign aid in the 21st Century has become slow, bureaucratic, and fragmented. As a result, it is unable to help poor people achieve real lasting change in their communities and in their lives.

America must rebuild our capacity to combat global poverty, not just to save the world's poor, but to save ourselves. Oxfam believes in fighting poverty because in a world of plenty, the persistence of poverty is a profound moral challenge. But we have also seen how fighting poverty can deliver real, practical benefits for our nation and the world.

This lesson is brought into sharp focus by one incontrovertible fact: we live in a rapidly shrinking world. As commodities, goods, labor, and services cross borders with increasing speed, so do disease, ideology, and unrest. Just look at the headlines—skyrocketing food prices are setting off riots in countries across the world where people were already living on a knife's edge. We have a moral responsibility to reduce poverty. But if you look at the instability caused by the current food crisis, it is clear that reducing global poverty is fundamental to our national security as well.

In this closer, more interdependent world, poverty anywhere in the world threatens our future. To deal with this, we need a modern, 21st Century strategic vision for our foreign policy that addresses all three pillars of our National Security Strategy: Defense, Diplomacy and Development. Development is not the whole answer. But it is a necessary part of any effective vision and strategy for reducing poverty and strengthening American foreign policy. And right now it is the most neglected part of our strategy.

When U.S. foreign assistance is used to fight poverty effectively, it builds a safer world for everyone, and strengthens U.S. international standing and moral authority abroad. Making our aid more effective is good for our economy too; today's poor countries will become tomorrow's U.S. trading partners. But when aid is done poorly, it fails to deliver any lasting results, and undermines American leadership and values. At its very worst, it can undermine democracy by eroding the trust that poor people abroad have in their governments, and that American taxpayers have in our government.

Oxfam believes the United States could do more to reduce poverty if we dedicated more resources to the problem. But first we need to reform the system. We understand the futility of asking American taxpayers to give more money for foreign aid when we cannot demonstrate success. We believe that with the right reforms, we can deliver results that American voters and taxpayers will be proud to support.

It is clear that Americans are ready to embrace change as well—our image abroad matters to them. Nine out of ten Americans think it is important for other countries to have a favorable opinion of the U.S.¹ They are frustrated that polls show our global standing ranks below that of Russia and China.² Even in our current economic situation, more Americans want us to keep using and improving our aid than those who want us to spend less on aid and focus on domestic problems.³ The beginning of a new presidency is the best opportunity for real progress in foreign aid reform—there is both the need and opportunity to redefine America's global role. The time is now, and the American people want a new vision for how the U.S. engages with the world.

My colleagues have already made the case for major, fundamental reform: a new foreign assistance act, a new cabinet-level department for global development, and a new strategy for reducing poverty and supporting economic growth in developing countries. I want to explain why those reforms are important, drawing from our experience working directly with the poor.

Oxfam's experience in the field has taught us three hard-learned lessons:

¹ Continuous Progress (World Learning & the Aspen Institute) poll, Conducted by Opinion Research Corporation (ORC) February 1, 2008, available at <http://www.worldlearning.org/8045.htm>.

² Approval ratings were 35% positive for U.S., 37% positive for Russia, and 47% positive for China. Poll conducted by Program for International Policy Attitudes (PIPA) at the University of Maryland and GlobeScan, "BBC World Service Public Opinion Poll 2008," World Public Opinion, http://www.worldpublicopinion.org/pipa/pdf/apr08/BBCVals_Apr08_rpt.pdf.

³ Hart/McLaughlin, national survey of likely presidential voters for US Global Leadership Campaign and the ONE Campaign, April 2007.

- First, unless your primary purpose on the ground is building lasting solutions to poverty, aid on the ground gets wasted.
- Second, even with the best trained and resourced aid professionals in the field, if your bureaucracy in Washington is out of date, focused on the wrong things, or lacks authority, you will never get lasting results on the ground.
- Third, the best way to achieve lasting impacts on poverty on the ground is to help governments become more effective and responsible and to empower citizens to take more ownership of and responsibility for their own and their country's development.

WE NEED TO MAKE "POVERTY" THE PRIMARY PURPOSE OF OUR DEVELOPMENT EFFORTS

Let me begin by talking about why we as a country need to fight global poverty. In our work alongside the world's poor, we see the many motivations driving United States foreign assistance: our own national security, our economic interests, and our national values all drive our foreign assistance priorities.

Oxfam does not argue that the United States government should abandon giving foreign aid in a manner consistent with American national interests. Rather, we argue that designing a foreign aid strategy to reduce global poverty is itself a compelling American national interest.

Furthermore, we have observed that foreign aid programs that are not designed with long-term poverty reduction as their clear purpose will not reduce poverty. In essence, fighting poverty can deliver long-term security benefits, but only if they focus first on poverty and its root causes.

When the military seeks to use foreign aid as a force multiplier or diplomats use it to persuade a foreign government to cooperate with us politically, experience shows that, in those cases, you cannot expect to get any real poverty reduction as a result. But it is through reducing poverty that we will eventually counter the threat of instability that drives our defense policy, and it is through improving poor people's lives that we will earn trust and find the diplomatic partnerships we seek.

In 2006, the Department of Defense managed about 18 percent of our overseas development assistance; this was up from just 4 percent in 1998.⁴ When we see the Department of Defense spending one-fifth of our development funding, while our civilian agencies suffer from depleted capacity and resources in the field, we believe that our short-term tactical concerns are trumping our long-term strategic interests. Programs such as Sections 1206, 1207, and CERP may serve a tactical purpose for the military commanders who employ them. But these funds end up getting spent outside of any strategic plan for foreign aid and risk undermining our long-term foreign policy strategy. The Pentagon is seeking to make the Section 1206 program permanent, through their proposed Building Global Partnerships Act; Oxfam believes this would be a mistake. When military thinkers aim to win hearts and minds with programs designed for military purposes, they often fail to deliver the lasting benefits that would actually win hearts and minds of local populations over the longer term.

The national security establishment here in Washington has publicly acknowledged the threat of global poverty and this country's limited ability to fight it with its current foreign aid system. The U.S. cannot achieve its foreign policy objectives without becoming better at exercising "Smart Power"—balancing the hard power of our military with the soft power of public diplomacy and development. At Oxfam, we believe that an essential component of exercising Smart Power is engaging in Smart Development. Smart Development means putting the fight against global poverty at the center of our foreign policy.

When almost half of U.S. foreign aid goes to ten countries where we have political and security concerns, while less than five percent goes to the world's ten poorest countries, we are not putting poverty first.⁵ When the Commanders Emergency Response Program has almost as much to spend this fiscal year as the entire Millennium Challenge Corporation appropriation, we are not putting poverty first.⁶ When Oxfam in Afghanistan sees U.S. soldiers building schools and those schools being burned down, while the U.S. still under-funds the National Solidarity Program

⁴ OECD DAC, "The United States Development Assistance Committee Peer Review," (Paris: Organization for Economic Cooperation and Development (OECD), 2006): 26, <http://www.oecd.org/dataoecd/61/57/37885999.pdf>

⁵ See analysis and sources in Oxfam America, *Smart Development: Why US Foreign Aid Demands Major Reform* (February 2008): 6.

⁶ This year, the DOD is requesting \$1 billion for CERP to augment the \$500 million they received from the 2007 Supplemental Spending Bill. The FY08 appropriation for the MCC is \$1.544 billion.

which builds schools at a fraction of the cost, we are not putting Afghan poverty or our long-term security first.⁷

Oxfam America has watched the U.S. fight against global poverty become increasingly driven by immediate security concerns and single-issue initiatives. Whether the U.S. fights global poverty for moral reasons or to improve its own security, truly effective foreign aid will only happen when a major part of our aid portfolio is designed to fight poverty for its own sake. This poverty-focused aid saves lives and helps people overcome poverty, which is vital for almost half the world that is surviving on less than \$2 a day. And this reinvigorated, effective aid also happens to be exactly the kind of smart tool that is needed to regain U.S. leadership in the world. Simply put, when the U.S. fights poverty, everyone wins.

We have witnessed what is possible when the U.S. government sets its mind to fighting poverty effectively. We saw the U.S. enable the Green Revolution which helped countries from Mexico to India go from famine victims to food exporters. We have seen how the World Health Organization, with funding from the United States, established the Smallpox Eradication Unit and launched a worldwide campaign which completely wiped out Smallpox in only 13 years. A month ago, we listened to El Salvador's National Development Council tell us that the MCC was the best aid program they have in El Salvador, designed intelligently to achieve sustained economic growth based on clear government priorities. The clear lesson is that reducing global poverty is possible and benefits America. We need to put this lesson at the centerpiece of our foreign aid strategy.

WE SEE THE NEED FOR MODERNIZATION IN THE FIELD

Oxfam America supports the consensus strategy to modernize the U.S. foreign assistance machinery already laid out by my colleagues.

First, we need a new strategy. We need a thoughtful strategic focus that reflects that development is a long-term process, not something that should be hostage to the annual budget cycle.

Second, we need a new structure. Key to success is making sure that development strategy is led by development professionals. It should not be led by agencies that do not have global development as their core mission. We need to rebuild the capacity of the United States government in this regard.

Third, we need a new law. The architecture for foreign assistance is a Cold War architecture. It fails to reflect that world politics as well as world economics have changed. We need a new Foreign Assistance Act, to build a new shared understanding between the President, Congress, and the American people, as to what foreign aid is and what we want it to accomplish in the 21st Century.

Let me draw on our experience to support these points. Because the U.S. has no National Development Strategy and no clear leadership of our overall development policies, many countries where Oxfam works must confront a cacophony of U.S. agencies working at cross-purposes in non-strategic ways.

Take Afghanistan, perhaps the most important development context for U.S. foreign policy. In addition to our regular Afghanistan program staff, Oxfam has three development policy analysts permanently there, looking at foreign assistance. We see no overall U.S. development strategy for Afghanistan. With at least eight different U.S. government agencies working there,⁸ U.S. military, political, and development efforts are coordinated on the ground only when U.S. officials make a special effort to talk to each other. When they don't, and they often don't, they work at cross-purposes, burden local officials with too many meetings, waste U.S. taxpayer money, and fail to keep our promises to the Afghan people. The one agency that is supposed to lead our development, USAID, is asked to manage billion-dollar budgets with a skeletal staff that turn over much too often. It is no wonder that when we talk to USAID contracting officers there, they are over-stressed and over-stretched. Instead of deepening their knowledge of the culture, politics, language, and priorities of Afghans, USAID staff have time only to shovel funding out the door—it is little surprise that over fifty percent of USAID funding in Afghanistan goes to five American for-profit contractors, who spend a significant proportion of their money on U.S. consultants, while we give almost nothing to the Afghan Gov-

⁷See Geoffrey Warner, *The Schools the Taliban Won't Torch*, (Washington Monthly, December 2007).

⁸U.S. government agencies working in Afghanistan include USAID, the Departments of State, Agriculture, Health, Labor, Justice, Defense, Commerce, Transportation and the U.S. Trade Representative and The White House, including the Office of National Drug Control Policy.

ernment itself to demonstrate to the Afghan people that they can actually lead responsibly.⁹

Elsewhere, we see U.S. foreign aid working at cross-purposes in different ways. In many countries where the U.S. gives aid, we charge them more in tariffs than we give them in development assistance. We give \$80 million in foreign assistance to Bangladesh, but we charge it \$500 million in tariffs.¹⁰ Seven out of every 100 Bangladeshi children die before their fifth birthday.¹¹ We should be helping Bangladesh use its own economic growth to address its problems, not taxing that growth and then replacing it with a far smaller amount in aid. Our failure to think strategically and take a “whole of government” approach to development means we are taxing the very poor countries that we are trying to help.

Our lack of a strategy is compounded by an out-of-date legal framework that confuses rather than guides the prioritization of our aid. The body of legislation governing U.S. foreign aid contains the phrase, “notwithstanding any other provision of law . . .” two hundred and fifty two times.¹²

And the complexity of the Act might be worth it if the act addressed global challenges in detail. But it doesn’t. Child Survival and Health is a foreign assistance priority that Congress appropriated \$1.8 billion for in 2008 alone. Yet the program has never been authorized by this committee. The Foreign Assistance Act makes no more than a few passing references to it, and the law provides absolutely no strategic guidance as to how Congress expects the funds to be spent or what results they should achieve.¹³ Given this type of strategic absurdity in the current law, how can a USAID employee on the ground do their job? How can you, here in Congress, have any confidence they are doing their job?

STRENGTHENING RESPONSIBLE GOVERNMENTS AND EMPOWERING CITIZENS

But if you really want to tackle global poverty, you need to do more than just change the law, structure, and strategy of U.S. development policy. You need to change practice on the ground. Specifically, U.S. foreign aid must do more to put poor countries and poor people in control of their own future. Making aid work for the world’s poor and American taxpayers means the next President and Congress must seize this historic opportunity to make aid more effective by responding to the needs of recipients. This is a basic business approach—know your customer. Our current top-down approach isn’t going to cut it.

Oxfam believes that the answer to global poverty lies with the people of the developing world and their governments. It rests on the understanding that healthy societies are based on a positive relationship between accountable and effective governments, and active and empowered citizens.

The end goal of any sensible foreign aid policy should be to put itself out of business. We need to help governments and citizens find ways to finance their own development needs. Eventually, we want to see a world that doesn’t need U.S. foreign aid because it doesn’t have poverty. But if we as the United States ever hope to get out of the foreign aid business, then we need to deliver aid in a way that strengthens, rather than undermines, the relationships between citizens and governments in poor countries.

To foster this relationship, foreign aid needs to help citizens participate in the economy, generate income and profit, pay taxes to the government, and hold their government accountable for how those tax dollars are spent. In other words, aid needs to spark the entrepreneurship of local people. In addition, foreign aid should help the government improve its own capacity to generate revenue and provide the kinds of public goods and services that enable more citizens and businesses to participate in the economy. Only by helping citizens and governments to work together towards equitable economic growth will aid ever work itself out of business.

Oxfam America has a microfinance program called Saving for Change which we think illustrates this concept. Saving for Change differs from the traditional microfinance model in that participants save, lend, and pay each other interest without taking on debt from a bank, credit provider, or moneylender. They can use these loans to start small businesses or buy much-needed supplies for their families. The people who benefit would have usually been left behind by traditional banks and

⁹ See the Agency Coordinating Body for Afghan Relief, (ACBAR), *Falling Short: Aid Effectiveness in Afghanistan* (April 2008): 18.

¹⁰ The Honorable Mary K. Bush, et al., “Beyond Assistance: The HELP Commission Report on Foreign Assistance Reform,” December 7, 2007: 23, available at www.helpcommission.gov

¹¹ World Health Organization, accessed 04/18/08, available at <http://www.who.int/countries/bgd/en/>

¹² Original legal analysis done for Oxfam America by Dechert LLP.

¹³ Original analysis of the Foreign Assistance Act provided to Oxfam America by Dechert LLP.

credit unions. The program self-replicates on a large scale and at a low cost, serving those who need a safe place to save or access to a small loan. By supporting village groups that act as their own community banks, the program has improved the livelihoods of poor people and increased their access to financial services.

Since Saving for Change was launched in April 2005, more than 100,000 poor people in Mali, Senegal, Burkina Faso, and Cambodia have joined savings and lending groups. Members have saved a total of nearly \$1.3 million so far—and the program continues to grow.

When aid is used in this way, it works as more than just a gap-filler. Instead, it becomes a catalyst that mobilizes local resources. It is the difference between charity and investment. Smart Development means that we invest in poor people's and poor countries' success as partners, and view our efforts in the context of the other forces at work in their society.

Smart Development means that we have to sometimes let go of our preconceptions of what poor people need and let them tell us what they need. True partnership means ceding a measure of control, something that is hard for Washington to do. But when we fail to take the time to listen to poor people we waste our tax dollars and their time. An example: during the Asian tsunami in 2004, the U.S. government responded rapidly with humanitarian relief, and the disaster response was praised as a model of efficiency and cooperation. But when it came time to rebuild, villagers in Thailand's Phang Nga Province were delivered unsolicited boats from the U.S. government and other aid agencies. A group of villagers who were day laborers, not fishermen, before the tsunami, felt obliged to become fisherman in order to put the boats to use. One villager told a team of researchers from the Listening Project, "We got [sic] too many boats and there are not enough people or fishing spots to go to." A fisherman in the village quipped, "I think there are more boats than fish."¹⁴ Another local fisherman offered this opinion:

"They just asked 'what do you want?' We said 'a boat.' They bought the wrong kind of boat, too large, too expensive, and we can't fish with it . . . They should have asked for our opinion because it's such a waste of money. They could have spent it on something better."¹⁵

In another case, development aid dollars literally went up in smoke. An Afghan NGO described a project to deliver roofing timbers to people in Afghanistan's central highlands: "Villagers described how the agency in Geneva meant to oversee the project took twenty percent of the \$30 million for administrative costs, which subcontracted to a non-governmental organization (NGO) in Washington, D.C. that took another twenty percent, which in turn subcontracted to an Afghan NGO that took another twenty percent. Then, they paid money to a trucking company in Iran to haul the timber. Once the timber arrived, it was found to be of no use as roofing timber to the villagers. It was too heavy for the mud brick walls of their homes, so the villagers chopped the wood up and used it as firewood."¹⁶

But when poor people are put in charge of their own development, we can see real success. One such success story in Afghanistan is the National Solidarity Program. In 2003, this program gave rural villages ownership over their own economic development. One village, Dadi Khel, is in the heart of Azra, a mountainous area near the Pakistan border where Taliban insurgents were recruiting economically isolated villagers. As part of the National Solidarity Program, villagers chose to build their own hydropower plant that will bring electricity to about 300 families. Near the site, villagers record government aid disbursements for the entire village to see. "This is our money," said a local teacher. "All the time, we are checking whether it is spent correctly." The program's model encourages village councils to identify and complete more projects—reinforcing the relationship between citizens and their government. Because villagers create the projects, they want to protect them. What's more, the Taliban feels less comfortable attacking village-led projects than it does clearly-branded foreign aid road projects.¹⁷

There will be no instant gratification in this effort. There is no quick fix for global poverty. Enabling equitable growth demands patience. Unfortunately, right now, our

¹⁴The Listening Project, *Field Visit Report: Thailand* (The Listening Project, March 2007): 15, http://www.cdainc.com/cdawww/pdf/casestudy/lp_thailand_field_visit_report_english_Pdf.pdf

¹⁵The Listening Project, *Field Visit Report: Thailand* (The Listening Project, March 2007): 15, http://www.cdainc.com/cdawww/pdf/casestudy/lp_thailand_field_visit_report_english_Pdf.pdf

¹⁶Story told by aid worker Clare Lockhart in Kevin Anderson, "Call for rethink in aid policy," BBC News, Aug. 1, 2005, http://news.bbc.co.uk/2/hi/in_depth/4678877.stm

¹⁷Gregory Warner, "The Schools the Taliban Won't Torch" (Washington, D.C.: Washington Monthly, December 2007), www.washingtonmonthly.com/features/2007/0712.warner.html

political process undermines this patient effort, by creating unrealistic expectations, demanding instant results, and issuing confused and constantly changing directives. By relying on the annual budget cycle to fund our foreign aid, we essentially move the goalposts every twelve months for the billions of poor people who are asking for our help and leadership to fight poverty.

In every one of the 120 plus countries where Oxfam works, people don't just need relief from HIV/AIDS, education for their kids, job training, and basic security. They need all of these things at once, and much more. If you are in the half of humankind that lives on less than \$2 a day, no single U.S. foreign assistance project is going to transform your life. Yet we continue to manage foreign aid not as a strategy, but as a series of projects, each seemingly disconnected from one another. By only measuring our efforts in discrete areas, we undermine progress on the host of ills that confront poor people.

The fight against HIV/AIDS is a case in point. The PEPFAR program is a grand and noble undertaking. But it suffers from its lack of integration into any U.S. strategy for development. If we are to defeat the HIV pandemic, it will take more than just getting AIDS victims on medication. It requires supporting health systems that can take care of patients. It requires making sure children go to school and learn how to protect themselves from the virus. We as a government need to analyze and understand how these different efforts can support each other as part of a coordinated strategy.

We have to help states govern effectively, markets function fairly, and citizens achieve the basic tools to generate their own wealth over time. Right now, our aid is not strategically designed to do *any* of these things. Government after government has told Oxfam that U.S. foreign aid creates more headaches for them than aid from any other donor. NGOs tell us that U.S. foreign aid is the most burdensome to administer. Many of our allies now consider non-project aid, given directly to the treasury of governments as the most effective form of aid, when used in the appropriate circumstances. But the United States only gives about four percent of our aid this way, less than any other OECD country.

Consider Mozambique. Most major donors have determined to work together to give more money directly to the Government of Mozambique, and then hold the Government accountable to achieve real outcomes for the poor.¹⁸ Last year, Mozambique received 42 percent of its aid in non-project aid. Yet the U.S. gives no money to Mozambique in this way. Instead, we work around government systems, channeling our aid to a vast array of programs, many of which are driven by separate legislative mandates. Senator Lugar recently found that Congress and the White House require more than 100 different reports on our activities there, taking tens of thousands of hours for U.S. government staff in Mozambique to produce. This is on top of the thousands of reports the U.S. requires from grantees in Mozambique.¹⁹ Yet contrast this with Pakistan, where for the last six years we had a military dictatorship and a fragile relationship between the government and its citizens. In that case, we should have been working more directly with the citizens rather than handing more than \$10 billion in foreign aid directly to a government that has not demonstrated a sufficient commitment to fighting either poverty or corruption.²⁰

Oxfam does not believe that one foreign aid approach fits all contexts. While wealthy and prosperous countries may increasingly mimic each other in our global economy, we know that no two countries are poor in the same way or for the same reasons. Our aid must work differently with those countries led by responsible governments, like Mozambique, than those countries that lack responsible leadership, like Zimbabwe or Somalia. And in a case where we do not believe a government is acting in a responsible and transparent manner, we need our aid professionals to have the flexibility to work directly with the local people and civil society groups to develop solutions that work for their communities.

In September of this year, the world's major donors are going to gather in Accra, Ghana to talk about how to make their aid more effective, following up on the commitments they made in Paris in 2005. The U.S. should be leading that effort, but we have yet to see effective leadership from the U.S. The OECD, which is leading the Accra meetings, finds that the United States gives less programmatic aid di-

¹⁸Paolo de Renzio and Joseph Hanlon "Contested Sovereignty in Mozambique: The Dilemmas of Aid Dependence." Managing Aid Dependency Project. Global Economic Governance Working Paper 2007/25. Department of Politics and International Relations. Oxford. (January 2007).

¹⁹Senate Foreign Relations Committee, Embassies Grapple to Guide Foreign Aid, (Nov. 2007), Appendix IV.

²⁰See Generally, Derek Chollet et al. When \$10 Billion is Not Enough: Rethinking US Strategy Towards Pakistan (Pakistan ranks 138 out of 179 countries on Transparency International's Corruption Perception Index (2007)).

rectly to responsible governments, makes less use of local procurement or finance management mechanisms, and ties more of its aid to the purchase of donor country goods and services than any other donor.²¹

Oxfam believes that the fight against poverty is both noble and necessary. But it will not be quick and it will not be easy. The United States Government must take action to reform its laws, structure, and strategy for foreign aid, so it can focus on long-term poverty reduction first, employ 21st Century solutions, and put ownership and agency in the hands of people around the world.

As I have said, we think that the American people are ready to support Congress in reforming foreign aid. The broad, bipartisan support for PEPFAR reauthorization is a key example. Americans are motivated by their compassion for those suffering from HIV/AIDS. But they are also motivated by the realization that this is a different world than it was even just a decade ago. For example, when the Asian Bird Flu can fly across the Pacific Ocean as fast a jumbo jet, Americans have an interest in seeing that health systems in poor countries work.

But there is more to this effort than simple self-interest. When President Kennedy laid out his vision for USAID in his inaugural address, he painted a vision of American leadership based on our values. He committed us to fight for the world's poor, "not because the Communists may be doing it, not because we seek their votes, but because it is right."

Mr. Chairman, the American people believe this is the right thing to do. Oxfam America is working to make sure their voices and those of the world's poor are heard in this debate. Thank you for this opportunity, and I look forward to working with you, as well as taking your questions.

Chairman BERMAN. Thank you. Congressman Kolbe.

**STATEMENT OF THE HONORABLE JIM T. KOLBE, SENIOR
TRANS-ATLANTIC FELLOW, THE GERMAN MARSHALL FUND
OF THE UNITED STATES (FORMER MEMBER OF CONGRESS)**

Mr. KOLBE. Thank you very much, Mr. Chairman, Ranking Member Ros-Lehtinen, and members of the committee for this opportunity to testify before you this morning. As the chairman pointed out, not long ago I sat on the other side of this dais as a member, so it is an honor for me to be here today to discuss the future of U.S. foreign assistance and development for both the next administration and the next U.S. Congress. With your permission I will summarize my remarks and submit the full testimony for your review. And I might add these are my views and not specifically those of the German Marshall Fund that I work with.

I think it is fair to say that the next administration and the next Congress can play a role in reshaping our foreign assistance program if they choose to do so by working together. Both branches have to be involved in the key decision to restructure, reform, or streamline the way the U.S. Government prioritizes, funds, and delivers foreign aid.

As the chairman pointed out, I spent 22 years in the House of Representatives, the last six of those as chairman of the subcommittee that funded most of the U.S. foreign assistance programs. I certainly found during my tenure that priorities shifted dramatically, particularly in the aftermath of September 11. As a result of the radical change in the global environment, the administration added development as a third pillar of national security policy. But the Foreign Operations 302[b] allocation has traditionally been one of the smaller Appropriations Committee allotments. Although the percentage of foreign aid funding changed little, the

²¹OECD, Aid Effectiveness: 2006 Survey Monitoring the Paris Declaration: Overview of the Results, http://www.oecd.org/document/20/0,3343,en_2649_15577209_38521876_1_1_1,00.html

overall foreign aid budget dramatically increased during the time that I was chairman.

The new initiatives that were launched by the administration speak for themselves: The President's Emergency Plan for AIDS Relief, or PEPFAR, has garnered widespread support from the administration, from Congress and the NGO community; the Millennium Challenge Corporation continues to offer an innovative approach to aid that reinforces local ownership, good governance, and economic freedom for recipient nations. The MCC is an initiative that I supported as chairman and worked closely with this committee to draft legislation that created this new approach to foreign assistance. As a former appropriator addressing authorizers, I think we know how rare that collaboration is. We were proud of that effort, and I continue to support the tenets and the delivery record of the MCC. And I urge this committee to do so as well.

Since I left Congress I have begun to examine foreign assistance more broadly as a Senior Transatlantic Fellow at the German Marshall Fund of the United States. Working together I think the United States, Canada and Europe can help to rationalize the aid system, not just because most of us accept the moral imperative to alleviate poverty, but because fostering economic growth in the developing world can lead to shared prosperity and improved security for all of us.

With this thought in mind, the German Marshall Fund launched a major look at foreign assistance, creating a platform for transatlantic learning, debate and policy reformulation around foreign assistance and development. The mission of our task force is to provide strategic recommendations to strengthen transatlantic cooperation in development and to harness them to public opinion in a way that can create conditions for reform. The task force will act as a platform for the exchange of innovative ideas in an environment conducive to intensive policy analysis. And we look forward to sharing those results with you when the task force completes its work this fall in time for the next administration.

Let me turn now to the questions that were posed by this committee in its call for this hearing. You had four of them. First you asked, What are the problems that plague foreign assistance? The international development system has become increasingly complex. The number of, the average number of bilateral donors per aid recipient has nearly tripled from about 12 in the 1960s to 33 by 2005. Development is no longer predominantly a government-to-government domain.

Chairman BERMAN. Repeat that one more time would you?

Mr. KOLBE. The average number of bilateral donors per aid recipient, in other words for let us take a country like Tanzania, has increased from about 12 in the 1960s to 33 different bilateral donors giving aid to that country. That is the average for a country.

Development is no longer predominantly a government-to-government domain. The rise of mega foundations like Gates, corporate foundations, social responsibility programs of private corporations and hybrid actors have brought new opportunities but also new challenges in development. U.S. trade policies often fail to achieve, and sometimes undermine, our development goals. It is critical that

the U.S. demonstrate leadership and help to bring the WTO Doha Round of multilateral trade talks to a successful conclusion.

Legislation was introduced that would extend duty-free status to non-oil products of many Muslim nations. This legislation has languished over the years. It is a shameful fact that the United States collects more tariff duties from Bangladesh and Cambodia than it does from Britain and France.

The second question you asked was: What recommendations do you have to improve the U.S. foreign assistance program, including organizational and legislative recommendations?

Development should be considered a much greater element of national security. The Foreign Assistance Act is cumbersome, as has been described here at the table. It is cumbersome, it is complicated, it is outdated. It ought to be simplified above all as a priority. This includes creating a new comprehensive Foreign Assistance Act to replace the 1961 Act and over 20 pieces of additional legislation that not accompany it.

Operationally the mission and structure of USAID ought to be defined more clearly. Now, I differ with the others on the panel here in saying I do not think this is necessarily an argument for a full Cabinet-level position for development, though I am open to that argument. A new Cabinet secretary, without thinking through all of the other changes that have to accompany it, only adds another redundant layer of bureaucracy. What we do need is there should be clearly more flexibility within the funding allocated to development assistance, fewer congressional earmarks, eliminating inefficient use of tied aid to purchase American goods.

The third question you asked is: What is the appropriate balance between national security and long-term development?

Well, finding this balance is certainly not easy but it is very important. National security is always going to be a paramount interest for any administration, this or any that succeeds it. The war on terror will continue in another administration even if it goes by a different name. Yet, longer-term development objectives should not be sacrificed for short-term security goals time after time. To do so undermines our security over the long term if these countries do not develop stable economies.

And the last question you asked is: What is the opinion regarding efforts to reform the interagency process, including calls to rewrite the National Security Act of 1947?

As I mentioned earlier, the President has added global development as a third pillar of national security. But our institutions and practices have not been altered to reflect this change. The U.S. Government has over 20 different departments—I think we just heard down here that over 50 are identified—20 different departments and agencies engaged in development work. And that leads to incoherence and redundancy. Our policies have to be fashioned to ensure that long-term development institutions, policies and practices are preserved and strengthened. The push for policy coherence has not been achieved. In fact, it has led to greater incoherence and a weakening of support for development among some lawmakers.

The push for policy coherence leads to a one-size-fits-all solution where long-term development priorities are sidelines. The agencies

that support development, defense and diplomacy cannot, it seems to me, be bundled under a single roof.

In conclusion I want to focus the committee's attention to what I think may be the most critical challenge to any successful overhaul of our foreign assistance program, and that is, how do we rebuild public support for it?

Before September 11, I would wager that you faced at every public meeting the same hostile questions that I had about foreign aid. The events of September 11 modified that somewhat, shifted the focus a bit. But our constituents continue to be concerned about domestic and security issues that impact their lives more directly.

Your challenge as a committee, our challenge as a nation, is to draw the connections between foreign aid and national security as well as domestic health and economic issues. I worry that as a nation we are turning inward when we should be doing exactly the opposite. Congress and the new administration will need the public's support to continue current aid commitments, let alone reform the aid system. As political leaders we must help the public understand that our economy is intertwined with the global economy and that our food and energy prices are impacted by the demand for food and energy all over the world. There is no turning inward in a globalized world. And foreign aid is one tool we use to promote a healthier, more secure, and economically stable world.

Mr. Chairman, I thank you for this opportunity to testify and look forward to the questions that you might have.

[The prepared statement of Mr. Kolbe follows:]

PREPARED STATEMENT OF THE HONORABLE JIM T. KOLBE, SENIOR TRANS-ATLANTIC FELLOW, THE GERMAN MARSHALL FUND OF THE UNITED STATES (FORMER MEMBER OF CONGRESS)

Thank you Mr. Chairman, Ranking Member Ros-Lehtinen, and Members of the Committee for the opportunity to testify before you this morning. Not long ago, I sat on the other side of the dais as a Member of Congress and the Chairman of the Foreign Operations Subcommittee on Appropriations. It is an honor to be here with you today to discuss the future of U.S. foreign assistance and development for both the next administration and the U.S. Congress. With your permission, I will summarize my remarks and submit my full testimony for your review.

I think it is fair to say that the next administration and the next Congress can play a role in reshaping our foreign assistance program if, together, they choose to do so. Both branches must be involved in the key decisions to restructure, reform, or streamline the way the U.S. government prioritizes, funds, and delivers foreign aid. The final responsibility for shaping the legislation and providing the funds to implement it will fall to Congress. It is a considerable challenge, but one worth taking.

I spent twenty-two years representing the 8th District of Arizona in the House of Representatives. The final six of those years I served as Chairman of the subcommittee that annually funded most U.S. foreign assistance programs. During those six years, the subcommittee witnessed a significant transformation in the landscape of foreign assistance.

Priorities shifted dramatically in the aftermath of September 11th. Funding levels increased for the new reconstruction efforts in Iraq and Afghanistan, to cope with the Darfur crisis, to support the Pakistan government's battle against Muslim extremists, and the introduction of new programs such as the President's Emergency Plan for Aids Relief (PEPFAR), the President's Malaria Initiative, and the Millennium Challenge Corporation (MCC). In one year alone, 2003, with the supplemental appropriation for Iraq reconstruction, the subcommittee's spending level increased by more than 100%.

As a result of the radical change in the global environment, the Administration added development as a third pillar of national security, and the Defense Department found itself tasked with a greater role in the implementation and delivery of both humanitarian and development assistance. In 2006, the Secretary of State es-

established the Bureau of Foreign Assistance and proposed a new transformational development agenda, which became known as the “F” process.

The Foreign Operations 302(b) allocation has traditionally been one of smaller Appropriations Committee allotments, registering at approximately 1% of the total U.S. budget. Although the percentage of foreign aid funding changed little in relation to the total U.S. budget, the overall foreign aid budget drastically increased while I was Chairman. For instance, the increase in the total enacted level of funding between Fiscal Year (FY) 2001 and Fiscal Year 2006 was over \$3 billion, increasing from nearly \$17.6 billion to over \$20.8 billion or nearly 18%. And, this did not include the frequent supplemental requests we received in the later years. These increases were significant to the foreign operations budget, especially in the short timeframe in which they materialized.

The President’s Emergency Plan for Aids Relief (PEPFAR), speaks for itself. The program has garnered widespread support from the Administration, Congress and the NGO community. It has proven itself with measurable results. The Millennium Challenge Corporation (MCC) continues to offer an innovative approach to aid that reinforces local ownership, good governance, and economic freedom for recipient nations. The MCC is an initiative I supported as Chairman and worked closely with what was then the International Relations Committee to draft legislation that created this new approach to foreign assistance. As a former appropriator addressing authorizers, I think we both know how rare that collaboration is. We were proud of that effort, and I continue to support the tenets and the delivery record of the MCC. I urge you to continue to support them as well.

U.S. foreign assistance has undergone considerable changes in the last seven years. It is important for Congress to face the challenges that have stemmed from this transformation and support the reauthorization of a Foreign Assistance Act that would harmonize the reality in the world around us with the Act that governs our assistance.

Since I left Congress, I have begun to examine foreign assistance more broadly as a Senior Transatlantic Fellow at the German Marshall Fund of the United States. Our focus is a transatlantic one. The United States and Europe account for four out of five official development assistance dollars globally and also account for the bulk of foreign direct investments, philanthropic and trade flows with the developing world. Working together, the U.S., Canada and Europe can help to rationalize the aid system—not just because most of us accept the moral imperative to alleviate poverty, but because fostering economic growth in the developing world can lead to shared prosperity and improved security for all of us. Given the important questions that you have asked us to address today, I believe that it is important that we do not reexamine our policies, practices and institutions in isolation. The next President—regardless of who that person will be—will no doubt conduct a major “rethink” on how our foreign assistance is delivered and—more broadly—how the United States engages the world. The rest of the world has watched this election process with universal attention. So, as the next administration examines the U.S. foreign assistance structure and options for reform. It cannot fail to consider our European and other global partners—not to mention the poorest countries of the world.

With this thought in mind, the German Marshall Fund, together with the active support of the Hewlett Foundation, launched a major look at foreign assistance on both sides on the Atlantic, creating a platform for transatlantic learning, debate and policy reformulation around foreign assistance and development. It will continue to support the successful conclusion of the WTO Doha Round multilateral talks because we are convinced trade is a critical piece to the development puzzle. Aid and trade need to be better coordinated. Removing barriers to trade must be complemented by foreign assistance that enables poor countries to access global markets. The process of aid modernization in the U.S. is an opportunity to leverage partnerships worldwide, exchange lessons learned, strengthen policy coherence, foster and coordinate with new development finance sources like philanthropy and the private sector, and explore common approaches to coping with failed states.

At GMF, I co-chair a Transatlantic Taskforce on Development with the Swedish Minister for International Development Cooperation, Gunilla Carlsson. Our mission is to provide strategic recommendations to strengthen transatlantic cooperation in development and to harness them to public opinion in a way that can create conditions for reform. The Taskforce consists of 24 members, eminent in the development field and with experience collectively across governments, think tanks, universities, NGOs, foundations and corporations. The taskforce will act as a platform for the exchange of innovative ideas in an environment conducive to intensive policy analysis. We began our work this month and will address four primary challenges: first, the development-democracy-security nexus; second, climate change and global public goods; third, innovative instruments and approaches to development; and fourth,

food security. These four challenges are among the most pressing issues in development. All require greater coordination and understanding amongst transatlantic donors. A report based on our findings will be published in January 2009 in time for the findings to be considered by the incoming US administration in the United States as well as the new European Commission to be installed in Brussels later that year. I hope we will have the opportunity to present the taskforce recommendations to you at the same time.

It is worth discussing these four challenges in more detail. In terms of the *Democracy/Development/Security Nexus*, there is continued concern in the international community regarding the roots of terrorism and other forms of extremism. Attention has focused on the environmental conditions—political, social, and economic—that cause or enable individuals to pursue violent behavior. There is a widely-shared belief that democracy, development, and security are inextricably linked even if the correlations have not yet been proven in the short-term. Fragile and failed states—“ungoverned spaces” characterized by collapsed societal institutions, ineffective rule of law, substandard education, and insufficient investment among many other problems—can and have become sources and sanctuaries for terrorists. Quite naturally, this provokes concern among policy makers and implementers alike. Of particular interest are the lessons to be obtained from states transitioning from post-conflict status, specifically the economic development strategies that allow an effective exit on the part of military forces and the creation of conditions that ensure political and economic stability. This would include “pre-conflict” strategies designed to prevent military conflicts by anticipating and mitigating situations that lead to political “backsliding” or economic uncertainty.

Climate Change and Global Public Goods: In a global environment, there exists a set of issue areas that extend beyond national borders in both their scope and content. As such they are considered to be of critical importance to the broader international community. These “global public goods” are unique in that, in principle, their benefits extreme to all people, but they can only be effectively defined and addressed only through collective action. Unfortunately, difficult questions concerning sovereignty, preferences, compliance, and often create strong and abiding disincentives for regional or international cooperation. Although there are a number of issues that fall in the category of a global public good—education, health care, technology transfer among them—climate change remains one of the most salient. Seen in the context of development, climate change is particularly relevant as it is predicted to have a profoundly negative impact on the world’s poor. These impacts could include higher levels of drought, declines in agricultural production, food shortages, shifts in investment, and large-scale migration. Work by the development community on this issue now encompasses both mitigation and adaptation, with significant discussion revolving around the environmental indicators that could benchmark progress by developing countries and the transfer of critical technologies that allow them to do so.

Innovative Instruments and Approaches to Development: The transfer of private sector practices and expectations to the public sector as a general trend has deepened focus on results and effective delivery in the development arena, further magnified by the emergence of new actors and paradigms. Innovative instruments and projects such as Advance Market Commitments (AMC) that leverage private sector, international bond markets, or other forms of capital and lead to reduced conditionality, effective coordination, and enhanced local ownership are also carving a new path in development aid. As the relative scale and impact of such transfers are becoming appreciated, both traditional and new aid actors must find ways to harness these efforts to the benefit of emerging and developing economies. Particular emphasis should be placed on mechanisms to channel ‘patient’ capital to small and medium enterprises, support capacity-building that spurs entrepreneurship, bolster local financial intermediaries, and strengthen public sector institutions required to create viable investment environments attractive to the private sector.

Food Security: Food security has exploded in the last year as a critical topic for the development agenda, both because of the immediate global food crisis, fuelled by high commodity and energy prices, and because of the broader linkages between food and other development initiatives. Without food, people cannot live productive lives and so the Millennium Development Goals (MDG) targets are undermined. Lack of food can trigger social unrest, witnessed by rioting as far apart as Mexico, Senegal, Indonesia and Haiti in just the last month or two. There are also other linkages between the efforts taken on climate change—such as biofuel targets—and its unforeseen implications on food production and security. On April 19, it was announced that the European Commission was backing away from the proposal to establish a compulsory 10% quota of biofuels in all petrol and diesel by 2020, because of the criticism of the diversion of food crops to fuel. A number of international ac-

tors have raised their voices on this topic—including the World Bank and the United Nations Secretariat. The United States is considering its response in terms of humanitarian assistance in terms of food aid, but must also consider the wider implications on the use of food for fuel within the United States and whether it should be publically funded.

In its call for this hearing, the Committee posed four questions it asked respondents to address. Let me turn to these questions and provide a few of my thoughts.

First, what are the problems plaguing foreign assistance?

The international development system has become increasingly complex. The average number of bilateral donors per aid recipient has nearly tripled, from about 12 in the 1960s to about 33 by 2005. The advent of new donors like China, India, Venezuela, Brazil and the Arab states (such as Kuwait and Saudi Arabia) has fundamentally altered the development landscape with significant implications on international norms and geo-politics. They have been joined by an array of new global programs, vertical funds and new kinds of instruments. Development is no longer predominantly a government to government domain. The rise of mega-foundations like Gates, corporate foundations, social responsibility programs of private corporations, and hybrid actors, such as investment funds and triple bottom line business models, have brought new opportunities, but also challenges in development. These 'private' actors are estimated to contribute roughly \$8.3 billion annually to international development activities. Remittance flows add another \$240 billion—more than doubling official development assistance (ODA) worldwide. There are some U.S. programs that seek to leverage the private sector, but there has been few changes in the way we deliver aid to adjust to this new aid landscape and harnessing these new sources of finance, technical assistance, and development expertise.

U.S. trade policies often fail to achieve—and sometimes undermine—our development goals, which are in turn linked to our security interests. It is critical that the U.S. demonstrate leadership and help bring the WTO Doha Round of multilateral trade talks to a successful conclusion.

In 2003, legislation was introduced that would extend duty-free status to non-oil products of many Muslim nations. The legislation has languished. The Pakistani textile industry, that country's largest employer, faces stiff U.S. tariffs, even though Pakistan is the epicenter of al-Qaida. It is a shameful fact that the United States collects more tariff duties from Bangladesh and Cambodia than it does from Britain and France, though the value of trade with the first two countries is less than a tenth of that of Britain and France.

Despite preferential trade agreements such as the African Growth and Opportunity Act, oil still accounts for 90 percent of African exports under this program. In the end, such preferential trade arrangements are of little value if poor countries lack competitive enterprises and the infrastructure required to support exports in anything except natural resources. Nurturing a vibrant private sector, promoting entrepreneurship and bolstering transport, water and energy infrastructure require bold thinking and new kinds of partnerships. Donor practices must be revamped to ensure they harness local capacities, not stultify them.

Second, What recommendations do you have to improve the U.S. foreign assistance program, including organizational and legislative recommendations?

Development should be considered a much greater element of both national security and the mechanism through which the United States can demonstrate moral leadership in the world. Note that I have used the word 'development' rather than 'foreign assistance' for I believe it is time to acknowledge that development is broader than foreign aid, and encompasses supporting private sector and NGO involvement as well as government to government funding.

The foreign assistance program is cumbersome and complicated and ought to be simplified as a priority. This includes creating a new comprehensive Foreign Assistance Act to replace the 1961 Act and over 20 pieces of additional legislation accompanying it. If this does not prove politically practical, at the very least a new national development strategy is needed to provide an overview of the goals and objectives of United States support for development and to allocate responsibility to different agencies to achieve the stated goals. Given my experience with the MCC, I believe that the new national strategy should prioritize country-level planning and implementation to develop local capacity and sustainable projects. At the same time, we can recognize that some issues must be tackled regionally or globally. An example would be collaboration to mitigate disease or to tackle climate change.

Operationally the mission and structure of USAID ought to be defined more clearly. Development as a whole ought to be prioritized with a stronger organizational

position within the United States government. I do not believe this is an argument for a full cabinet-level position for development. A new cabinet secretary, without thinking through all of the other changes that must accompany it, only adds another redundant layer of bureaucracy. I do, however, recommend higher budgets for the MCC and for other development objectives. As important, there should be more flexibility within the funding allocated to development assistance, with fewer Congressional earmarks, eliminating or at least reducing the inefficient use of tied aid to purchase American goods, and enabling more predictable and multi-year funding of development assistance.

Finally, I believe in working collaboratively with both other developed countries and with developing countries. This includes creating informal dialogues such as we are doing with the Transatlantic Taskforce on Development collaboration with relatively new actors in development, and renewed commitment to working with multilateral organizations as a mechanism for delivering development assistance. The United Nations is far from perfect, but there are examples of excellence within it. The World Food Programme is an efficient and effective organization which ought to be given even more substantial United States support. This ought to include providing it with more flexible assistance, with a greater balance of monetary rather than food inputs.

Third, What is appropriate balance between national security and long-term development in the U.S. foreign assistance program?

Finding this balance is certainly not easy, but it is important. Finding it produces some satisfaction in both the defense and the development communities without having either objective totally submerged by the other. The different objectives of both should be clarified areas of overlap and should be identified where mutual efforts could be productive.

National security will always be paramount interest for any administration. The war on terror will continue in another administration even if it goes by a different name. There are times when security concerns will require the United States involvement, for example, to root out terrorists and to set up surveillance and other operations, even if there may be objections to this on development grounds. Focusing on fragile states, post-conflict states and pre-conflict states is not only a security issue for the United States but is also a security and development issue for the countries and their people. The cost of conflict in development terms is catastrophic, both in human and in economic terms. Liberia, Sudan, and Somalia stand as stark reminders of the truth. There must be strong civilian and military cooperation to support development in such states, because security and development in these states are fundamentally interlinked. Without security, there will be no normality in economic or human relations, but without protection of human rights and the basic rule of law, the ability to earn a living, and secure at least basic human needs will be impossible. This has been demonstrated in many conflict situations and there are lessons to be learned and transferred—for example, the United States Institute for Peace has many lessons that can be practically applied in such situations.

Yet longer-term development objectives should not be sacrificed for short-term security goals time after time. In fact, to do so poses a challenge not only to our moral integrity and ability to effect change with the dollars that we spend, but also undermines our security over the long-term if these countries do not develop stable economies. Oxfam's 'Smart Development' report which underscores some of the challenges for 'smart power'. I agree that there ought to be greater assistance to the poorest countries of the world. But I do not think this assistance should be unthinking: there is little point in providing assistance to foreign governments if they divert the substantial part of such funds for non-productive purposes. Again, the example of the MCC, which targets countries that meet standards on corruption and governance measures, but then provides substantial capacity building and country ownership, is a model which should be scaled up. I also concur with Oxfam that civilian development agencies should largely remain civilian rather than be mandated to take a bigger part in military efforts. But that does not mean that civilian agencies should never support military activities. In certain cases, civilian and military cooperation is essential to protect both security and development and is not a paradox.

Fourth, What is your opinion regarding efforts to reform the interagency process, including calls for rewriting the National Security Act of 1947?

The President added global development as a third pillar of national security, along side defense and diplomacy, in the U.S. National Security Strategy of 2002 and reaffirmed it in 2006. This is an important policy shift, but our institutions and practices have not been altered to reflect this change. You are aware as I am that the U.S. government has over 20 different departments and agencies engaged in de-

velopment work with overlapping mission, objectives, and mandates—leading to incoherence and redundancy. Although some programs have adopted more systematic approaches like the Millennium Challenge Corporation with non-earmarked, results-based funds, such efforts only target the “good performers” and there is no coherent approach to the most unstable, fragile states across the U.S. government or in partnership other donors. In the absence of institutional and robust civil societies, the fragile states are a political vacuum, a breeding ground for transnational threats like pandemics, international crime, terrorism, conflict and violence. Our policies must be fashioned to ensure that long-term development institutions, policies and practices are preserved and strengthened and increasingly coordinated with (but not subsumed by) diplomatic and security activities.

Despite good intentions, embedding USAID within State has generated new tensions and its own set of challenges. Some fear that short-term diplomatic priorities will trump long-term development goals. If the next Secretary of State manages the Director of Foreign Assistance aggressively and centralizes key parts within U.S. ODA budgeting, this could further exacerbate these tensions. The push for policy coherence has not been achieved. In fact, it has led to greater incoherence and a weakening of support for development among some lawmakers. The process has been focused on “downward” accountability adding many new reporting and administrative requirements on USAID missions and partners. It has been given few resources to manage increasing beef-up operational demands; USAID staff has declined rapidly over the past few decades. The “F” process oversees USAID and State development funds, but not aid that is delivered Treasury, Agriculture, Defense, and other agencies. So, it remains a half measure, and U.S. foreign assistance remains highly fragmented as a result. The “F” process has the potential to generate more coherence and strengthen support in Congress, but many see current trends and the push for policy coherence leading to a “one-size-fits” all solution where long-term development priorities are sidelined. The agencies that support development, defense and diplomacy cannot be bundled under one roof. There are different incentives, practices, and organizational cultures that must be acknowledged and respected. While there are overlapping goals, there are different short-term and long-term priorities. Ultimately, this will require an interagency process that balances these differences but leverages their respective assets on the ground.

In conclusion, I want to focus the Committee’s attention on what may be the most critical challenge to any successful overhaul of our foreign assistance program—rebuilding public support.

While I was in Congress, my first priority was to represent the interests and concerns of my district. Like each of you, I did my best to find the balance between the domestic needs of my constituents and my responsibilities to the nation as a whole and the rest of world. As the Chairman of Foreign Operations, I struggled even harder to find this balance.

Before September 11th, I would wager that you faced the same hostile questions at every public meeting about foreign aid that I confronted. The events of September 11th shifted that focus somewhat, but our constituents continue to be concerned about domestic and security issues that impact their lives more directly. Your challenge is to draw the connections between foreign aid and national security, as well as domestic health and economic issues.

I worry that as a nation we are turning inward when we should be doing exactly the opposite. The current trade agenda is a prime example of that. The bottom line is Congress and the new administration will need the public’s support to continue current aid commitments, let alone reform the aid system. It is vital that as political leaders we help the public understand that our economy is intertwined with the global economy, and that our food and energy prices are impacted by the demand for food and energy all over the world. There is no turning inward in a globalized world, and foreign aid is one tool we use to promote a healthier, more secure, and economically stable world.

I thank you for the opportunity to testify before you today, and I welcome any questions you may have.

The prior remarks represent my views only and do not represent the views of the German Marshall Fund.

Chairman BERMAN. Well, thank all of you very much. That was really just a wonderful discussion about these issues. I am going to recognize myself for 5 minutes and I am not going to ask all the intricate questions. I would like each of you to sort of help me solve the problem. Put aside the bureaucratic organization of this for a

second, put aside the serious interagency issues, I will just give you my experiences.

I have been chairman of this committee for 1½ months or so and in the course of that time the first thing on my agenda was the reauthorization of PEPFAR. And what is, as several of you have made reference, a program the U.S. helped lead the way on that has done an amazing amount in an effort to modernize, and the compelling nature for addressing this issue.

Yesterday I met with a group of people who say this most important and serious issue we have to address is the issue of universal global education. We have heard references in this testimony to the value of child survival programs. Some people have come and talked to me about it and the yen for the larger purposes of ending poverty we have to create more science capacity in these individual countries. There is a great deal of attention paid to nutrition and, of course, we see it now every day in the headlines the whole issue of agricultural production and in some ways, I think as you pointed out, the craziness with some of our domestic policies in terms of agriculture and our desire to encourage agricultural, better agricultural development in third world countries.

Mr. Offenheiser sort of says let the poor people—I mean I do not want to oversimplify here but in a way your point was listen to the people of these countries in your effort to deal with global poverty and global development in terms of justice. I wonder off the top of my head I cannot barely decide which is the most important, is a group of people who do not have access to education able to understand the value that education could bring for them? So maybe this sounds elitist, but and it is Washington, it is hard to let go, but what is the method by which you think we should sort through all of this?

And, yes, you can say, well, Congress should not be making calculated decisions about which ones to favor, somebody else should. But if somebody in the executive branch is doing it otherwise or somebody in the bureaucracy that we create to do this decides, what is the framework for making a sensible decision about how to balance all these on the surface absolutely compelling cases for giving whatever assistance we have to those particular issues? How do we balance all that out in the context of reforming foreign aid?

And I would be happy to hear any of you on the subject. Jim?

Mr. KOLBE. Well, I will just start very quickly with a quick comment. It was Mr. Offenheiser who said listen to the customer. What is the one agency that we have that we have created that really does that, that delivers aid in a different way? That is the Millennium Challenge Corporation.

Now, you cannot—

Chairman BERMAN. Did he mean the government was the customer or the—?

Mr. KOLBE. The government, yes, the country is the customer. The country is the customer in this case.

Chairman BERMAN. Okay.

Mr. KOLBE. I think it is not always possible to listen, you have to listen or the government listens to people who are poor who are in the communities and so forth, but in this case the customer is the government or the agency that you are contracting with.

But I think the important thing is what has the Millennium Challenge Corporation done and what kind of projects have the countries chosen to ask for in the compacts that they have entered into? And look at those, and they are quite starkly different than the kinds of things we do on a bilateral basis.

Chairman BERMAN. Dr. Brainard, did you want to comment on this?

Mr. BRAINARD. Yes. I think that the—

Chairman BERMAN. Let us hear from all of the three of you as well.

Mr. BRAINARD [continuing]. The question that you raise goes right to the heart of the difficulty of the challenge. But the reason that I think at the end of the day we need to take on this challenge, we have scarce resources, there are more challenges out there than we can possibly address. I think as we have looked at this issue of public support, in particular we are always struck that public support is much stronger when it can see a challenge visibly. And so HIV/AIDS is something that is easy to mobilize against because you can put a face on that.

Global education I think over time people have gravitated toward that.

General growth is a lot harder to get a lot of people excited about. And it really is the burden and the difficulty of sitting here and making those kinds of tradeoffs between what there is a lot of support for and what at the end of the day we should be prioritizing strategically. I actually think that that is the purpose of a national development strategy. I think one radical idea is that we should do what we are good at and perhaps let others in the international community or the private sector or NGOs do things that the government may not be so good at.

I think we have actually been pretty good at global health, for instance. We have an amazing science infrastructure to bring to that task. There are other things maybe we are not so good at.

So at the end of the day it is critical to make tradeoffs. Right now we are not making those tradeoffs. I think that is in a nutshell the difficulty, that the funding process is responsive to mobilization in a way that does not bring all the different pieces together at an overarching whole of government level. And that is the fundamental change that needs to happen.

Chairman BERMAN. Anyone else?

Mr. OFFENHEISER. I think at the heart of this discussion is it goes back to I think something that each of us has mentioned in one way or another is the need for an overarching national development plan, in other words something the equivalent of what the Defense Department has to define its strategic objectives for national defense. We need something that robust, that big, that visionary to guide this process in its much more streamlined way.

What tends to happen now is we tend to have a variety of sectoral constituencies all doing good work and all addressing critically important problems but we are not necessarily doing that work overseas in a coherent and well-ordered way. So, for example, you might just take the PEPFAR program, in some countries because it operates, you know, in some ways parallel to other activities of our development establishment. You might have 85 percent

of our foreign aid investment in a particular country like Kenya be entirely PEPFAR related at a time when you might be asking should we not be doing more work on government/citizen participation, so on and so forth.

At Oxfam we actually have come to feel like the core of whatever strategic vision that we might offer should be a three-legged stool in which what we are really looking to do is develop effective states, focus on the institutional capacity of the states. I think the work that has been done in Afghanistan, for example, toward that end it is a long journey but that has been a lot of what has been going on, develop active citizenship and enable citizens to actually hold their government accountable for the kind of funding expenditures the governments are making and the kind of programs that governments actually have because, in effect, governments at the end of the day have to deliver the public goods to citizens.

Foreign aid programs are never going to have enough money to do that effectively and provide the coverage that is really needed. And at the end of the day we need states and citizens interacting with each other in a responsible way to ensure that we get the kind of stable environments that are going to ensure the security that we are all looking for around the world.

And the third leg of the stool, of course, is markets and equitable markets, markets in which, you know, all citizens have access and all citizens can participate. So effective states, active citizenship and equitable markets is really at the heart of what might be considered a long-term development vision. And then around that you begin to think about what are the particular institutional structures and modern institutional structures and modern institutional thinking that we want to bring to these questions, and then the sectoral components.

I think then we start looking at what is a country, when this is our objective what is the expression of the citizens of a country put forward to us through a poverty, for example, the PRSP process, the Poverty Strategic Program plans for developing countries that have been on the table now for the last 6 or 8 years, they are plans that have been consulted widely with their citizenry. They are oftentimes the basis for—

Chairman BERMAN. Mr. Offenheiser, it is my fault because I asked these open-ended questions but I am going to have to cut you off.

Mr. OFFENHEISER. That is fine.

Chairman BERMAN. And, Dr. Radelet, we will have to get back to you or you will have to find a way to insinuate your thoughts in somebody else's question.

Ranking Member.

Ms. ROS-LEHTINEN. Thank you so much, Mr. Chairman. It really is impressive; I guess I do not know what the word is, but this chart. Yes, it makes spaghetti look simple. This is unbelievable. The foreign assistance legislative objectives and organizations are frightening. That the chairman is willing to undertake this reform is going to be a daunting challenge for us but I welcome it.

I wanted to ask Chairman Kolbe as a former appropriator, former chairman of the Subcommittee on Foreign Operations, What were your greatest concerns with committees like us when we came

about with programs about foreign aid funding, policy measures that were supported by the committee of authorization? Because as we undertake this great adventure to reform, to move a reform bill we have to work with the appropriators.

And if we want to begin the process of passing this legislation to reform or replace the Foreign Assistance Act of 1961 where do you think would be our logical first steps? And if we were to get it to the House working with the appropriators how can we build support for this program in the Senate? So much of the work that we do here, unfortunately, does not seem to get over to the other side and including our great PEPFAR bill which was greatly supported.

And also, the concerns of groups and supporters of specific foreign assistance programs that have serious concerns on behalf of the aid directives that we put out, the policies that support these programs, how do you see this in a practical way playing out as we begin the process now but really build up for greater action next year?

Mr. KOLBE. Well, Ms. Ros-Lehtinen, that is a big question with lots of possibilities for the answer. But let me start by saying quite frankly I do not think you are going to have a lot of success unless you start with the administration on board on this. But that I mean you can lead on this, the Congress can lead, but the administration better be there as cheerleaders and playing in the band along the way because otherwise it is just not going to succeed.

This is going to be heavy lifting and it is going to require a real team effort between the administration, the next administration, whoever that might be, Republican or Democrat, it is going to require real heavy lifting on both sides to make this kind of thing happen. My recommendation would be to start with taking the Foreign Assistance Act, that spaghetti bowl that you were looking at the Foreign Assistance Act, and looking at ways in which it can be simplified, that you can eliminate half, more than half of those lines, consolidate some of those things, simplify the structure of it, of the way it is rather than trying to create a whole new agency.

That is why it is not that I differ with the idea of the importance of development with my colleagues, it is just that I think having been at this game long enough I think there is—I know the practical problems of trying to do what, of restructuring the whole thing with an entire new agency and a new Cabinet-level agency. I think that is going to be tough to do.

So I would start with trying to simplify the things, the things that many of us have talked about here today. And then I would in terms of how you are going to build that support over in the Senate to get this done, again the administration is going to be critical to that. You are going to need the media support. We had strong media support on a lot of other issues. And you are going to have to work with the members of the Senate over there.

It is tough, as we know. The Millennium Challenge Corporation is the best example of that that we have where we, you passed it here as an authorizer. We passed it on the Floor of the House. It got over to the Senate and Senator Lugar just could not get it done over in the Senate. It just could not move over there

And so it came back to us and said how about doing this on the appropriation bill? And we said, well, only if we are going to work in cooperation with the authorizing committees on this. And we did and I think the results show a bill that was well drafted, carefully thought out and I think, frankly, improved in the time after it passed the House and before it came onto the appropriation bill we made a lot of modifications to it to I think improve it. So that process does improve it. But sometimes that is the only way that you can do this.

Ms. ROS-LEHTINEN. Thank you so much.

In my remaining minute maybe we could have the good doctor respond to the chairman's question.

Mr. RADELET. To the first question. Thank you, I will. I will do so quickly just to reinforce a couple of the ideas on this question on how you allocate your funding.

You articulate the needs. But that needs to be balanced by what we can do well. And that brings us to our monitoring and evaluation programs which are very, very weak. I think to get at that issue of how we balance what issues we attack we really need to fundamentally address how we monitor and evaluate our programs so that we can understand what it is we do well and what it is we do not do well. And we are not in a position to do that.

We actually evaluate a lot of programs individually but we do not bring them together and look at them systematically across programs to figure out what it is we do best. That's part of the answer.

The other part of the answer is then to work with our partners more carefully because what it is that we do not do well we want to make sure that somebody else is doing well. We do not need all of the 33 bilateral agencies in there trying to dig wells or trying to do maternal and child health or whatever it is, we want the agency that can best provide that support to do that and for others to do something different. So I think it is a combination of monitoring and evaluation and working cooperatively with our partners.

Thank you.

Ms. ROS-LEHTINEN. Thank you.

Chairman BERMAN. Sort of a take a comparative trade advantage and apply it to development capabilities.

The gentleman from Washington, Mr. Smith.

Mr. SMITH OF WASHINGTON. Thank you, Mr. Chairman. Thank you for this hearing and with this tremendous panel that we have on this issue.

I do think that the organization at least as a starting point is the key to improving the situation. We talked a lot about the different strategies out there. And I am sure if we picked, you know, all four of you and said go off, you write the strategy, it would be a little bit different for all four of you. But I think there is a growing consensus and an understanding just because of so much effort by our Government, by NGOs on healthcare, on education, on a bunch of different pieces, I think there is a lot of knowledge out there on what works and what does not work in terms of development assistance.

The problem is that chart that you have not just four but several hundred if not more people devising the strategy and working at

cross-purposes. So what I really want to delve into is exactly how that organization would come together. And I guess, you know, I have heard the idea of creating the Cabinet-level position for a Secretary of Development, if you will. You know, my concern is the size of that lift to get there. I think we will probably have to work within existing organizations.

And it is not just a matter of foreign aid. As Representative Kolbe has pointed out trade, economic development are critical issues. If you are looking at a development strategy, foreign aid is a piece of it and there are other elements. So I am really interested in sort of drilling down when you look at the various agencies from USAID, Department of Defense as we have noted is very involved in this. I am on the Armed Service Committee as well and do a lot of work with the Special Operations Command spending a lot of time doing development. The question is, How do you pull all those pieces together?

And just as a model it would be a little bit on the counterterrorism side and what we did in terms of specifically targeting terrorists that threaten us. Prior to 9/11 you had a chart for that job that did not look too much different from this chart. And by my reading, having worked on it, they have actually done a fairly good job, you know, they have created a couple of new sub-agencies—of course, the Department of Homeland Defense on that level—they have created some new agencies. But more than anything they figured out how to cooperate together. You brought the FBI, the CIA, the NSA, SOCOM, all these different pieces now are coordinating better and they do have some people who are in charge.

So as we put together this organizational chart I think looking at how they did that might be a pretty different model. But getting down to the specifics, what does it look like? Who is in charge of organizing this? And keeping in mind that having some control over the money is at least a critical piece of this. If USAID is sort of elevated back up, you know, as a sub-department level not in a separate department, so we said, “Okay, you are in charge of the strategy,” how do they then gather in all the other people on that chart and make sure that they are coordinating well and spending the money wisely? What are sort of your individual visions on that?

Mr. BRAINARD. Well, I do not think that USAID could conceivably do it under any current circumstances. It is really something that would have to emanate from a joint commitment on the part of the President and key Members of Congress. This committee would have to be part of that.

It is doable. If you look at the Diffet example, and we have spent a lot of time looking at that example because I think it is the one outside of the U.S. that provides the most relevant learning, I think you are right that within the U.S. there is also a host of examples that are useful, what was critical there again was just that agreement, both within the incoming administration that this was a high priority and that support from Parliament.

Now, in the case here the questions I think would arise do you have legislation, authorizing legislation which would enable you to build around a single entity whether it is building around USAID, whether it is merging MCC and USAID, whether you are starting

afresh and bringing those functions in. But that would be, of course, the great benefit of actually having legislation.

The executive branch can do something short of that. They can presumably elevate the head of USAID to Cabinet level on a kind of executive basis for that length of time. But I do not think ultimately at the end of the day that you will get the institutional coherence that we are all seeking by doing a stopgap measure.

Now, you also asked about some other functions that will never, should never reside in a development agency even if it were to exist. Trade is going to stay outside. The Department of Defense is always going to have functions, particularly non-permissive environments or semi-permissive environments that it is uniquely capable of doing. The State Department will always have a foreign assistance function that is focused on political objectives. And so the answer of having an organization that is competent and operationally capable is a part of the answer. You need interagency coordination at the highest level coming from the White House, and we have never had that on this set of issues with the force and focus that we need.

Mr. SMITH OF WASHINGTON. I am over time, but I just wanted to quickly point out I think the National Counterterrorism Center that was set up is a pretty decent model for how you bring in different pieces. Because what they have there is they have people from the FBI, from the CIA, and they get to sort of work together in a close environment and build a working relationship. They do not get divided out in all these other places as we saw on that chart.

Thank you, Mr. Chairman.

Chairman BERMAN. Thank you.

The gentleman Arizona, Mr. Flake, is recognized for 5 minutes.

Mr. FLAKE. I thank the chairman and thank the chairman for holding this hearing and for tackling this issue. Glad to see my colleague Mr. Kolbe back. I wish you were still here on a permanent basis.

You mentioned, Mr. Kolbe, that there should be more flexibility within the funding allocated to development assistance with fewer congressional earmarks. You know that has been a concern of mine. And in particular, I am doubly concerned with earmarks with regard to foreign operations spending because we have disclosure requirements now that apply to so-called hard earmarks that do not apply to so-called soft earmarks where we find a lot of these.

Can you comment a bit on that and give some examples perhaps of where this is becoming a problem or is a problem or may be increasing as a problem?

Mr. KOLBE. Well, let me say first of all that what I said I certainly believe to be the case, that we need to reduce the number of earmarks. The Foreign Operations Subcommittee did what we would call soft earmarks. With the exception of aid to Israel and a couple of other things they were all soft earmarks, that is written into the report language as suggestions like a program that might be funded or a research program at a university that deals with arid lands or something in Jordan or something like that. So they are mostly soft earmarks for the most part. So you are right, the rules are not going to govern as much there.

So I do think that what you have to do is try to reduce those kinds of things as much as possible and keep the hard earmarks for sure from being written into the bill.

Now, I want to speak also on the other side of this as an appropriator in saying that I do not think that the process is one-sided that only the administration should be allowed to earmark and decide what gets earmarked. In other words if they have their druthers the administration would like a budget of \$2.8 trillion appropriated for the President to spend as he sees fit. But I do not think that is what the Constitution provided. So I do think there is a requirement for specificity in the law as to how we are going to do that.

Finding that balance is not easy, and that is what I know that you have been working on a great deal here. But one of the things that you can do is eliminate a lot of these soft earmarks that are written into the language of the report language which become actually directives for the agencies to follow and, as you pointed out, do not have the same requirements for reporting that are going to be in the bill.

So I am not giving you a lot of real direction here because I think it is a real challenge to maintain the constitutional responsibility you have as a legislator to decide how the funds get spent but also not to go around earmarking each dollar of that for specific projects.

Mr. FLAKE. All right. My concern has been we commonly will say we are exercising our constitutional prerogative, Article 1, by designating, by earmarking instead of in that way we kind of give up our jurisdiction to oversee what the President is doing, what the administration is doing. We basically say you do yours if you just do not complain about ours we will not complain about yours, instead of exercising real oversight like the Constitution requires with regard to that.

I happen to agree, I am not sold on a Cabinet-level agency. Few problems are ever solved by having a Cabinet-level agency. We often use that as an excuse for not doing the hard work here that we need to do. And that is my concern. My concern, I am pleased at some of the good work that the Millennium Challenge Corporation is doing. I questioned at the time why we were not reforming foreign assistance programs at the same time instead of saying, all right, we do not like the way it is being done over here, it is not serving our function, so we are going to create a completely new program. I felt that some of what we do in the Millennium Challenge account could have been done and should have been done with what we are doing at USAID.

Can anybody give me a good reason why we still think we need a Cabinet-level agency or can we—if we are not going to have that, what can we do still to reform this process? I will go to the doctor.

Mr. RADELET. Yes, if I may on that. I think there is no silver bullet here. I do not think we can really address these problems with just a new strategy and agree on goals. I do not think we can address this with just the legislation, although I think the legislation would go a long way. I do not think we can do this just with organizational reform. And I do worry that sometimes this is framed as just the organizational reform. But organizational is important,

and the fact that we have so many agencies doing more or less the same thing is just inefficiency and waste.

And by bringing the agencies together we would actually reduce government bureaucracy and a lot of this waste and make things more efficient. So I think bringing them together is the key thing. It needs to be strong and independent, preferably a Cabinet-level agency, not absolutely necessarily. There are examples like OPIC and EX-IM and others that have independence and strength that are not necessarily that agency. But leaving them, leaving the situation as it is will only lead to further weakening.

One of the reasons the ranking member mentioned that more and more over the years these programs have moved across agencies is because of the weakness of USAID. The weaker it becomes because of the legislation, because it does not have the high stature, because now it does not report directly to OMB means that other agencies are frustrated that USAID cannot deliver so they do it themselves. And that needs to be redressed.

So I think we need, we do need to bring them together with as strong and independent an agency as possible. Cabinet-level would be preferable but it is not an issue that we have either got the status quo or a Cabinet-level agency.

One solution that I think would make things worse, and I think at least many of us here would agree, would actually then taking the solution as to bring everything into the State Department. I think that actually would seriously undermine things in the long run. So we need some independence. Just coordination with the White House will not do it because coordination is a short-term fix that relies on individual personalities and it might work for one administration but it will not—it does not institutionalize things. But I do think it is important to bring things together and make them more coherent.

Mr. FLAKE. Thank you.

Mr. BRAINARD. Let me suggest three quick reasons why—oh, sorry, are we out of—?

Mr. FLAKE. I think we have to move. My time is up. Thank you.

Chairman BERMAN. Yes, the time of the gentleman has expired.

Before I recognize the gentleman from Georgia I just two quick observations. One in response to Ileana Ros-Lehtinen's question, the ranking member. Mr. Kolbe talked about the administration buy-in. I think I certainly have to agree, in getting them early and in the transition period and doing the things that you are doing now to get the folks who are involved around the candidates focused and thinking about this a little bit I think is essential. I do have to say I think Senator Biden, based on my conversation with him, and Senator Lugar, are both very interested in taking this on.

So I think there is a basis here for a bicameral, bipartisan and whatever the two branches of the three are called, a relationship to try and prioritize this.

The gentleman from Georgia, Mr. Scott, recognized for 5 minutes.

Mr. SCOTT. Okay. Thank you very much, Mr. Chairman. Again I want to thank you for having this hearing. It is a very important hearing. And I certainly want to echo the comments of many of my colleagues in welcoming all of you to this important hearing. And

I know that all of you have been working on these issues for a long time and I appreciate your sharing the knowledge and insight on the problem with us. And I hope in future hearings we can hear from officials of the Department of State, USAID and Department of Defense and get their perspective on these issues as well.

Let me ask a question. There are several schools of thought with respect to the purpose of foreign assistance. One school of thought maintains that foreign assistance should be carried out to further U.S. national security goals. Another rationale is that foreign assistance should be carried out to reflect the humanitarian nature of the American people. And then there is a final school of thought that foreign assistance should be used to promote U.S. exports.

In your opinion what should the purpose of U.S. foreign assistance be?

Mr. BRAINARD. I actually think that foreign assistance promotes all three, promotes U.S. national security, national interests and national values. And I think it is rare that those things are actually in conflict. And increasingly they are very consistent with each other. If you think about humanitarian emergencies, increasingly those have cross-border spillovers, those weaken fragile states, those come back around to haunt us on the national security front. Ultimately our long-term development objectives of creating democratic states that meet the needs of their own people offers the best hope for Americans to have strong partners in the world and not to need to intervene.

I also wanted to just briefly come back to this question of a Cabinet level and take 30 seconds on that and just say I think there are three reasons why this is critically important to elevate at this juncture. One, because without Cabinet-level status you will have no representation at the White House. That has been a huge problem. I used to coordinate the White House. USAID did not have a seat at the table and that undermined our development effectiveness.

Secondly, we will not rebuild civilian capacity until we have a strong Cabinet-level voice explaining why it is important.

And third, internationally by elevating development within the U.S. Government we will elevate the U.S. Government within the international community on these issues.

Mr. SCOTT. Yes, Mr. Kolbe?

Mr. OFFENHEISER. I would just return to the, you know, to today's headlines again to maybe answer your question and reflect a moment on the fact that, you know, we are looking at this crisis around the world where energy and food are kind of in a head-on collision. And we are seeing I think the World Bank president last week reported 33 states around the world that are in, you know, in danger of serious internal crisis where populations are not going to be adequately fed. I think the head of the World Food Program was reporting yesterday that she was referring to it as the silent tsunami, 100 million people that, you know, are going to be malnourished.

This crisis currently I think just illustrates for the world how security, humanitarian issues and even trade questions are converging in a world that is increasingly interdependent. And I think oftentimes I think we viewed this issue in a somewhat of a dichoto-

mous way where we separated these issues out and tried to track them on one track or the other. I frankly think at the heart of this is really a long-term view of what is the best way to project American humanitarian values in the interests of American national security and in a way that is coherent with our trade policy. And I think we can do all of these things if we look at this in a more holistic way and a whole government fashion.

Mr. SCOTT. Yes, sir, Mr. Kolbe?

Mr. KOLBE. Mr. Scott, if I just might respond. I think I would agree with the other panelists here that these are all interlinked. They are not mutually exclusive by any means.

You have a failed state, for example, take, we could use Somalia as an example, the first order of business might be to provide humanitarian assistance to be sure people are not starving there. But if you do not have a national security objective there, rebuilding the institutions of government to provide peace and security in the region then that helps your national security. But over the long run the country has to be able to stand on its feet economically. And that may mean building the infrastructure that allows it to trade with the United States and with other countries. So all three of these are interlinked.

Mr. SCOTT. Let me ask you something. I have 13 seconds here. But, Dr. Brainard made a point that I thought was interesting. She said she felt that there should be another Cabinet position created for this. Is that the general concurrence among all four of you that our present structure—you know, I am kind of reminded what Frank Sinatra said when they asked him why he lasted so long, and the answer that he gave was, well, I continually reinvented myself—so maybe we do need to restructure and reinvent this situation because it is. But quickly, do you all think we should entertain the possibility of creating another Cabinet department for this?

Mr. OFFENHEISER. Well, I think speaking for myself and I think for numbers of us here, yes, absolutely. Because we were seeking greater coherence, greater robustness to this initiative, and some degree of equity with, you know, state and defense so that development has the kind of priority within the system that it would require. So I would endorse that concept, yes.

Mr. KOLBE. I think I have taken a different position from the other members in saying that I did not think it was necessary to have a Cabinet-level position. I think it is going to be a very heavy lift. I do not see this as being a high enough priority in the next Congress or the next administration. I think a simpler look at how we could reorder it, reprioritize and simplify it might be the right direction to go.

Mr. SCOTT. All right. Thank you, Mr. Chairman. My time has expired.

Chairman BERMAN. The time of the gentleman has expired.

The gentleman from California, Mr. Costa.

Mr. COSTA. Thank you very much, Mr. Chairman. Thank you for holding this I think important hearing as we set the table for the next administration and the next Congress.

I think I agree probably with the last comment you made, Mr. Kolbe, in terms of the level of stature and certainly the importance

here as we talk about projection of soft power and doing the right thing for the right reason. I am not so sure a Cabinet position necessarily guarantees that.

Mr. Radelet, I heard you and Mr. Offenheiser talk about the need to reorganize and combine under one umbrella I think is—those are my words, not quite your words. And certainly it is clear to me that when you look at this kind of a graph that something needs to be done. But, you know, that was the purpose I think in part why the Congress attempted to convince the administration on why we needed to reorganize Homeland Security. And I think that while the verdict may still be out on that one, certainly a lot of folks do not think FEMA is doing a better job now because they are under Homeland Security. So I think we need to be cautious about the potential pitfalls when we talk about how we reorganize into one area.

Quickly because of my time and I want to get to a couple other questions, how would you prioritize reorganizing? Just a couple quick bullets? You cannot do everything at once.

Mr. RADELET. You cannot do everything, it is true. But I would try to bring together as many of the major—

Mr. COSTA. Quickly.

Mr. RADELET [continuing]. Agencies as possible to try to reduce some of the overlap. We have over 20 agencies that are doing all this. We need to bring them together to reduce the overlap.

The difference with Home—a key difference with Homeland Security is that many of those agencies were actually doing very different things with an overall objective of security but really quite different. FEMA is really different from Immigration and Naturalization Services, for example.

All of these agencies are actually providing foreign assistance. They are actually providing very similar things. So I think bringing them together under one umbrella would actually make—

Mr. COSTA. All right, you are making the case again that you made before to prioritize.

Mr. Offenheiser, can you give me quick thoughts on prioritization?

Mr. OFFENHEISER. I am going to go back to the emphasis on the issue of planning. I mean I think at the end of the day the key thing is—

Mr. COSTA. You have to plan before you prioritize?

Mr. OFFENHEISER. I think form has to follow function. That is the key and that is the general—

Mr. COSTA. Mr. Kolbe?

Mr. KOLBE. I agree with Mr. Radelet, I think the first priority needs to be to reduce the number of agencies and make lines of control and operation very clear as to who has the responsibility for what. That alone would make the aid picture a lot clearer and I think help to—

Mr. COSTA. Do you not think thought also it depends upon who the next Secretary of State is—

Mr. KOLBE. Yes.

Mr. COSTA [continuing]. In terms of what attention they spend, frankly, on looking at, you know, how to make sure that the trains run on time, for lack of a better term?

Mr. KOLBE. Precisely. I think that the big question.

Mr. COSTA. I mean you can fly all around the world and—

Mr. KOLBE. It makes no difference whether we are talking about a Republican or Democrat administration, the real question is, Is this going to be a priority of the next administration? And I think there is a huge question mark about that.

Mr. COSTA. Anecdotally you mentioned, and I think Mr. Offenheiser you did, on Afghanistan. Having been there a couple times, most recently in March, and seeing a lot of good initiatives taking place, at the same time being just frustrated by the lack of coordination. I mean I will give you an anecdotal example.

I have a family and a group in my area that is involved with an organization that has put over \$2 million to build a 120-bed hospital. I mean they have built a beautiful, you know, by Afghanistani standards wonderful, ready to be staffed now. Trying to get our Embassy and trying to get our folks focused on helping assist surplus medical equipment that we have gotten donated and surplus drugs that U.S. Customs has problems with because if they do not have more than a 12-month shelf life they are not allowed to come in, I mean as if they would sit around in this hospital for more than a month, is just, you know, mind numbing. And you try to get these folks to visit and there is just no coordination. How do we improve on that?

Mr. OFFENHEISER. Well, as I said in my remarks, we have I think eight different agencies in Afghanistan at the present time. And—

Chairman BERMAN. With no focus on what Americans are willing to do through the private goodness of their hearts when you have private donations like that.

Mr. OFFENHEISER. I guess I am not sure, in terms of coordinating the delivery of private donations?

Mr. COSTA. Yes, I mean there is a lot of other stuff that is not taxpayer dollars but just groups that are willing to give their own personal support, organizations.

Mr. OFFENHEISER. Well, there is a large presence of not-for-profits on the ground—

Mr. COSTA. Right.

Mr. OFFENHEISER [continuing]. That I think you—

Mr. COSTA. NGOs.

Mr. OFFENHEISER. Right; NGOs are on the ground there as well that I think you could certainly be collaborating with. And there is a national coordination body of NGOs that would be probably the place to start in terms of, you know, coordination and outreach to that particular community.

Mr. COSTA. Yes, but I mean the aid organizations that you spoke of it was apparent to me that there was certainly a lack of coordination.

Mr. OFFENHEISER. Yes, well I mean this is a problem not only, you know, amongst the U.S. agencies but even between the U.S. and other, you know, other bilateral aid agencies. I mean I think a larger question we are all dealing with on the ground in many of these countries is how do we get stronger, better coordination and better relationships with government that are part of a holistic package? And I think the MCC is obviously moving in that direc-

tion and creating greater accountability and ownership on the part of government.

But when you have eight agencies, each with their own interests, each with their own funding base, and each with their own sectoral responsibility it is very often hard to get them together to collaborate unless there is some higher power that is going to, you know, basically have the authority to do that. And that is I think why we are all here talking about this today.

Mr. COSTA. Thank you. My time has expired. I have some other questions I will submit in written form, Mr. Chairman.

Chairman BERMAN. Thank you very much. And the gentleman from New York, Mr. Crowley, is recognized for 5 minutes.

Mr. CROWLEY. Thank you, Mr. Chairman. Thank you very much. And, Jim, good to see you back in a different capacity now. Welcome all panelists here this morning.

Just to touch upon, I know a number of my colleagues have asked some questions with regard to the growth of China and its investment around the world both in humanitarian forms well as capital investment that they are making in parts of the world. In terms of that infrastructure that they are about creating in Africa and other parts, meaning to some degree the interest in South and Central America in terms of investment, I know that a great deal of your focus is on humanitarian relief and wanting to help develop these parts of the world but is there also a concern about the advancement that China is making? And maybe the setbacks that we are putting ourselves in in terms of not being as aggressive as we once were in terms of helping the developing world, are there concerns amongst any of the panelists?

Mr. BRAINARD. I think this question of China's investment in Africa should raise concerns not because it is not a good thing that Africa should get more infrastructure investment, it certainly should, but because it is a symptom that the United States is really out of the game in infrastructure development in that part of the world. And as we have heard about these plans, for instance, for AFRICOM, while on the one hand it is good that the United States military is recognizing the strategic importance of Africa, the other side of that is we should not want the primary face of America seen in a lot of African communities doing development work to be one in uniform.

And so the contrast between China's very aggressive move into some of these countries and our really retrenchment in a lot of cases in terms of our ability to get money out to the field for basic economic growth I think is highly disadvantageous to us strategically.

Mr. RADELET. I spend some of my time working as an advisor to the Government of Liberia. And they have articulated infrastructure development as one of their highest priorities. And since we do not put a high priority on that as something that we fund they are naturally turning to others that can support that, and China being one of them. That is a good thing for Liberia that someone, who is an ally of ours, that someone is there to help support it.

So it is not a bad thing that China is stepping up to provide some of that financing. The issue was that because we are not—the issue is that we are not stepping up as fully as we could to sup-

port that kind of infrastructure development which is central to poverty reduction and lots of the other issues that we are interested in.

Mr. OFFENHEISER. I would just note that while we are downsizing many areas of our aid to China, China is going to double its assistance to Africa by 2009. And at the same time we are cutting democracy governments funding, general health funding and agricultural funding, the Chinese Export-Import Bank will disburse \$20 billion in aid over the next 3 years in Africa. And trade between Africa and China is expected to reach \$100 billion by 2010; 10 times the 2000 figure.

And I would also concur, and I think we have something to learn from the Chinese about the aid process. They take a long-term view. And one of the reasons for investing in infrastructure is they figure they are going to be around, the investments are worth making, and they are going to expand off the infrastructure to conduct other activities, particularly natural resource extraction where they are also making large investments.

But they have also managed to figure out ways to cut costs, protect their investments, and measure results over the long term. And therefore be more confident about these investments in infrastructure, something I think we might want to give more attention to.

Mr. KOLBE. All of what has been said here is absolutely true. In fact, the German Marshall Fund just undertook a study of this, a report which just came out on Monday done by Deborah Brautigam, from a professor at American University who has been studying China and Africa for the last 20 years. It is very interesting. I will send you a copy of that report.

It is not new. Chinese involvement in Africa is not new. It has been around for a long time. It has gotten a lot larger. It is getting a lot larger. It is a fairly nuanced kind of program. And what has been said here I think the key point here is that they are filling a vacuum that is being left by Europe and the United States that is not doing as much in Africa as China is. Some of the cases they are clearly resource oriented, they are after extraction of resources but in other cases that is not the case. And they have been involved in some of these countries that do not have a lot of natural resources to sell to China, they have been involved in those countries for a long, long time.

Mr. CROWLEY. Thank you. My time is running out very quickly. I had a number of questions to ask but let me just skip real quickly to Millennium Challenge accounts. I am a strong supporter, have been since the creation of the Millennium Challenge accounts, but I also reckon the challenges of the Millennium Challenge accounts. And some of the countries—do you believe that the criteria for the Millennium Challenge accounts are too high for some of the countries to access?

Mr. RADELET. No, I do not. I think actually the MCC has done a very good job of choosing the right kinds of countries to be eligible for this support. I think the issues more are around how the programs are developed. I think that because only one compact can be developed per country they tend to be too big and a big more complicated than they should be. But I do not think the key issues

are around who we are selecting. I think those criteria are providing incentives for countries to achieve those standards.

Mr. CROWLEY. So they are achievable goals. You believe they are achievable goals?

Mr. RADELET. For the best governed, democratic countries that really are for their own reasons trying to improve institutions, improve governance, I think that for most countries these can be achieved. There are some very poor countries where there might be exceptions but the board has the discretion and has used it once or twice to do that. And I think generally appropriately so. I do not think the key issue there is with who they select, I think it is around the compact development and the execution.

Mr. KOLBE. Just very quickly, MCC has about 10 percent of its funds which go to threshold countries to help them develop so that they can get, reach the standards, the criteria so that they can become a compact country. I think it is working. Ambassadors lined up at my office when I was chairman of the subcommittee saying, "What do we have to do in order to qualify for this?" So I think it is doing exactly what we wanted it to do.

Mr. OFFENHEISER. I would only add that I think it is also having this incentivizing effect of getting other countries who are non-recipients currently kind of thinking about, you know, how do they step up and what are the changes they have to make to become recipients. And this is also where an USAID program that is maybe tailored toward countries that cannot meet the criteria now could be working on improving the quality of state and citizen cooperation because a lot of this is about accountability and transparency and openness of governance. This is where USAID and programs within USAID and MCC would be complementary and get us to the place we want to go.

Mr. CROWLEY. Thank you.

Chairman BERMAN. The time of the gentleman has expired. I am going to use this opportunity since we are just around here to ask a few more questions. And I welcome, Ileana or Joe, if you want to also get more time.

So I want to just take a couple of things you said and ask you to focus a little more. If the Millennium Challenge account program—and by the way, Jim, those ambassadors who were in your office, "How do we get into it?"—the ones that get the compacts then come to my office and say, "But we do not want any cut in the other foreign assistance either." So but so they are good at politics.

Mr. KOLBE. MCC was supposed to be additive, it is not supposed to supplant the other.

Chairman BERMAN. But these ambassadors have not accepted, internalized that. But in any event, nor their representatives who come to the Hill.

But so why not just take, all right, development assistance, one of the three pillars, we will do it all through this kind of mechanism? And the corollary I guess is since the answer is that is going to leave a lot of people out, what are the difficulties in doing valuable things in areas where we are competent to do it in authoritarian countries with weak governance mechanisms and that actually are sustainable and actually make lives better over the long

term as opposed to put aside the humanitarian crisis that you are trying to fix at the moment, is there a role for aid to those countries? And to the extent you do that, does that diminish the impetus for pressures to improve the quality of governance and the advent of broader democracy?

Mr. RADELET. I think that we cannot have one size fits all in our approaches because the countries we are working with are very different and the approach that is most effective in well-governed democracies that are really trying to improve their institutions and implement good development policies has to be quite different from the authoritarian regimes that may not have those interests.

So I think we need to have the MCC for those kinds of countries where it makes sense to give them more discretion and to give those governments the responsibility of designing programs and have the faith that they will do something that is effective for their own people. But in other countries that approach will not make sense. And I think in those places we need less money. We should have more money for the MCC countries so that they have the incentive to get there. The length of commitment should be different for less well-governed countries, it should be a shorter commitment. MCC countries it should be a longer commitment.

I think that in the more authoritarian countries we work through NGOs as opposed—and not so much through the government, and we have a smaller focus of activities in things where we might think that we decide actually and have some responsibility that we should be doing health or education, whereas in the MCC we allow those choices for the governments involved. So I think we need a more differentiated approach. And we can do that. We do not need 1,000 approaches but we certainly do not need one approach either. And I think some differentiation along the length of time, the amount of money, how much responsibility we give to the governments involved and who we work through NGOs or government I think can afford us that flexibility.

Chairman BERMAN. Dr. Brainard?

Mr. BRAINARD. I also think that there is a continuum. And, you know, as the country becomes less well governed more money goes to building up civil society to hold government accountable. There is a sort of inverse relationship between the amount of country ownership, if you will, and oversight. But there should be a continuum.

And the kinds of programs that we do in MCC countries should not be completely different from the ones that we do in countries that are not quite there yet. In particular, we should be able to work on economic growth all over the world. And right now I think part of the problem with having the MCC in a very different institutional environment and really not coordinated and integrated, for instance, with some of the USAID programs is that you do not get that learning back and forth and you do not get that coherence between, for instance, the health systems, work that we are doing and the economic growth that we are working in.

So over time I would like to see more of the learning going through to other programs in terms of how to provide accountability, how to work with civil society organizations to ensure

strengthening of governance. And that is one of the arguments for integrating.

Chairman BERMAN. My time has expired for this round. And the gentlelady from Florida.

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

And we had talked a little bit about this but I wanted to get some more concrete answers about the F process by which the Department of State sought to reorganize and streamline our U.S. foreign assistance programs by categorizing countries based on certain indicators and requesting funding in line with graduation strategies rather than setting country levels first then deciding what the funding priorities in each country would be. That was widely criticized by Congress, by NGOs, by other stakeholders. Was the problem in the concept or in its implementation? And what are the lessons that we can learn from that failed exercise?

Mr. BRAINARD. I think the State/F process in many respects has given us a lot of important lessons. I think it was a kind of first pass attempt at reform without doing anything legislatively. And we should take some lessons from that, partly I think that it will not be enough to work within the authorities of the State Department. I do believe Congress needs to be a piece of it.

I think to some large degree that the biggest flaws had to do with the process, with the actual implementation. And they had a lot to do with a kind of top down/Washington out approach partly I think because Ambassador Tobias felt that he was under the gun. He had a very short period of time. And so the vast amount of knowledge and operational capability in the field was not taken into account. There are very little consultations that were done with recipients. And very few I think from everything I have heard here on the Hill as well.

So to some degree the notion of strategically prioritizing is not one that we should throw out with the bath water if you will, but I think it needs to be done in a deliberate manner, it needs to be done with Congress, it needs to be done with the field.

Mr. RADELET. I think some of the problems were partly in concept and partly in implementation. Some of the concept was good. Trying to bring some rationality to the organization makes sense. Trying to develop a strategy makes sense. But bringing only a few programs, only some of the programs together as opposed to a broader reorganization, were a problem. And only bringing those into State I think was a problem as well. So it was far too limited in scope. And I think bringing it into the State Department was a mistake.

I liked the concept of having a strategy but it was not—the strategy that they came out with did not address some of the big questions that we have talked about in terms of goals and objectives. So the strategy needs to go a little bit further than what they did.

In terms of implementation, as Dr. Brainard said, they did not consult with very many people. This was done internally with the State Department. There was very little consultation actually within the executive branch much less with Congress or with the public. And as a result I think they ran across many problems that they could have dealt with had there been much more of a consultative process.

I do like the idea in some countries of having more general resources available that can be determined by that country. But you have to deal with the legislative underpinnings to make that work because what they ran up against was that the concept was inconsistent with the legislation. So you cannot just do this in-house partially without dealing with the membership here to make that work.

So I think one of the big lessons about that is that partial marginal reforms will not get this done, that we have to actually think bigger and bring in the coalition that we have been talking about.

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

Chairman BERMAN. Mr. Crowley.

Mr. CROWLEY. Thank you again, Mr. Chairman, for the opportunity to ask a couple more questions and to the panel for their forbearance.

In terms of our involvement in the Middle East, and let me say this: I think we need to continue to be involved in the Middle East. And I think the 9/11 Commission Report was very clear that we need to enter into more trade agreements with struggling third world countries within the Middle East itself. But let me just go beyond the Middle East and go to the other Islamic countries in South and Southeast Asia. Are we doing enough in terms of our assistance and aid to those countries that are not oil rich, that are not, you know, involved in the direct turmoil of the conflict with the Middle East, are more observers from the outside where we see the influence of Wahhabiists from Saudi Arabia being exported to places like Bangladesh and to Pakistan and to Indonesia, etc., are we doing enough in terms of our investment both in capital as well as human fund to help create a better atmosphere in those countries toward the United States?

I know in post-tsunami, you know, post-9/11 and then post-tsunami 2004 I had the opportunity to see the strength of our soft power within Sri Lanka. And I know that we were very helpful not only there but in certainly in India but in, or at least asking India if they wanted assistance, but in Bangladesh and in Indonesia and other countries. Did we do enough back then? Although we did get great credit I think did we do enough? And are we doing enough now?

Mr. RADELET. If I can, Mr. Congressman. I lived in Indonesia for 4 years; I was an advisor to the Ministry of Finance there. One of the great moments after the tsunami was when the people of Indonesia saw United States troops actually carrying supplies to the victims of the tsunami. And for the first time they actually saw that U.S. soldiers were not evil people that just killed people, that the United States could actually do positive things. And we need to do more of that.

Now, Indonesia is rapidly growing. It is a very large country. I am not sure they need a lot of our money. But what they do need is better trade agreements with us, more open trade, and to feel that we are a partner in discussions on broader diplomatic issues, on dealing with the security issues and a wide range of other things. I think we can continue to provide assistance to Indonesia on humanitarian issues because they do have a lot of earthquakes and a lot of other issues just because of the geology of where they

are. And when we can be the first responder to earthquakes in Jakarta or wherever they happen to be we can really I think help our cause.

But I do not think in Indonesia's case and many of the other countries is it actually a money issue—Sri Lanka might be a little bit different in this case—as much as it is having open dialogue and seen as an equal partner where we are working with them for their interests as well as ours.

Mr. KOLBE. Can I just add to that that I do not think it is a matter so much of how much money we are spending but whether we are spending it the right way. One of the things that we need to be looking at a lot more is building the right kinds of institutions in those countries, trade capacity building. You have unemployment rates which are enormously high and we need to do a lot more in the way of trade capacity building for those countries that do not have oil, do not have those extractive industries so that they can develop the resources they have and be able to trade those with the rest of the world. We need to coordinate better our trade with our development and our military programs.

So I think all of these are things that we need to do. And we need to be looking at it. In the long run it is about building jobs, it is about creating jobs because we have a generation of young people unemployed there, rife with problems of that unemployment, not feeling as though they have any sense of self worth and we need to be able to do something about that. And I think our programs need to be much more focused on that kind of thing.

Mr. OFFENHEISER. I want to speak to the Bangladesh case briefly. As you probably know, Bangladesh is in the midst of a democratic crisis with a military government in place. Very anxious actually to move toward elections but I think to some degree not quite clear exactly how to do that given all of what they had to do in terms of, you know, dealing with corruption and arresting a lot of corrupt officials. So I think there are some really serious and important issues to be dealt with in Bangladesh at the present time.

I would just note that when I was in Bangladesh in the early 1990s the sort of percent of the what are considered the more fundamentalist groups as a part of the electoral process represented 2.5 to 3 percent and in more recent elections it has gone up to 8 to 10 percent. So I mean that is of some concern and it has been of real concern to the population in Bangladesh.

So I think it is a country with 150 million people and a moderate Islamic population that really deserves a good deal of attention on our part. I would note it gets about \$70 million of annual foreign assistance from the United States currently but we charge it \$500 million in tariffs, to Congressman Kolbe's point earlier. And you have to wonder to some degree, you know, if we were looking at this issue from a moralistic perspective and we were thinking about trade and development and improvement of democratic institutions in Bangladesh and trade enhancement, would we be doing this somewhat differently.

Mr. CROWLEY. As Jim knows, Mr. Chairman, we have been working on this issue a long time, especially with countries like Bangladesh.

Mr. KOLBE. You and I introduced the legislation.

Mr. CROWLEY. We have. And we continue working on that today. But I would suggest as well I, too, have a special concern for Bangladesh. And I have it on good authority they are going to have those elections by the end of the year. And I hope that is the case. But certainly a country in flux and struggle right now and we keep an eye on them as well.

Thank you.

Chairman BERMAN. Thank you. One last issue for you to grapple with here. I am a little unclear about what the present situation is and what the ideal is in terms of rebuilding USAID capacity. We have heard talk about loss of employees. Is there a feeling among people who focus on this, and maybe some of you have conflicts of interest in answering it, that there is too much reliance, too much subcontracting because of USAID's limited capacity to NGOs and to people to monitor work that one part of rebuilding capacity in USAID is to have them more directly involved in actually administering different aspects of aid programs?

Mr. BRAINARD. The decline in staffing at USAID has coincided with a large increase in disbursements, as you know. So that I think on average it is about \$2 million per staff person. And even that way understates what they are actually doing because it is a smaller percentage of staff that is doing the contracting and procurement.

I think there is a general sentiment among the expert community that USAID has become the sort of wholesaler of wholesalers and is getting so far away from being actually able to implement and engage on the ground on some of these with subcontractors to the contractors that this is diminishing our civilian capacity.

I think this relates back a little bit to this question earlier that was asked about, well, couldn't the State, you know, wouldn't it just require a Secretary of State that cared about these issues to fix it? I think the answer is no. I think the State Department's civilian staffing, promotion authorities they are based on a very different model of what is needed. There is no internal reward system for people that have technical degrees that are nurses or understand sewerage systems. But you need that kind of knowledge in USAID.

Chairman BERMAN. Well, let me interrupt you. I think you are the one who talked about five engineers in USAID. Do we want more engineers in USAID because so they can evaluate the logic of programs or do we want more engineers in USAID so they can be designing programs which require an engineering competence?

Mr. BRAINARD. I think just briefly, I do not want to take up too much time, to some degree you need engineers in USAID both to evaluate—ultimately you are always going to have contracts, the question is, How many contracts?—so you do need the capacity to evaluate. And in some cases you are actually going to have engineers that are close to the design of projects in the field for projects that are very important. So I think you need them for both. And you cannot have generalists doing procurement on issue that require technical expertise.

Chairman BERMAN. Which is why the Foreign Service State Department model does not work in this area necessarily.

Mr. Offenheiser.

Mr. OFFENHEISER. Just maybe to comment on what this looks like, say, in an Afghanistan case. I mean I think what we have been observing in Afghanistan, noting that there is a skeletal staff there that has been turning over very, very rapidly, and in some sense weakening the program implementation in a country that is of critical strategic importance to the United States. And the few folks that are there basically are left shoveling money out the door as quickly as they can get it out the door, and then they burn out and there is rapid turnover. So you are not going to get high quality performance under those kinds of circumstances.

And, in effect, the job that many people are faced with having to do, which is not the reason that they actually came to USAID in the first place, is in effect the compliance officers or auditors for large contracting agencies as opposed to really people working with governments around the kinds of programming that we are talking about.

When I first came to this town in the late 1970s, USAID was the premier employer for young development professionals. And it had tremendous internal intellectual capability. That has been largely vitiated. And I think that is a lot of what we have to rebuild. We have to rebuild that intellectual leadership capability and not only in engineering but in areas like agriculture. I think another statistic, which we have not got this morning is how many agricultural economists are in USAID today as opposed to the past? I remember Andrew Natsios telling me when he came to town that I think there were like seven or something like that and at one time 10 years before there were like 50. And he wanted to fix that.

Chairman BERMAN. Jim?

Mr. KOLBE. Just very, very quickly. The alarm bells should be going off for this committee with regard to the USAID staffing. It is a very serious problem that really does need to be addressed. Everybody along this table has described aspects of it. But there are at all the professional levels there is a serious lack of the people. I would label as the one the most serious is lack of people in procurement and contracting that know what they are doing there. You have to have those kinds of people.

What makes this even more alarming is if you look at the statistics, a third of all of the USAID professionals will be eligible or will be retiring in the next I believe it is 5 or 6 years. So what is already decimated is going to be much, much worse. This simply must be addressed and cannot be put under the rug any longer.

Chairman BERMAN. Last comment.

Mr. RADELET. Just very quickly. I think it is an issue of not trying to bring in the expertise that can actually implement every single program; they cannot do that. But to have the expertise that can help design programs and to evaluate them effectively and to engage in dialogue on development policy with the rest of the administration is critical.

Chairman BERMAN. Very good. That was a helpful series of answers.

I will keep the record open for 1 week for written questions to members of the panel. We very much appreciate your coming, sharing your thoughts. We are going to sort of bury ourselves in your

testimony and call on your again one way or another as we try and move forward on this. Thank you again.

The hearing is adjourned.

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



FOREIGN ASSISTANCE REFORM: REBUILDING U.S. CIVILIAN DEVELOPMENT AND DIPLO- MATIC CAPACITY IN THE 21st CENTURY

WEDNESDAY, JUNE 25, 2008

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

The committee met, pursuant to notice, at 11 a.m. in room 2172, Rayburn House Office Building, Hon. Howard L. Berman (chairman of the committee) presiding.

Chairman BERMAN. Our hearing will come to order.

It is a real treat to welcome our two experts today for the second in a series of hearings that the committee will convene on foreign assistance reform. As will be obvious when I introduce the witnesses, these are people who are very thoughtful, with real hands-on experience on this issue.

A committee hearing in April that we have already held examined the challenges to our broken system and some potential solutions. The hearing revealed that there are diverging views on the direction that the reform should take. But there was broad agreement that U.S. development and diplomatic initiatives are not living up to their potential in part because they aren't receiving the resources they need, but just in part.

In recent years dozens of reports, articles and speeches have made the case for strengthening the capacity for U.S. civilian agencies. There are many good reasons for doing this, but perhaps Secretary of Defense Robert Gates put it best in the Landon Lecture at Kansas University last November when he said, "Having robust civilian capabilities available could make it less likely that military force will have to be used in the first place as local problems might be dealt with before they become crises."

The foreign assistance reform debate in Washington has focused largely on the merits of creating a Cabinet-level Department of Development. That is certainly an important issue that we will have to examine. But it is important to remember that there is a pressing need for reforms across the board, not just at the top of the organizational chart. In the next administration strengthening our development and diplomatic capacity must be a priority. Substance should prevail over structure. The next administration and Congress will have to develop a consensus on what needs to be done to strengthen the non-military tools we use to further our national security goals. We can't let the discussion begin and end with how the boxes are arranged.

Rebuilding U.S. development and diplomatic capabilities requires more funding, more people and better legal authorities. Despite modest increases since 9/11, the international affairs budget remains dangerously underfunded and still falls 17 percent below what the United States spent in today's dollars during the Cold War. Compare what we spend on diplomacy and development to our spending on defense, and you will find that the total international affairs budget for Fiscal Year 2009, \$39 billion, is roughly equal to the increase in the DoD budget between 2008 and 2009. To emphasize again, the Department of Defense budget increased from one year to the next by about the same amount as the entire year's budget for diplomacy and development.

Investments in our diplomatic, economic and development programs are critical in strengthening America's capacity to engage in the world. Many of these programs provide the basic resources that American diplomats and development experts use to promote fundamental American values; freedom, democracy, and the rule of law.

Increasing funding will enhance our capabilities to address the challenges that face America in the 21st century. We can't transform our diplomatic and development corps to meet these challenges without significantly increasing the number of trained and skilled Foreign Service officers devoted to development and diplomacy.

Since the end of the Cold War, the backbone of America's development and diplomatic might, the U.S. Agency for International Development and the Department of State, have been substantially weakened by staff cuts, hiring freezes and consolidation. While this administration has taken small steps to reverse course, there are still only 6,600 professional Foreign Service officers today in the State Department. According to Secretary Gates, this is less than the personnel of one of our carrier battle groups. Likewise, at a time when the United States is engaged in two massive stabilization and reconstruction efforts and countless other emergencies, USAID barely has 1,000 Foreign Service officers. Compare that number to the height of the Cold War when it had more than 4,500 Foreign Service officers with expertise in engineering, agricultural development, rule of law, civil administration.

The U.S. needs a cadre of experienced Foreign Service officers with robust language abilities and expertise in smart skills such as job creation, education, engineering and good governance. The next administration must invest the resources needed to build a corps of educated, experienced people who are willing and able to work in a wide range of countries from the most stable to those that are impoverished and war-torn.

Increased funding and the number of people in our civilian agencies are major steps to rebuilding civilian capacity; however, more money and people without the appropriate effective legal authorities will only do so much. Next year I hope that we in this committee will begin an overhaul of the Foreign Assistance Act of 1961. As part of this endeavor, we will look at improving the personnel, procurement and other authorities to ensure that U.S. diplomats and development experts can operate effectively in Washington and in the field. In addition, we will review which authori-

ties are needed to rapidly deploy skilled Foreign Service officers in conflict and post-conflict zones.

Recently the committee acted to improve the U.S. civilian capacity when it passed H.R. 1084, the Reconstruction and Stabilization Civilian Management Act. The bill authorized the establishment of the Readiness Response Corps to respond to stabilization and reconstruction crises, and codified the establishment of an office of the coordinator for reconstruction and stabilization within the Department of State. It authorized the President to transfer or reprogram up to \$100 million in any given fiscal year for stabilization and reconstruction assistance. This bill has been now incorporated into the House version of the 2009 National Defense Authorization Act, but it was only a stop-gap measure.

I would like our witnesses today to provide their thoughts on how we can meet this goal. How would you improve the capacity of the U.S. civilian agencies to respond to the challenges of this century? In addition, what concerns do you have regarding the migration of Department of State and USAID legal authorities to the Defense Department? What role should the U.S. military play in providing foreign assistance?

I look forward to hearing the testimonies of the witnesses and their answers to these questions. And I am now pleased to yield to the ranking member and my friend, Ileana Ros-Lehtinen of Florida, for her opening statement.

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

At our last hearing on the general topic of foreign aid reform, I compared our foreign aid system to a bowl of spaghetti, given the difficulty in following all of the lines of authority in achieving our foreign aid objectives. The specific topic before us today, the issue of civilian capacity necessary to support our foreign aid projects, reminds me of the old adage of the glass of water. Depending on your perspective, the glass of water that is our current civilian capacity can be seen as either half full or half empty.

Our level of staffing at the U.S. Agency for International Development is an example of what I mean about the glass of water analogy, because the number of direct-hire employees at USAID has, in fact, been cut in recent decades. This is where the glass may seem half empty to some. But the total number of staff of all types who now work for USAID has risen, at least compared with the total of three decades ago in 1978. It just depends on how you compare staffing levels with the totals of earlier years, and the types of employees that USAID has today.

Of course, there is certainly a question as to how much of our program management we should delegate to contractors.

Many observers rightly note that our foreign aid programs today are dispersed across many departments and many agencies. Such observers rarely seem to emphasize, however, that those additional agencies also have additional civilian staff and additional resources of technical expertise.

It may well be the case that such dispersion of programs across our Government calls for better coordination, but we should be sure that while we examine the question of coordination of agencies, we don't overlook the fact that there are other staff capacities out there besides USAID's, and that they may be playing a construc-

tive role in supporting our aid programs today. That is something we may want to explore in more detail, perhaps in a specific hearing.

In looking at U.S. foreign policy today, we should not look back to 1961, the year that the Agency for International Development was created, as if it was something of a utopian age. It was simply a different age with different circumstances.

We certainly need to consider the evolution of our foreign aid programs, but we should also look abroad to see how other donor countries are addressing the developing challenges of this age at the start of the 21st century, as the title of today's hearing notes. Germany and Britain, for example, have independent, centralized aid agencies, and others such as France and Spain have aid agencies that are subordinated to foreign ministries. Sweden has an International Development Cooperation Agency under its foreign ministry, but it directs a great deal of its aid funding to an investment capital fund rather than to more traditional aid programs. Denmark has decentralized its aid program, transferring much of the management and decision making to its overseas offices. The European Union's program has a complex structure, having three directorate generals working with one implementing agency. Japan's International Cooperation Agency may soon merge with part of Japan's Bank for International Cooperation.

Whether these examples might ultimately impact the development of our own aid program is unknown, but I raise them to demonstrate that while some countries are trying to centralize their aid operations, others are going in a different direction by decentralizing them. And the way that they choose, or that we choose, whether it is centralization or decentralization, would certainly have an impact on staffing requirements.

So I ask our witnesses if they could share their thoughts today regarding the proposals for a centralized assistance agency and what it would require in terms of staffing levels.

In closing, Mr. Chairman, let me say that I believe that Congress has some difficult internal questions that it needs to ask itself. Some governments, such as Britain's, have much less legislative oversight over their aid programs. While that makes it easier for the British Department of International Development to draw long-term plans and implement them with little objection from the Parliament, a question is whether we would want that as a model for the American Congress to follow.

And finally, as we move forward with possible reforms of our Foreign Assistance Act—and I congratulate you, Mr. Chairman, for taking this on as one of our missions—we will have to engage with many other individuals among the leadership in both parties, the Appropriations Committees, and other authorizing committees, such as Financial Services and Armed Services, that have jurisdiction over large or growing development programs. We also need to meaningfully engage the Senate in this enterprise. So there are a lot of difficult questions and many conversations that we must have. But I congratulate you, Mr. Chairman, for taking on this task, and I look forward to working with you to ask ourselves the difficult questions, even if we are not sure what the answers may be.

Thank you, Mr. Chairman, as always.

Chairman BERMAN. Well, thank you, Ms. Ros-Lehtinen. You are absolutely right, this isn't going to be easy.

I want to get as quickly as possible to the witnesses, so I am going to shorten the introductions a little bit. But by and large, I mean, the special treat here is two very talented people, one who has held a number of different positions in the State Department, Brian Atwood, who is now dean of the Hubert Humphrey Institute of Public Affairs at the University of Minnesota. He was for 6 years the USAID administrator under President Clinton, and before that was Under Secretary of State for Management in the early part of the Clinton administration, as well as the leader of the transition team after the November 1992 elections for the State Department for then President-elect Clinton. Back in the Carter years he worked for Senator Eagleton. And when I first met him, he was president of the National Democratic Institute for International Affairs from 1986 to 1993. He, like our other witness, has been awarded the Secretary of State's Distinguished Service Award in 1999.

Our second witness is Peter McPherson and welcome him back to the committee. He is now president of the National Association of State Universities and Land-Grant Colleges and president emeritus of Michigan State University. He chairs the board of the Abraham Lincoln Study Abroad Commission and is the founding co-chair of the Partnership to Cut Hunger and Poverty in Africa, and a number of other key positions. He retired as president of Michigan State University after 11 years, but took leave during that time from April to October 2003 and served as Director of Economic Policy in Iraq under the Coalition Provisional Authority. Very importantly for his appearance here, from 1981 to 1987, he served as the USAID administrator under President Reagan. Before that he was deputy secretary in the U.S. Department of Treasury, Peace Corps volunteer in Peru, and also received the Secretary of State's Distinguished Leadership Award.

Mr. Atwood, why don't you go first, and thank you both for being here.

**STATEMENT OF THE HONORABLE J. BRIAN ATWOOD, DEAN,
HUBERT H. HUMPHREY INSTITUTE OF PUBLIC AFFAIRS,
UNIVERSITY OF MINNESOTA (FORMER ADMINISTRATOR OF
U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT)**

Mr. ATWOOD. Thank you very much, Mr. Chairman and Ms. Ros-Lehtinen. I appreciate your opening remarks. You certainly set the stage very well for this discussion.

And I am delighted to be here with Peter McPherson. He is a great public servant, and I have had a friendship with him that goes back to my time as aid administrator. He would call and give me a shoulder to cry on on occasion and sympathize with the tensions of that job. Despite the fact that he ran an opposing Big Ten university, he is a friend to this day, even though his football team beat ours quite regularly.

I really thank you for your leadership on this, and I hope that we can move to new foreign assistance legislation. I believe it has been since 1985 that we have had an authorization bill, on the for-

eign assistance side of this in any case, and it is badly needed. And I will get into that a little more later.

Both the diplomatic and the development sides of the 3-D triad are underfunded and need help if we are going to reach the balance that is called for in President Bush's concept of national security. And I believe it is a concept that is shared across partisan lines; that we need a Defense Department that is strong, a State Department that is strong and a development agency that is strong.

I have submitted formal testimony, but I will try to summarize that for you, Mr. Chairman. I was reflecting, though, on my period at USAID in the 1990s. It was the end of the Cold War, and there was a great deal of talk about a peace dividend. And the way that was translated was that my budget was cut quite considerably, and I had to go through a very difficult reduction in force at USAID. I closed 27 missions overseas, and it was happening at a time when the world was breaking down into smaller units. There was a great deal of strife in the world. Ethnic differences were emerging, new countries were created in the Eastern bloc and a great deal of religious conflict. It obviously sounds very familiar today because that is what is still happening now.

I had written an article in the Washington Post saying in essence that our challenge, our national security challenge, was that the world was disintegrating into societies and failed states that really weren't making it, and that that was becoming a major national security challenge.

A few weeks later someone wrote an article basically accusing me of suggesting that conditions, rather than malicious human beings, were the cause, and that that was a false doctrine. I never meant, of course, to say that malice wasn't a factor in the world, but rather that conditions contributed to malicious intent. And today I don't think we have a debate over these issues. Today there are several studies that show that concentrated disadvantage, in other words poverty, is a condition that makes violent conflict a lot more likely.

Our military professionals are bringing this to our attention, and I think that is why on both sides of the aisle we are paying a lot more attention to this. General Zinni and Admiral Layton Smith recently wrote an article that said, "Our enemies are often our conditions." Secretary Gates, as you mentioned, has also called for a strengthening of the civilian capacity of government.

So the debate of the 1990s, it seems to me, is a settled question now, but then we are faced with what to do about it. I mentioned before that the Bush administration has proposed a balanced 3-D national security strategy. Now, I agree with this, but two legs of that triad cannot perform their roles. And let me briefly sum up what I think we need.

First, I think we need a streamlined, more agile State Department that focuses on the diplomatic mission. And what is that mission? It is obviously solid analysis for policymaking, it is representation, it is negotiation, and it is crisis management.

When I was the leader of the transition team at State—along with the Secretary of State designate Warren Christopher—we put in place some efforts to streamline the State Department. It was just much too big. It was too difficult to make decisions. There were too many deputy assistant secretaries. We tried to push decision

making down to regional country directors and the like. It continues to be overburdened, in my opinion, with too many functions that are not consistent with the diplomatic function. The consequence is that you have functional bureaus all over the State Department that need to sign off on a decision memo. It takes far too long to get a decision memo to the Secretary of State. Frankly, I don't want my Secretary of State having to worry about contracting for PEPFAR. I want my Secretary of State worrying about the crises that exist in the world and attempting proactively to prevent these crises.

So that is one thing I would do, and I suppose that is different from the perspectives of some, but frankly, I often have said this during the time when there were proposals to merge USAID into the State Department. I said the Secretary of State shouldn't have to worry about these kinds of issues. In any case, that is one recommendation.

The second recommendation is that USAID or the entity that handles foreign assistance needs to be rebuilt. It is broken. There is no question about it. Maybe the spaghetti analogy is a good one, but there are too many agencies in this town that are doing foreign assistance that don't have people on the ground, that don't understand the culture that they are dealing with, who are pursuing their domestic mission overseas. This means that we can't take a strategic approach, working with other donors, working with international organizations, working with recipient countries on country strategies and overall global strategies. Coordination is a major factor. So I think that is one point I would make about what needs to be done. I will get more into this in a minute.

The third, the development mission, should always be in sync, no question, with the diplomatic mission. If, in fact, the development mission is the mission of prevention, undertaking sustainable development over the long term, it means that the State Department will be reinforced and be able to handle fewer crisis situations. But the more important aspect of this that most people don't focus on, it seems to me, is that we need a stronger voice for development in the international economic circles of government, and that means on trade and finance issues.

You are going to find it surprising that I say this, but development is overrated. Development is an essential ingredient in poverty reduction, but it isn't sufficient. If we, for example, work with a country to improve its exports and its productive capacity, and we deny that country access to markets either in Europe or the United States, we are undercutting the development investment. If we, for example, subsidize heavily our agricultural products, which we do, and we help countries to develop their own agriculture sectors, basically we are contradicting ourselves, we are not achieving coherence in policy.

Now, I don't expect that some of these issues that are obviously domestically politically very sensitive are going to be won by an aid administrator who is arguing the case for the developing world in the councils of government. I would expect that that argument to be made, however, because poverty cannot be alleviated—and poverty is a very serious national security problem—unless there is more coherence of policy with respect to how we deal with those de-

veloping countries. It can't just be development that reduces poverty, it has to be a combination of development, more enlightened finance policies that enable countries to grow and to create a productive capacity and trade policies that make sense.

Now, all of this leads me to conclude that a new Cabinet Department for International Development Cooperation is needed. But I agree with you, Mr. Chairman, that form should follow substance, and we should focus on the substance here. I also believe very strongly that it is a President's prerogative to propose how he wants to organize his government. Obviously some of this will require congressional approval, and it has to be a convincing case that is made.

So we should put off this question of what the structure should be and focus on what the substance should be at this point. And that leads me to my last point, which is that you in Congress can help this process along by passing a new mandate for both the State Department and USAID, a new authorization bill.

I have been very encouraged to see the debate over the Millennium Challenge Cooperation. I supported that as a means of getting more money into poverty-reduction efforts. But the eligibility criteria that were developed for the MCC, about 16 different criteria, maybe there are too many there, represented sound development thinking. And there was bipartisan support for that. So perhaps taking that, maybe consolidating some of these and creating broad goals is the best way to approach this.

At the current time the message that the Congress is giving to USAID and other bureaucracies downtown is: Spend the money. We ask you to spend it on this, that and the other thing. It is impossible, therefore, to take a strategic approach. It is basically a concern about outputs. There is less concern about results despite the Government Performance and Results Act. And it seems to me that Congress should be much more concerned about holding the executive branch accountable for results. And you have an opportunity with a new authorization bill, it seems to me, to focus on the broad strategic goals of what our poverty reduction mission or development mission should be. I strongly recommend that you continue to pursue this.

I have one more point on this, though. Every development mission overseas obviously has to assume some degree of risk. Most of our development missions are in countries that are good partners of the United States in terms of pursuing development. Occasionally, however, there are going to be States wherein there are opportunities, but the government itself isn't a good partner. You think about some of these states today. We should be working, for example, with opposition forces in Zimbabwe, and we are, in fact. There was a commission called the "Failed States and U.S. National Security Commission" on which I served, a very important commission that indicated that we had to be making investments in risky countries as well. So there probably ought to be a separate account which basically encourages creativity and entrepreneurship as opposed to simple compliance. There are going to be risks in doing that. But it seems to me that it is part of our national security objective to try to deal with these difficult situations and try to avoid

more failed states that can be exploited by terrorists, as we have seen.

Mr. Chairman, I hope that we will look at post-conflict situations and understand the role of each of these 3-Ds in these situations. It should be the role of the Defense Department to provide security in these situations; it should be the role of the State Department to negotiate the disputes that exist to try to find a peaceful resolution of the problems; but it should be the role of USAID to provide humanitarian relief, to provide transitional assistance through its Office of Transitions Initiatives, and eventually and as quickly as possible move into long-term development.

So at least with respect to post-conflict situations, it seems a bit easier perhaps to define the missions of each of the three. Unfortunately, because of a lack of resources, DoD, the military, has been doing too many of the roles that the civilian agencies ought to do in these circumstances, and that has not worked out. And in many cases we haven't provided the kind of security that would enable the civilians to do the job that they need to do in post-conflict situations.

Finally, it is an urgent problem. The poverty problem is growing; 40-plus percent of the people in the world live in poverty. It is enervating, it is debilitating, it is destroying the international systems, and it is creating a great deal of anger and alienation. That in turn turns to violent conflict. The poverty situation is going to continue to grow, and therefore I think it is very urgent that you undertake this mission. And I would hope that by early next year when we have a new administration, whichever party, it would be important for Congress to work with that new administration during a transition to come up with legislation and a structure that would make sense.

Thank you, Mr. Chairman.

[The prepared statement of Mr. Atwood follows:]

PREPARED STATEMENT OF THE HONORABLE J. BRIAN ATWOOD, DEAN, HUBERT H. HUMPHREY INSTITUTE OF PUBLIC AFFAIRS, UNIVERSITY OF MINNESOTA (FORMER ADMINISTRATOR OF U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT)

Mr. Chairman, members of the committee, I welcome this opportunity to offer my views on the need to strengthen our civilian development and diplomatic capacity. I am pleased to join my friend Peter McPherson on this panel. We have served presidents of opposing political parties as administrators of USAID; and we are both concerned about the erosion of our civilian capacities at a time when threats to our interests require a civilian as well as a military response.

I believe you have asked me here today because I have served both at State and USAID. While my views on development are more frequently sought nowadays, I am very proud of my diplomatic service. I was a career State Department foreign service officer, an Assistant Secretary and Under Secretary of State. I also led the transition team at State after the 1992 election.

I am a strong advocate of a balanced "3-D" national security strategy, an approach to our international challenges that emphasizes coordination among the defense, diplomatic, and development missions. The threats we face today require a much stronger civilian effort to prevent the crises that require the use of the military option.

Diplomacy and development are mutually reinforcing assets in preventing conflict, but they are distinct missions requiring very different mandates and resources. Unfortunately, these two missions have been pitted against one another as rivals for a limited resource base within the foreign affairs budget (the 150 account). The debate in this town since the 1990s should not have been about whether or not to merge these two distinct missions, but rather about how to synchronize them, and to fund them adequately.

Today, our military leaders are seeing more clearly the limits of their power as they engage an unconventional enemy on an asymmetric battlefield. They have prodded us to focus on the need for effective prevention strategies. We finally have begun to pay attention to conditions that produce instability and chaos, conditions that are, in turn, exploited by terrorists, criminals, and demagogues.

We are also witnessing reluctance by military professionals to be pushed into non-combat missions that run counter to their training and which are more effectively carried out by civilians. Changing conditions on the ground, whether in a crisis-prevention or a post-conflict situation, requires the cooperation of local civilians, nationals of the impacted country. Progress is less likely when those offering assistance are foreign military personnel. Our military professionals know this, yet frequently they are asked to engage because civilian agencies do not have the resources to participate effectively.

Mr. Chairman, in the early 90s I found myself in a debate over whether global poverty and the chaos it creates constitutes a strategic threat. Early in the Clinton administration, I wrote an opinion piece which the *Washington Post* titled *Now, Chaos*. I wrote that “. . . disintegrating societies and failed states . . . have emerged as the greatest menace to global stability . . .” A few weeks later, another *Post* op-ed said that my thesis “undervalued moral accountability.” The writer charged that I had offered a false doctrine and that “malice,” not “chaos,” was the overarching threat.

I never claimed that conditions that contributed to chaos and the challenge of willful malice were unrelated. Today, it is well understood that these conditions—often created by abject poverty—both incite malice and are exploited by those with malicious intent.

Numerous studies have now concluded, as did the 1999 Commission on Global Governance, that “. . . poverty and extreme disparities of income fuel both guilt and envy when made more visible by global communications.” Poverty breaks down social cohesion, produces anger and alienation, and makes violent conflict more likely. Sociologists studying gang warfare in American cities have studied the breakdown of “collective efficacy” for years now and they have related this directly to “resource deprivation,” or what has been called “the concentrated disadvantage factor.” Most of us call it poverty.

In March of this year, two highly respected retired military officers, General Anthony Zini and Admiral Leighton Smith, helped underscore this reality when they wrote that “our enemies are often *conditions*.” They urged more spending on civilian assets as has Secretary of Defense Robert Gates.

The national security debate that took place in the early 90s is now a settled question. The issue is no longer the nature of the threat; it is our capacity to deal with it as it is now more precisely defined. If we agree that the prevention of conflict, instability, failed states and other negative manifestations of poverty is essential, it is now time to give priority to the strategies, structures, and resources needed to create a culture of prevention within the US government. The foundation of a prevention strategy will be a combination of diplomacy, development, and deterrence flowing from the threat of military intervention.

What is needed is an objective and comprehensive analysis of *all* possible contributing factors. Only such an analysis can produce a combination of diplomacy and development programs that will effectively inhibit those who would seek to use grievances or conditions of underdevelopment to incite people to violence.

Among the many factors to be considered are the health of the governance system, the extent of political and economic equity, the rate of population growth versus economic growth, and the extent to which people can participate in decisions related to their own well-being. This requires both a situational assessment focusing on those within a society who are manipulating the levers of political and economic power and a development perspective. It is vital to understand the power equation, but equally important to comprehend the fault lines below the surface related to underdevelopment.

If this development perspective is to be a factor in our analysis and policy making, the mission must be elevated within the US Government. If the security stakes in long-term development are as great as I and others suggest they are, then we need to structure our government to better coordinate our efforts. Right now over 20 government departments are undertaking some aspect of development work, including the Defense Department.

Our policies toward the developing world must also be more coherent if our development programs are to be effective. Today, many of our finance and trade policies directly undermine our development strategies. If we help nations develop globally competitive economic sectors and we then deny them market access, we are undercutting our development objectives. If we subsidize our agricultural products while

spending resources to help poor countries develop an agriculture sector, we defeat our purpose and waste tax dollars. If we insist on tight-money finance strategies when nations need to expand production capacity and make investments in human capital, then we deny opportunities for growth. If development is a key objective, our trade and finance policies must be differentially and flexibly applied.

I am not suggesting that the development perspective dominate in matters of finance and trade. I am saying that the development perspective must be heard at the decision-making level. It is not heard now. If the condition of poverty is a national security threat, we need to consider carefully all aspects of our policy toward the developing world.

Mr. Chairman, we need to organize better to undertake the poverty-reduction mission. That means creating an entity that can coordinate among US Government agencies to create an overall strategy—as well as individual country strategies—in cooperation with our partners. It means empowering the entity to speak for the United States to encourage more participation by bilateral and multi-lateral donors and, most importantly, by developing-nation governments. It means giving that entity a voice within the US Government on finance and trade policy.

We need also to send a message to the world that we are back in the business of international cooperation. Our development goals cannot be met without cooperation—with other donors, with international organizations, and with nations experiencing high levels of poverty.

The best way to achieve these related objectives, in my opinion and in the opinion of a growing number of others, is to create a new department of international development cooperation. This position was advanced on June 1 by the “Modernizing Foreign Assistance Network” group in a report I co-signed called “*New Day, New Way, US Foreign Assistance for the 21st Century.*”

The mission of this new department would be to create strategies, coordinate activities within the US Government and participate in policy discussions that impact on the poverty-reduction mission. The department would oversee the development activities of the UN voluntary agencies and the World Bank. In short, this new department would reestablish American leadership within the international development community by placing an emphasis on the word “cooperation.”

Mr. Chairman, that is my preferred option. I recognize that there are alternatives, including one that Peter McPherson and I have together proposed. In a letter we sent to the HELP commission we called for a strengthened USAID with enhanced coordination authorities and a seat on the National Security Council. This would be a much better arrangement than we now have, even if not ideal.

As should not be surprising, I am also an advocate of a strong State Department. The diplomatic mission constitutes our first line of defense and the Secretary of State, our most senior cabinet officer, must always be in the lead in helping create and advocate for the foreign policies of the President. The State Department’s mission requires excellent crisis managers, negotiators, and analysts.

It also requires resources that enable it to accomplish its mission. The lack of these resources has created tension among the civilian agencies. The activities that should be supported by State resources are shorter-term and related to the diplomatic function. When these resources are unavailable, it is quite natural for State to look elsewhere for them.

The regional bureaus and our embassies abroad form the core of the State Department’s diplomatic mission. Foreign Service officers will tell you that if you want to get ahead at State, you must be in a regional bureau or an important embassy. If you really want to get ahead, you have to be fortunate enough to manage a crisis or a vital negotiation, and do it well. State’s functional bureaus are important balance wheels in assuring that certain American interests or values are part of the decision process. Arguably, the functional issues would be better served if they were integrated into the regional bureaus. However, they will never be at the center of the Department’s mission, even if they carry a congressional mandate, unless an administration insists upon it happening.

The arrangement now in place underscores this point. Placing the AID Administrator and the allocation process (called the “F” process) within State has produced predictable results. Resources have been allocated more to support the diplomatic mission, than the development mission. Decisions are being made centrally by a system that considers inputs and short-term impact rather than long-term, sustainable results. This has changed some under the current Administrator, but the pressures to support the diplomatic mission remain great.

Mr. Chairman, I want to acknowledge the prior testimony before your committee of former Congressman Jim Kolbe. I serve on an important transatlantic commission to study innovations in development that is co-chaired by Congressman Kolbe and the Development Minister of Sweden. As the former chair of the Foreign Oper-

ations Subcommittee on Appropriations, Jim Kolbe knows well the problems created by the combination of earmarking and an outdated authorization bill.

I commend your desire to start over again, Mr. Chairman, to reauthorize our foreign assistance program to bring it into the modern era. This is vitally important and I hope you can work with a new administration to fashion a bill that will enable the United States to pursue specified strategic objectives in development.

The Millennium Challenge Corporation (MCC) legislation has led me to conclude that a bipartisan coalition can be formed to pass an authorization bill. The eligibility criteria created for MCC assistance is based on sound development thinking. These criteria could be the basis for a new mandate for development assistance.

As you will recall, the legislation encouraged the creation of performance indicators which in President Bush's words would be used to "reward nations that root out corruption, respect human rights, adhere to the rule of law . . . invest in health care, better schools . . . have more open markets and sustainable budget policies, nations where people can start and run small businesses without running the gauntlets of bureaucracy and bribery." Sixteen measurable indicators were chosen under such broad categories as "governing justly," "investing in people," and "promoting economic freedom." While we can debate whether the categories or measurement systems in use are all they could be, I believe these indicators are developmentally sound.

It would be important for Congress to set the broad goals for development and then to hold the Executive Branch accountable for achieving results against those goals. The current earmarking system basically tells the Executive to spend money on a narrow objective; it is input-based, not results-based. The system forces the Executive to make expenditures where they may not be needed. It creates a dynamic that runs counter to strategic planning and cooperation with local partners who know best what their development needs are.

I would add environmental sustainability to the 16 MCC indicators, but the rest strike me as adequate. These indicators already command a bipartisan consensus that could form the basis of support for new legislation. Your new legislative mandate to achieve results would create a dynamic that would require a better approach and a new structure. A new president would soon recognize that the current system and structure are sub-optimal in achieving results and success.

Closely related to development are the humanitarian relief and post-conflict transition missions. Here there is a relief-to-development continuum that is better served by careful collaboration and programs that are designed to move as quickly as possible to the development phase. For this important reason, I believe it is important that the Office of Foreign Disaster Assistance and Office of Transitions Initiatives remain in the same agency as the development mission. Defense should provide security in post-conflict situations. State should negotiate the settlement of disputes. And USAID should provide humanitarian relief, transitional assistance and, later, long-term development.

Democracy programs are at the heart of our foreign policy no matter which political party is in charge. Here, flexibility is needed. USAID treats democracy and governance as a central element of its development mission. Its failure to do so would render other development initiatives unsustainable over time. State's Democracy, Human Rights and Labor Bureau (DRL) responds more rapidly to political openings and it needs resources to do so. DRL has developed good working relations with the democracy-promotion NGO's who are able to move with more agility into short-term crisis situations and require more leeway to operate. These NGO's, some of which receive core funds from the National Endowment for Democracy, are often less well suited to USAID's longer term development timetable and its contract and grant regulations.

There is a tendency to see democratization work as separate from development. It is not. Developing nations need help in creating civil societies, democratic governmental institutions, political parties and legal systems. There are limited funds in government to do these things and it is important to sort out who does what in given situations. DRL has a role, as does OTI in transitions, and USAID development programs must integrate democracy and governance into successful strategies.

A final word on legislation. The delivery of foreign assistance entails a degree of risk. Much of that risk can be reduced by working with good partners. Yet, if poverty is indeed a national security threat, as I believe it is, then we will have to work in nations that are not good partners. We will have to find ways to partner with people and organizations that want to reduce poverty and promote positive democratic change. This means accepting the risk of possible failure. I hope that Congress would offer a mandate to work in states that are at risk of failure as was recommended by a commission on which I served called "Weak States and U.S. Na-

tional Security" (the report was titled "On the Brink"), sponsored by the Center for Global Development.

One has to understand bureaucratic behavior. Bureaucracies are risk averse. Their major objective is compliance, not risk. What they hear now from Congress is that they must comply with earmarks and spend the appropriated money. What they need to hear is that they will be held accountable for achieving results in the countries that lend themselves to development and that they should be taking risks in the weak states whose programs would be funded by a separate account with less demanding criteria. What we need in these weak states is creativity and entrepreneurship more than pure compliance.

Mr. Chairman, the security challenge created by the condition of poverty is urgent and it is growing. The population of the world's poor is not waiting for us to see more clearly our own interests in fixing our capacity to respond. In 10 to 15 years time, we will see another billion poor added to the global population. The economic health and well-being of these people will increasingly come to define our own security, our economic prospects and the health and well-being of our own people. The conflicts that could result will increasingly engage our military assets. We need a prevention strategy that is based on proactive diplomacy and sound development.

I believe that a new president will make this a top priority. But a president cannot create the civilian capacity, the right structure, and the appropriate goals without a solid partnership with Congress. You can take the first step by passing a new authorization bill for both State and USAID that makes them more equal partners with Defense in the "3-D" triad.

Chairman BERMAN. Thank you, Mr. Atwood.
Peter.

**STATEMENT OF THE HONORABLE M. PETER MCPHERSON,
PRESIDENT, NATIONAL ASSOCIATION OF STATE UNIVER-
SITIES AND LAND-GRANT COLLEGES (FORMER ADMINIS-
TRATOR OF U.S. AGENCY FOR INTERNATIONAL DEVELOP-
MENT)**

Mr. MCPHERSON. Well, it is good to be here about an issue that I care so much about. Let me say, first of all, how much I appreciate the leadership of this committee and our dear and good friend Tom Lantos, and, of course, our Ranking leadership here, on getting the Simon bill through this committee in a bipartisan way, unanimous on the House floor, over in the House Foreign Relations Committee unanimously, and out of that committee waiting action. I think this is a visionary bill, and the academic community at large deeply appreciates what you have done.

Getting right into the topic at hand, I think it is worth looking back at what has gone wrong over the last 20 years. In the 1980s, things certainly weren't perfect, but there was more or less a subtle agreement on how these agencies were working together and what they are doing. As I say, it wasn't perfect, resources and other things, but there was an understanding.

A series of things happened, not necessarily in this order because they overlap, but a decision to have the work in Russia and the new republics in effect be controlled on a policy basis by the State Department and subordinating USAID to an implementer changed a lot within the agency. Thereafter there was the direct relationship USAID had with OMB dramatically when a bureaucratic context affected what could be done. We did some things to ourselves. In the late—about 1990, USAID, for reasons I cannot understand, came to an agreement with USDA that USAID would do Title II and USDA would do Title I, which was still a fairly big account back then. I previously had been on a little committee that worked

it out with OMB. USAID essentially had influence beyond, but gave up some degree of control over Title II.

Well, a number of steps like this, self-inflicted and done by others to USAID, had a diminishing impact and a seriously demoralizing impact upon who we were and what we do. At that period of time, there was a continual reduction. No administrator. This was a very bipartisan thing. No one in the administration. Certainly no single Congress or Minority or Majority in any particular Congress. There were reductions of the personnel, the permanent personnel.

The distinction made in the first statement about permanent versus overall personnel is a very sophisticated point. You have got the foreign nationals, you have got the temps, you have got the contractors. It is that you have to really get into this.

I would make the point that overall the permanent staff of Foreign Service officer and civil servant staff has dramatically shrunk over the years, as I detailed in my written comments, and I think that has had some very bad consequences. One, we have cut back our missions abroad. Brian was mentioning something, but there have been others beyond that. We have moved essentially from an implementation agency—we have always had lots of contracts, but they were smaller and were overseen—an implement agency to a large contract agency, and that has many consequences in terms of coherence, in terms of ability for Congress or the administration or anybody to make it work to the best advantage, in my view.

Well, I could go on, the histories involved, but the point really is that over a generation the agency as an administrative structure, competence to carry out a broad range of functions and bureaucratic strength, which is always important in any big structure such as the U.S. Government, was significantly diminished.

Well, the question—so I think it is just excellent for Congress and the new administration to say, okay, this is the problem; what do we do about it. And my sense is there is more interest in this. The problem is seen more broadly than it has been over these 20 years. It was sort of the insiders that worried about this as opposed to a broad community.

What should we do? Well, first, we have to rebuild the Personnel and the Technology Capability Agency. As I understand it, the supplemental has substantial resources to begin that process proposed by the administration, supported broadly here in Congress. I mean, it is really—it is hard to imagine that USAID has only two full-time people working as engineers and only 16 experts in agriculture, 17 in education. I mean, the list goes on. It just doesn't make any sense to have evolved in this fashion.

I think that we need to—these need to be done however it is reorganized, in my view. So I would make these comments in this context. We need to rebuild those missions.

Now, it is interesting to think about the role of many of the European countries who have very centralized structures, essentially provide their money either to the local government or to contractors and don't have many people on the ground. The historical strength of USAID has been that we had a number of people on the ground, understood the situation and the problems, and that other donors actually looked to us for understanding and allowed

us to essentially leverage our competence. That has been diminished, but we still have some of that, and it should be built on.

Actually I think that it is worth focusing on the fact that the U.S. Government, despite the big increases in the last few years, our percentage of total—of global ODA is much diminished, and essentially we are no longer sort of the gorilla that provides all of the money. We are a relatively small player in a much bigger world, and that is why the technical competence is even more important. It isn't fully applicable, but I have always been intrigued that looking at sort of a foundation-like model, a leveraging model, as more than just saying, we are the money, we will pay for it. And I think that is where we have come, and we haven't quite changed our mentality.

Well, regardless how you reorganize this, I do believe that the USAID administrator should be a statutory member of the National Security Council. I think there is always going to be back and forth and who has got power in any given administration, and you need to have that person statutorily at the table, and that would truly help make sure you are involved in those issues.

I also think that there is ways that the USAID administration can have a deeper role with the World Bank and the regional banks. Now, I have spent a fair amount of time on bank issues as deputy secretary of Treasury, and I suppose we all live with our experiences. I do think that the current structure of reporting isn't likely going to dramatically change the Treasury having that role with the banks, but I do think there should be statutory responsibility for USAID to comment on projects in the countries where USAID has a presence that are before the Bank boards. I did some of that informally, which I know—in the 1980s—which I know had an impact, statutory responsibility for USAID to do that, and Treasury executive directors to those banks taking those comments seriously in my view, would truly help everybody.

Now, let me get to the issue which I know in some ways you can over dwell on, but I believe is in the nature of figuring out a new understanding for the next generation of how these structures are to work together, is what to do about the reporting relationship. Now, I had, I know, a pretty ideal situation where formerly I reported to the President, but early on I went to Secretary Haig and Secretary Shultz and said to them, in turn, of course—said to them, I know I report to the President, but I am not going to see him like you are going to see him, of course, Mr. Secretary, so I would like to effectively report to you and come to your senior staff meetings every morning. Well, both thought this was a fine idea, and that was the method in which we did it throughout that period. But I was always a separate agency, and I didn't report to my assistant administrators for Latin America, didn't report to the assistant secretary for Latin America. It was a relationship that worked. And I think that statutorily to have the administrator report to the Secretary is fine.

Now, there is disagreement among some of the community about this, but I do think that the Secretary needs to have that foreign policy oversight over the most significant piece of resources probably that the Secretary may have, and accordingly, I would accept that this is a good role. But I would change other things. I would

have PEPFAR report to the administrator of USAID. I would have the Secretary of State not be the chair of the Board of MCC, but the administrator ought to be the chair of the MCC, and refugees, and perhaps there is a lot of intricacies—I deal with some of these in my written comments.

Now, in any case, it is time to work out these issues to dramatically strengthen USAID as an institution so it—in both resources and powers in such a way that it can play the appropriate development role. I can get into why I think the integration hasn't really worked, but I would conclude really that the structure as I suggest would be helpful. I know there is some difference of view in this, of course.

Now, as to the State Department, I think when you look around the world and you think about review of history, a country cannot expect to be strong internationally unless it has a well-staffed foreign ministry or, in our case, State Department. I mean, it is just like you can't have a strong government without a Secretary of Treasury or Ministry of Finance that really functions. It is a real mistake not to have a powerful institution there. And in our case it means much more staff in a lot more countries, in my view, and a number of other things. So I come here as a former USAID administrator saying we need stronger institution of the Secretary of State and Department.

As to DoD, DoD, in my view, institutionally hasn't tried to expand its functions as much as they have had the money, and State and USAID didn't have the money. These are practical, thoughtful people that are right there on the ground trying to solve problems, and they could do them, State and USAID couldn't, and so there has been this mission creep that over a period of time, I believe, is a mistake both for the Department of Defense as well as State and USAID. My sense is that that is what Secretary Gates is saying in his statements and various other things.

Now, in Iraq, where I spent 5 months, those first 5 months, those dusty, hot months which I will remember forever, I had that team of bankers, and finance, budget people, a wonderful group of people, and I lived and worked with DoD personnel, saw those young men and women on top of tanks. I got an appreciation I never had before in seeing the competence, dedication of a group of people. And it was clear to me that there were some things that we couldn't do—we, USAID and State, couldn't do—without that DoD help.

You perhaps will remember that in that early period we began the process implemented fairly quickly of converting the old, tattered, torn Iraqi currency to a new currency. That was the product of the team that we had there. But ultimately the conversion occurred; I mean, billions of dollars all over the country. It was really quite a process. It took the EC years to plan it. It was done in a few months there, implemented. There was not a significant loss, and it was because it was DoD and British forces that protected, guarded, made it work. Our civilian plan, deep involvement, was DoD.

So there is a significant role for DoD where they have got boots on the ground and other ways, but it isn't long-term agriculture de-

velopment or education planning or these kinds of things. And I believe most people will be first to say it at DoD.

Now, let me just say, Mr. Chairman, I think what you and Mr. Skelton and Lowey—Congresswoman Lowey are proposing is excellent. I have been thinking for years now that this isn't going to work unless there is a formal agreement, almost a treaty, between DoD and USAID and State as to who is going to do what functions. We need that sorted out, and we need it sorted out soon.

I would conclude by saying that this expectation of functions of these agencies has seriously broken down over 20 years, and now is the time, with a new administration coming in, with leadership in the House and the Senate that understand and wish to grapple with this. For you, in my judgment, the hearings' work next year is important. But I hope that—and my understanding is that this is your view as well—I hope that in the months ahead when things are a little calmer, and Congress leadership may well stay the same in another administration after the election, that you can get together, talk with foreign policy folks of each campaign and come together on these issues. And I know that both Brian and I wish to be very helpful in a process where the development community and others that we work with can be helpful in making this happen. If it doesn't happen, in my belief, over the next 12 months, we will go around for the next 4 or 5 years having a bunch of issues that hinder what needs to be done.

It is good to be here, Mr. Chairman.

[The prepared statement of Mr. McPherson follows:]

PREPARED STATEMENT OF THE HONORABLE M. PETER MCPHERSON, PRESIDENT, NATIONAL ASSOCIATION OF STATE UNIVERSITIES AND LAND-GRANT COLLEGES (FORMER ADMINISTRATOR OF U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT)

Mr. Chairman and members of the Committee on Foreign Affairs, I welcome this opportunity to testify before you on topics of deep interest to the Committee and me. I am also very pleased to be here with my good friend Brian Atwood.

I have been engaged with the issues of international development for decades as a Peace Corps volunteer, USAID Administrator and Deputy Secretary of the U.S. Treasury. Later for 11 years I was President of Michigan State University which has a long history of working in developing countries. I was in Iraq for five months in 2003 heading a team working on the currency, the banking system and related matters, and now am President of NASULGC, the association of the large public universities. I also presently serve as chair of the boards of three non-profits working on development matters: the Partnership to Cut Hunger and Poverty in Africa, Harvest Plus and IFDC.

Calls for reviewing the delivery and organizational structure of U.S. foreign assistance appear to be coming to a head. Though there is not an agreement on what to do, few are satisfied with the status quo. I strongly support the goal of you and others here, Mr. Chairman, to rewrite the Foreign Assistance Act and hope my comments are helpful to that end.

Officially, the U.S. government's foreign policy is "Diplomacy, Development and Defense." I strongly agree with the elevation of development to this first tier. The question is: How the U.S. can best to undertake these functions?

NECESSARY HISTORY

To gain perspective on what changes might be necessary, we need to review the history of U.S. foreign assistance, particularly USAID. USAID has had some wonderful successes that have made a difference to millions and cumulatively, billions of lives. These successes have been accompanied by problems but this should come as no surprise. After all, USAID is doing its work in places that by definition face many obstacles.

USAID had other challenges. Over the years USAID had substantial resources that other departments of the government wished to control. For example, in the

late 1980s, USAID was thought to have insufficient foreign policy sensitivity to manage the new money for Eastern and Central Europe and the former Soviet Union, so control over this work was assigned to the State Department. In time, USAID's direct relationship with the Office of Management and Budget (OMB) was taken over by the State Department with a huge loss of practical influence.

Over the years USAID became weaker with staff cuts and less programmatic flexibility. (See below) Policymakers continued to look for other vehicles to implement their needs. Accordingly, the Millennium Challenge Corporation (MCC) was created with the Secretary of State as the board chair rather than the USAID Administrator. At least at the beginning, MCC was discouraged from working with USAID. Likewise, the President's Emergency Plan for AIDS Relief (PEPFAR) was created with the head of the program reporting to the Secretary of State and program responsibilities held by the State Department, USAID and the Department of Health and Human Services. In addition, several years ago USAID was effectively folded into State with an "F" budget process. A strategic budget and tracking process certainly makes sense. However, the massive problems of "F" and the reorganization confirmed the views of many that integration of USAID into the State Department was a mistake.

A significant contributing factor in a weakening of USAID was staff cuts and the resulting changes in operations. In 1980, USAID had 4,058 permanent American employees. By 2008 the number has gone down to 2,200. In the same timeframe the number of permanent foreign officers declined from about 2,000 to a little over 1,000.

These cuts have had several detrimental impacts. The staff loss caused significant cuts in mission capacity and the closing of missions in a number of countries. Through the years, field presence has been a comparative advantage for USAID and the United States with other donors. USAID historically has been closer to the problems and people than most other bilateral donors, and country presence made their programs more effective and allowed the U.S. to impact the allocations of other donors. It is an unfortunate time to have cut field presence because the U.S. percentage of global Overseas Development Assistance (ODA) has been decreasing over the past couple of decades as other bilateral donors increased the size of their programs. U.S. based NGO contributions to developing countries from non-governmental sources probably now equal or exceed USAID's resources. Note that foreign direct investment is now much greater than ODA in many countries. In short, USAID has lost some of the comparative advantage of sufficiently staffed field missions when they could be of greatest advantage, especially because many other bilateral donors still do not have a substantial field presence and are informed by those that do. The point here is that field staff are critical for USAID to leverage money and ideas.

Another impact of the USAID staff cuts has been the dramatic loss of technical expertise. For example, USAID now has only two engineers, 16 agriculture experts and 17 education experts. So the combination of reduced staff overall and the loss of technical expertise puts the agency in the difficult position of trying to manage projects and programs with technical expertise and numbers of staff that are substantially inadequate.

Because of these staff cuts, USAID has been forced to move from an implementation to a contracting agency. USAID has been forced to farm out large portions of the foreign aid program and found it increasingly difficult to provide proper technical oversight to these contracts (as opposed to financial oversight, on which USAID put a priority). The existing situation means less coherence in the overall effort, less flexibility and diminished leverage with other private and public donors.

These staff reductions, particularly of technical staff, contribute to an agency that is risk adverse and bureaucratic. A development agency must have the capacity to take some risk. It is in the nature of their work. However USAID staff are cautious and work often more slowly because of the lack of technical staff; high workloads; criticism of decisions by the Government Accountability Office (GAO), USAID Inspector General and Office of Management and Budget (OMB); and regulatory and reporting requirements.

Note that the Administration and USAID Administrator Henrietta Fore have asked for a substantial increase of staff in the FY 09 budget, as set forth in their Development Leadership Initiative.

Another issue that sometimes comes up when USAID is dealing with the State Department is whether USAID has a sufficiently broad view/culture, e.g., is USAID too development/humanitarian focused. That has sometimes been true, though I saw many examples during my time at USAID when I felt USAID staff, especially those on the ground, understood the full picture, e.g., Central America in the 1980s. It is worth noting that some NGOs and others criticized USAID at the time for this broader view. I think USAID has the capacity to understand and work with the full

range of issues if the agency has the sustained responsibility to do so and other personnel steps suggested below are undertaken.

I want to say here, as a former USAID Administrator, I deeply respect the dedication and commitment of USAID employees. I know that their dedication measures up against any other department or agency.

It is also important to consider the great increase in program content control of USAID by Congress and the Administration. In the 1980s when I was Administrator of USAID, the Cold War was an important force in the allocations of USAID monies. There were of course many exceptions, e.g., large amounts of money to Bangladesh, substantial African investments, food to Ethiopia and Mozambique for the famine in the mid-1980s, etc. The Cold War allocations by Congress or the Administration were often only decisions on how much money was to be given to a country. The interest from Congress and the pressures from program or development policy constituencies were relatively limited with some exceptions such as family planning and non-governmental organizations. USAID had functional accounts including agriculture, health care, family planning, etc., but overall USAID had substantial program flexibility especially in the context of the country allocations. A good example is USAID's funding for Pakistan in the 1980s. The Administration agreed upon a dollar amount and Congress approved it. USAID, with little outside concerns expressed, determined with Pakistan the programs to implement, which, for example, included female education. Another example of flexibility is that USAID put several million dollars into HIV-AIDS education in the 1980s after informing Congressional committees and reallocating money. HIV-AIDS education may seem like an obvious decision now but it was certainly ahead of most at the time. There are many examples of substantial flexibility in that period.

In the years since the end of the Cold War, strong domestic political support has produced large Presidential initiatives and Congressional allocations for health care, AIDS, K-12 education, micro-finance, environment, etc. All of these legislative allocations are practically and politically appealing because they often directly impact individuals and many have short-term quantifiable impact. No doubt the Presidential initiatives and Congressional program allocations have become extensive. It is widely understood that new or renewed efforts, e.g. agriculture, probably need Congressional program allocations in order to receive resources. I support the work of these program allocation and the monies spent for them. However, taken as a whole, USAID has much less flexibility today to respond to new problems and the needs of countries as the countries define them. There is not the flexibility to respond sufficiently to opportunities to leverage enough resources from others. The lack of flexibility limits the capacity to work with other U.S. government agencies because the uses of the appropriations are so prescribed. The situation has evolved over many years and over several Administrations and Congresses. Clearly Congress must provide direction to USAID for appropriated monies. However, some means should be found for greater flexibility within the context of the appropriation process and oversight which Congress has the constitutional requirement to perform.¹

In recent years the Department of Defense (DOD) has become a major participant in foreign assistance. However, DOD's involvement, which can be of critical importance, should be carefully limited to where they have a comparative advantage. DOD has significant resources and in various countries people on the ground to commit to the development process. They have been crucial first responders in situations where security made development actions possible. For example, in 2003, I had a role in putting in place a new national currency for Iraq. The process of creating and exchanging a new currency, the equivalent of billions of dollars, went effectively and efficiently with no material losses. This was made possible by the active participation of U.S. and British armed forces.

No doubt DOD can be critical as an early responder, especially where security is needed, but DOD does not have the expertise for long-term development work. To date, their comparative advantage for long-term development work has been that they had resources. The Administration is working to put in place the United States

¹ The program allocations in the USAID budgets are for important work and I support those projects. However, long-term development work should not have been reduced at the time short-term efforts were increased. Too many long-term efforts have been reduced, e.g., agriculture, including agriculture research. Reductions in long-term work were also in part because of expectations from Administrations and Congresses that there should be measurable outcomes within a fairly short period. USAID responded and for example the long-term training in the U.S. went from about 15,000 per year in the 1980s to about a 1,000 last year. Note that long-term investments tend to be more staff intensive than contracting out the delivery of goods and services. Staff cuts, especially technical staff, contributed to the reduction of long-term development capacity at USAID.

Africa Command (AFRICOM). It appears that AFRICOM will have some diplomatic and development role with senior people from the State Department and USAID assigned to the organization. The full role of AFRICOM is not yet clear and I think needs to be carefully reviewed.

Over the years, besides DOD there has been substantial diffusion of foreign assistance programs around the government. The diffusion is in part because of globalization. Domestic departments now have international agendas. How to organize and bring coherence to U.S. assistance when it is spread across multiple U.S. governmental units is a challenge.

PROPOSALS

I wish to make suggestions on the roles of USAID, the State Department and DOD. Each has important roles that should be defined by their capacities and comparative advantages. My comments will go beyond organizational changes as some modifications are integral to the results sought. Let me quote a scholar on the politics of bureaucratic structure, Terry Moe who states, "Structural choices have important consequences for the content and direction of policy and content, and political actors know it. When they make choices about structure, they are implicitly making choices about policy."²

I would like to say here that I hope that key leaders from Congressional authorization and appropriation committees, and the new Administration work together to develop an integrated organizational and budget approach to U.S. government foreign assistance. The Wye River Group (the Modernizing the U.S. Foreign Assistance Network) has recently recommended this approach. While there is not general agreement on the solutions, there is broad agreement that Congress and the new Administration should come to agreement on a new approach. It would be unfortunate to miss this opportunity to solve a set of problems that has festered too long.

USAID

Whatever else is done with USAID, a substantial build up of "Operating Expenses" for the purposes of increasing permanent staff, including a great increase in technical staff, is critical to effective foreign assistance. More staff will allow USAID to be more of an implementer of projects as opposed to an agency managing large contracts. More staff will allow USAID to adequately staff missions and to reopen closed missions in key countries.

With more staff, USAID should take more of a technical leadership role in Washington and in the missions. It could play a greater leadership role with other bilateral and international organizations to help set the development agenda in a coordinated fashion. Too often now because of inadequate staffing, there are not even regular in-country donor meetings with or without the local government, an activity that USAID traditionally encouraged and often led. These meetings were traditionally a mechanism to engage a diverse set of partners, and to leverage and coordinate strategies and funding to be more effective at the country level.

USAID has a much smaller percentage of total ODA than 20 years ago. Moreover there have been large increases in the resources of NGOs, foundations and universities, as well dramatic increases in foreign and local investments and remittances in many countries. This diversity of funding agents suggests that USAID could frequently play a facilitator, catalytic and foundation like role, not just the role of a traditional funder. USAID's Global Development Alliance performs this role but the concept needs to be expanded in Washington and to the missions. A much expanded approach is practical only if USAID is provided more flexibility.

More staff will allow for more training including education on foreign policy and security, and the challenges of health, environment, climate change, and food production and systems. Training existing staff and bringing in new people will be an important part of revitalizing and broadening the agency. A strong and confident USAID is an important part of building the trust of the other departments and agencies. USAID and the State Department need an act similar to the Goldwater-Nichols Department of Defense Reorganization Act of 1986 that authorized substantial exchanges of assignments between the branches of the armed services. This legislation produced a great improvement in the way that the services work together at DOD. In time, a State Department foreign service officer (FSO) should not expect to be an ambassador to a developing country and an USAID FSO should not expect to be appointed to a senior position at USAID without first serving for a time in the other organization. If development and diplomacy are linked in our foreign pol-

²"The Politics of Bureaucratic Structure," in *Can the Government Govern?* Edited by John Chubb and Paul Peterson (Brookings, 1989), p.268.

icy we need sustained efforts and appropriate mechanisms for the organizations to understand and appreciate each other.

An aggressive review of USAID's current policies and procedures should be undertaken. Some lessons can be taken from the procedures of the disaster relief work done by USAID where many regulations can be waived to gain timeliness without sacrificing integrity and efficiency. Former Administrator Andrew Natsios worked hard to strengthen the administration at USAID and took some important steps. Nevertheless, a major revitalization is the right time to make major procedural and cultural changes. It also may be time for an agency name change to emphasize a new day.

As to the organization and reporting relationship of USAID, in balance I support USAID returning to the status of a separate agency but with the Administrator reporting only to the Secretary of State. In a number of ways the new USAID should be a much stronger agency.

Many do not believe the integration of USAID has worked and there are some basic reasons it has not. The State Department and USAID missions and people are too different for USAID to be subordinated State. The development mission will be too reduced. The State Department has many short-term foreign policy needs that might be addressed with money as opposed to the long-term development goals of USAID. The very able State Department staff are generally promoted because of policy, analytical and communication skills, not for skill in managing large staffs and budgets. USAID is an operational agency with staff and budgets used to achieve specific goals. The State Department tends to see their role as determining "policy," but when State controls "policy" there is often the classical disconnect between policy people without line responsibilities and the operational people in the field. If USAID is too close to the State Department, the State Department's mission tends to dominate the USAID's development mission because they are the stronger bureaucratic player. This is not a judgment about individuals but is in the nature of things.

A separate department for USAID has some appeal as a way to advance overall development goals. However, to direct foreign policy the Secretary of State needs to have some involvement and oversight with the largest sources of resources traditionally available to him or her. Those that support a separate department would be disappointed at how many resources and programs would remain under the State Department's control. They would find that a new Development Secretary would not have the day-to-day support within the Administration and in Congress that I for example had from Secretary of State George Schultz.

The new USAID should have an expanded role. The USAID direct relationship with OMB should of course be restored and USAID should have its own general counsel. The USAID Administrator should be a statutory member of the National Security Council with the expectation that USAID will be present when a broad range of issues are discussed. The PEPFAR Director should report to the USAID Administrator, as should refugee work. The USAID Administrator should also be the chair of the board of the Millennium Challenge Corporation (MCC).

I strongly support the Civilian Reserve Corps sponsored by Sens. Richard Lugar and Joseph Biden. In principle, I would like the Reserve Corps to report to the USAID Administrator rather than to State, but I do not think that is not going to happen for reasons I fully understand. I do think the new Reserve Corps should be closely associated with USAID and that a large Reserve Corps staff should not be built up in the State Department.

A difficult issue is how to coordinating with other departments and agencies that do foreign assistance work. Those departments and agencies are going to continue to be involved because they often bring unique skills to the task (e.g., the Treasury Department working with currency and bank issues in developing countries) and globalization means that many domestic agencies and their Congressional oversight committees have international agendas. There was a best forgotten experiment in the 1970s of having a statutory coordinator for all this work (IDCA). The high expectations for the role were always unrealistic. The best and practical option in my view is to create a White House located committee of departments and agencies representatives to which issues and opportunities can be brought. It should be co-chaired by the USAID Administrator and the NSC Deputy with some kind of formal role for the appropriate assistant director of OMB. OMB is the only party at the table that would have a chance of knowing what all other departments were doing. The first order of business would be to pull together the information of what work is being done by the departments and agencies. The committee under the direction of the USAID Administrator should do a quadrennial international development review like the QDRR of the Department of Defense.

In addition, USAID needs some reasonable connection to the Treasury Department in its role with the World Bank and regional banks. USAID should have a statutory responsibility to comment to the Treasury Department on the bank projects brought to the boards of those banks for a vote and the Treasury Department should give full consideration to the comments. USAID did this informally for a time in the 1980s and it had value. These responsibilities for USAID and Treasury should be in the law.

DEPARTMENT OF STATE AND OTHERS

The State Department needs substantially more people. State must be a stronger department to fully perform its role and again this is about resources and people. I am a member of the advisory group to the American Academy of Diplomacy that is considering recommendations on personnel levels for the State and USAID, as well as related matters. At this point, let me just say that many more people and related support are needed to fully carry out State Department functions. These staff are needed to perform functions that are not being done sufficiently or are being undertaken by others that do not have a comparative advantage. Clearly the State Department needs the resources and staff to have a more traditional and balanced relationship with DOD.

I strongly agree with Secretary of Defense Robert Gates that we need to rebuild human capacity for our international work in a number of departments and agencies. I know, for example, that the Treasury Department could better serve the country with more people abroad. The last time I knew, the Treasury Department only had one attaché stationed in South America to cover much of the continent.

DEPARTMENT OF DEFENSE

DOD has an important role where they have forces on the ground and there are security needs, such as in Iraq and Afghanistan. In any case DOD has more resources than the State Department and USAID. Good and practical people have moved to address problems that others could not do, and some part of AFRICOM is probably a reflection of that situation. DOD should not do work for which it does not have a comparative advantage and is better done by USAID and State. I do believe it can be helpful to everyone for USAID and the State Department to have some staff assigned to various parts of DOD and for DOD to have some people in State and USAID. Nevertheless the broader issues of the role of DOD will only be addressed if State and USAID are provided the staff and resources needed to deal with their problems. In addition I strongly support the legislation that you, Mr. Chairman, have joined Reps. Skelton and Lowey in introducing which would provide a means for DOD, State and USAID to work out their respective roles. I have felt for some time that this would not happen without some kind of formal process.

CONCLUSION

In conclusion, I hope this Committee will play a leadership role in coming to reach an agreement between Congress and the new Administration on refocusing and strengthening the functions of State, AID and DOD. I also hope that the Skelton, Berman, Lowey legislation is enacted, providing a means to sort out the roles of State, AID and DOD. This next year is likely to be the window to deal with these matters for another generation.

Chairman BERMAN. Well, thank you both very much. You had a number of very interesting ideas. We are going to use your testimony here and your written statements to help us map out a strategy.

It is sort of the chair's intent—I have about 15 minutes of questions, so I would yield myself 5 minutes at the beginning. And if you are willing to hang around for another, I do have to be in the Speaker's office at quarter to 1:00, so—

Mr. MCPHERSON. We are at your pleasure.

Chairman BERMAN [continuing]. I know I am leaving then, and I don't know what the rest of you want to do. But we will proceed a round, and my hope is to have a chance for a second round.

I will now yield myself 5 minutes.

For either of you, just, I think, for my education, perhaps for other members of the committee, when we talked about the diplomatic and development functions being pitted against one another, and, Mr. Atwood, you spoke to that in your written testimony, describe how within the limited resources of the 150 international affairs budget, describe how it works since 1998 with how it worked before 1998 to the extent you can remember. I barely can.

Mr. ATWOOD. Well, I think the problem during the 1990s was that—

Chairman BERMAN. You know, and the F process. Just take a couple of minutes just to give us a little tutorial on that.

Mr. ATWOOD. Up until I left, OMB gave USAID its own budget. We were a separate statutory agency, and we had our own budget, but we worked that budget through the Embassies first where the country team basically came up with a country strategy. Our assistant administrators, people like Tom Dine, who is sitting here, would go over to meet with the assistant secretary of state for Europe to make sure that those budgets were coordinated, and that we were basically getting the job done with respect to the transitions that were occurring there in Eastern Europe and the former Soviet Union. So it was well coordinated, but it was still separate.

The problem was, though, that because up here it seemed like the budget committees would use the 150 account as the place to plus-up the domestic accounts, the 150 account kept getting squeezed. That caused tensions, frankly, between State and USAID because USAID had money, State needed money, Embassies were being closed, consulates were being closed, a lot of things weren't happening. And the State Department needs money to perform its diplomatic mission, and given that it is a crisis-oriented place, naturally they looked around government for resources. And I think that is where it caused a great deal of the tension.

Now, the F process, as I understand it, it happened after I left, but basically puts a double hat on the USAID administrator, and they look at all programs. And it is under the rubric of transformational development or transformational diplomacy, that decisions are made largely in Washington about how that process will work, obviously with input from the country teams and the Embassies around the world.

I don't think anybody believes that it is working very well. Certainly people at USAID don't believe it is working very well. A lot of it is because the decisions are being made here, and there is less concern about long-term results than there is the shorter-term goals. This is natural for the State Department. And the State Department is the dominant force.

So the question is how do you protect the long-term investments you make in sustainable development? And I believe that it is very important to protect those assets; otherwise you will never do it, you will never make those investments.

I don't know whether that answers your question. Maybe Peter can add to that, but that is my perception.

Chairman BERMAN. I have about 57 seconds left, if you could give your thoughts.

Mr. MCPHERSON. Well, the F process became impossible. I mean, there were hundreds of categories of reporting and—

Chairman BERMAN. That is the process now in place?

Mr. MCPHERSON. Well, I think after the change of administrators or Under Secretaries, it got cut back some. It became a burden that no one could do. But it still seems a little too extensive. If I went into it deep enough to truly understand it, I do think that it makes sense, and was the initial stimulus by Secretary Rice to be able to understand how much money you are spending for what, where. And frankly, that is very hard to do. And I believe that the F process, while I think most of it is overburdening, it certainly isn't the way you would run a business, and I have run businesses. You don't break the back of the structure. But I think you have to know where your money goes.

Chairman BERMAN. Thank you very much.

I yield 5 minutes to the ranking member.

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

Mr. Fortenberry has had a long-time interest in the reforming and improving of our foreign assistance program, so I am going to yield my time to him.

Mr. FORTENBERRY. I thank the ranking member for the time, and, gentlemen, welcome to the hearing.

I spoke with the former Adjutant General of the Nebraska National Guard a little while back about an idea I had to create what we would call an American Expeditionary Diplomatic Reserve Corps; in other words, to try to rethink the model in which we currently provide foreign assistance to develop surge-type capacity building by tapping into the innovative spirits of Americans who—many people who are in midlife want to do something, but are past the point of joining the Foreign Service, don't work for a non-governmental organization that could be contracted with USAID or under contracted with USAID, it is too late to join the Peace Corps, but nonetheless on a temporary confined-type basis to allow the expertise—whether that is the expertise of a teacher, or a farmer, or an engineer or a banker, as you mentioned, Mr. McPherson, in terms of your work in the provisional reconstruction teams in Iraq—to allow for a structure like that to tap into this vast, vast reserve of American ingenuity and real desire to participate, a heartfelt desire to participate in humanitarian outreach in public service to the government.

The general warned me. He said, Congressman, if you propose that, be ready to receive a flood of resumes for people who would be very, very interested in this.

Now, we have got a measure that has been, it is my understanding, attached to the defense authorization bill, but passed this committee, that creates a Civilian Reserve Corps, which I think is going to enhance this capacity building.

But I think this is potentially a new model in how we ought to think about augmenting the work at State, USAID, as well as DoD, and I would like your comments on how the potential effectiveness of the Civilian Reserve Corps concept or how we can broaden this in a way, again, to tap into a real desire among many Americans to do something, but it has to be structured in a way in which they are capable of; a temporary, under authority, maybe then linked up by technology when they are back in the United States after a 2-week stay in country, again developing surge-type capacity with ex-

perts around the country and allowing people to integrate back into their normal lives, but remaining in partnership as a reserve civil servant basically.

Mr. MCPHERSON. I am very strongly supportive of the reserve corps idea that Senator Lugar, Biden and others have been proposing. I hope it passes the Congress this year. It does look to the kind of thing you are talking about, I believe.

I think that we ought to be expanding and pushing on. There have been funding over the years in activities with the Executive Corps. There are two or three organizations like this that send business folks who are retired or may take some time off to work with a tannery in Kenya or something. I also think there is—my colleagues and I and the academy have periodically talked about whether some of our 60-year-old professors might be willing—who may not be as active in research as they once were, but are chemistry or engineering professors—might be willing to staff up some of the South African universities, for example, that need huge staff infusion, particularly technical people.

I think it is a complicated set of issues. If you are not careful, it costs too much, and you don't get much out of it for anybody. But in principle, if you can link need and do it to people—there is—as a Peace Corps volunteer as a very young man, I very much empathize with the idea that Americans wish to help. It takes a lot to do it right, but I think there is real possibilities here.

Mr. FORTENBERRY. Clearly there would be some structure here. Of course, people do this already. Universities have exchanges, other organizations like the one you mentioned do. But to really give it structure in terms of public service to it, but allow the flexibility for Americans who have this expertise but can't go overseas for extended periods of time, but nonetheless could be linked to the partnering countries through the impressive use of technology that we have available to us I think is a concept.

Mr. Chairman, if we can continue to reflect on it, I think it would be appropriate.

Chairman BERMAN. Right. Although we will have to reflect on it on our own time because the time of the gentleman has expired.

But I just would say I am interested in this, and at some point maybe Mr. Atwood could get his reaction in.

Mr. MCPHERSON. He gets the next response.

Chairman BERMAN. Well, the gentleman from Georgia will be asking it.

Mr. Scott is recognized for 5 minutes.

Mr. SCOTT. Thank you very much, Mr. Chairman, and welcome to both of you.

Today we have got a very complex, a volatile world. I think also that for future peace in the world, it has got to come more from the State Department, from our missions, from diplomacy as opposed to the barrel of a gun. I mean, we are witnessing that as we speak today. Much of our problems are fears of culture change, culture shock, fear of globalization and terrorism. But at the same time our State Department, USAID, are woefully falling short in terms of being prepared to deal with the 21st century. Nowhere is that more significant than in personnel, in training, and also in the

convolution of over 60 departments and agencies oftentimes competing in the same area, overlapping.

I would like to get your response on how we are going to address the personnel, the training, and how are we going to try to deal with this fragmentation. There are 60 government units that are engaged in foreign aid, you have got 10 departments, you have got 20 agencies. And then finally, do you believe that maybe the best approach to dealing with this is to get a Cabinet-level position that would deal with bringing all of these jurisdictions together under foreign aid?

Mr. ATWOOD. Thank you, Mr. Scott.

I think we need to beef up across the board. The State Department will probably tell you we need more Arabic speakers. We badly need people who are culturally sensitive, with experience in various parts of the world, obviously, and if we don't have a mission or a consulate in a particular city, then we simply have no ears, and we don't know what is going on there. And often what is going on in a country isn't just happening in the capital city.

I also believe we need to have people on the ground that are working with the nationals of the country to bring about development change. It is so often, and I note Peter has seen this as well, that our people, USAID people, seem to know more about what is going on, at least at the grassroots level, than the political officer at the Embassy who is dealing mainly with the foreign ministry. So if we are going to be anticipating problems, we need to be looking at the people who are shaping the politics of the country at the highest levels and leveraging for power, and we need to also understand what the fault lines are under the surface, and that often comes to be the role of the people who are working at the aid mission. And, of course, aid missions are benefited greatly by having Foreign Service national employees who are nationals of the country. They get a good perspective of what is happening in these countries.

Mr. SCOTT. Mr. Atwood, my time is moving short, but let me just ask you this because you have great experience. You go all the way back to the last quarter of a century, I won't tell your age, but certainly going back as far as the Carter administration. So from your experience and perspective, are we making the necessary steps? What recommendations would you make to this coming in new administration to address these problems?

Mr. ATWOOD. Well, first, I think I am pleased that both candidates are internationalists, and I believe that both will be looking seriously at this problem, whoever is elected. I have my preferences. But my recommendation would be that we need to take some major steps to show the rest of the world that we are going to reengage, that international cooperation is going to be the theme of our foreign policy, and I think to some extent that overcomes some of the issues that we have had in the last 6 or 7 years. And that is why, one of the reasons, that I strongly endorse.

And, again, the way I analyze the substance, it comes out suggesting that we should have a new Department for International Development Cooperation, the word "cooperation." What a wonderful gesture if the new President were able to announce something like that. It would be sending a signal to the world that we want

to work with people, with international organizations, with developing countries and the like.

So that is my suggestion, but, I mean, others will disagree. And I don't disagree with what Peter advocates. It is a lot better than the system we have now. He and I have both suggested this in our letter to the HELP Commission. So whichever way the President decides, I think it is important to get the substance right.

Mr. SCOTT. Well, I heard the tap of the chairman. Thank you so much.

Chairman BERMAN. Thank you very much. Hang around, and we will come back for more.

The gentleman from Texas, Mr. Poe.

Mr. POE. Thank you, Mr. Chairman.

Thank you both for being here.

Mr. Atwood, I want to follow up on a comment you just said that our theme in the future, in your opinion, should be an international cooperation. Can you make it simple as to what you think our foreign policy is now? What would you characterize the theme of American foreign policy?

Mr. ATWOOD. I think that the theme has shifted a great deal in the second Bush administration. I think that in the first Bush administration it was a lot of, well, we are the only superpower, and, therefore, we can get things done, and we don't need to have a lot of help. But it has shifted, and I give Secretary Rice a lot of credit for that.

I think things have moved. We are trying to work through multilateral organizations, so increasingly it is becoming a theme of cooperation. And some progress has been made, but there is a good deal to overcome, and Iraq is a big thing that has to be overcome.

Mr. POE. The Foreign Service, people in the Foreign Service are to be commended. I have seen them work overseas in some tough situations. And I have understood that the Foreign Service specifically is engaging in a program to hire folks who this is not their first rodeo, so to speak; in the civilian sector, have come from somewhere else; they are in their forties, maybe early fifties. How is that working out, in your opinion? Either one of you can comment on that.

Mr. ATWOOD. Well, I was—in addition to many of the other things I did, I was dean of professional studies at the Foreign Service Institute. It is true, the average age of newcomers into the Foreign Service has increased, the amount of experience they have. I think it really has benefited us greatly. And a lot of people are attracted to serving their country overseas, and I think it is a good thing that we are taking people in at the midcareer.

Mr. POE. And what about former military? Do you see a place in an effort to recruit former military in different parts of the Foreign Service or civil servants that work overseas?

Mr. ATWOOD. I have worked with several former military in the Foreign Service. If there is a criticism I would have as a former Under Secretary of Management for the State Department, I would say that management needs a good deal of help, and whenever we have seen former military come in, they really know how to manage systems and programs. And I think that is why the State De-

partment should be recruiting those 50-year-olds that are getting out of the military. It is a good source.

Mr. MCPHERSON. This isn't directly responsive to your question, but I think that we need a Goldwater-Nichols piece of legislation between USAID and State. And when you look back, it has been 20 years almost since Goldwater-Nichols, and it has clearly had an important impact on the services working together. I would like to see that for State and USAID.

Mr. POE. All right. Thank you both for being here.

Mr. Chairman, I yield back the remainder of my time.

Chairman BERMAN. I thank the gentleman.

The gentleman from California Mr. Costa is recognized for 5 minutes.

Mr. COSTA. Thank you, Mr. Chairman. I do appreciate the opportunity to have a thoughtful discussion, especially in light of, as both witnesses acknowledged during their testimony, a new administration coming to town next year and an opportunity for a fresh look in what will be a new start obviously on a host of very challenging international issues that America's foreign policy faces.

You know, I am reminded of the fact, as many of us on this committee have gone to the Middle East and South Asia and Africa and other parts of our troubled world, and we think about some of the rhetoric and the debate in the 2000 election about whether or not we are going to be into nation building, I remember that somewhat clearly, and the argument, it seemed to me, was, well, you know, what the role should or should not be as our foreign policy as to whether or not we should be into the business of nation building. And I would argue 7 years later, 7½ years later, that we are into nation building big time at a far greater extent than certainly this President was willing to acknowledge when he was running for the office.

Having said that, it just seems to me when we look at the tools that we have used over the last 7 years, i.e., the State Department, the Department of Defense, USAID, which I witnessed last year in Darfur doing a tremendous job, tremendous effort, under very difficult circumstances, I would like to ask both of you to comment on, and you did in your testimony, but how you would really see in 2009 in this new start, whichever administration comes to town, will have to take in terms of how we separate the roles more distinctly, more clearly to deal with the role that USAID provides or has traditionally provided, and where we can make sure that our Department of Defense or military does what it does best—but I am not sure nation building is one of them—and what the role ought to be for the Department of State with the challenges it undoubtedly will be facing.

Mr. Atwood, do you want to take the first shot at that?

Mr. ATWOOD. Yes, sir.

First, in a post-conflict situation the most important thing to accomplish initially is getting a security umbrella so that the good work can be done to bring about a smooth transition. I would rather, if there are security aspects, if it is important in maintaining that security for the military to build a road because they need to get tanks or trucks down the road to provide security—

Mr. COSTA. I understand they are building roads and schools and water systems.

Mr. ATWOOD. Well, I don't want them building schools and water systems because that is not really their function, because to do those kinds of things, you have to be working with the civilians on the ground in the country. And they would much prefer to be working with civilians from another country rather than the military force that is occupying their country. So there I see a distinction. I mean, I am saying building a road is an exception if you can justify it on security grounds, but not to do the kind of transitional development work that needs to be done, it seems to me, by civilians with civilians from their country.

So that I see as the role, providing humanitarian relief. We bring in a lot of nongovernmental organizations, many faith-based, who don't want to be working with the military, they want to be working with a civilian agency.

Mr. COSTA. But do you think there needs to be a reorganization between the roles of State and Defense in terms of how we take on this task in a more structured way, a clear way?

Mr. ATWOOD. Well, I think there is legislation that the chairman and Mr. Skelton and Ms. Lowey are working on that I think makes a lot of sense, that they—as Peter suggested, a new treaty on how to do this.

Mr. COSTA. Mr. McPherson, my time is running out.

Mr. MCPHERSON. I think unless this is formalized in some way where the bureaucracies really come to—or understand or are given direction that except under extraordinary circumstances, this is what they are each going to do, and you are going have to back that up with resources. If DoD has got the money to build a school, and USAID doesn't, it is going to be built by DoD. And that is fundamentally the issue. It is both money and form. I think it is not practical to expect the Department of Defense to develop the expertise to understand that it isn't just building a new school, it is how that school fits into an overall educational effort and so forth.

So I am all for an agreement, and I think that the very happening of this hearing and the committee's actions to sort this out is very important for the country.

Mr. COSTA. My time has expired, but I think a clarity of responsibility is clearly what we need.

Mr. MCPHERSON. Absolutely. Good for you. I mean, it is an organizational matter.

Chairman BERMAN. The time of the gentleman has expired.

I can see that DoD is a pass-through agency.

The gentleman from Arkansas Mr. Boozman will be recognized for 5 minutes.

Would you yield to the ranking member?

Mr. BOOZMAN. Yes.

Ms. ROS-LEHTINEN. Thank you so much. I thank the gentleman and thank the chairman.

I have two rapid-fire and complex questions. You can answer any one that you wish.

The Secretary of State has announced that State Department personnel will now receive training in development. If that is the case, does that undermine the rationale for a separate aid agency

and a clear demarcation of duties between State, USAID, DoD, as our witnesses have noted? And secondly what is your view on regional-focused assistance programs versus country-specific assistance programs?

Mr. ATWOOD. I will go first.

First, I think it is important for the committee to understand that people who want to do development work are very different from people who want to do diplomatic work, despite the fact that I have been in both places. Development people want to be on the ground. They don't mind if they have dirt in their fingernails. They are in many cases former Peace Corps volunteers. They love that kind of work. They probably don't want to be diplomats, although periodically some of them become ambassadors.

People in the diplomatic service are very smart, they are very—on both sides. People in the development business are very smart, too, but they understand—it is a different profession is the point I am trying to make. They are trained to be negotiators, they are trained to represent their country, they are trained in the diplomatic arts.

Now, I think both sides ought to know more about what the other side does, so I don't mind that kind of cross-training. But I just don't—I think you are trying to force something to happen in basically saying that they are interchangeable. That isn't natural, and it won't happen.

Ms. ROS-LEHTINEN. Thank you.

Mr. McPherson.

Mr. MCPHERSON. Well, I think that both agencies should receive broader training both in development and in foreign policy-related matters. Both have—you can't—those functions can't be easily separated, so both have to train.

I mentioned Goldwater-Nichols a few moments ago. I think this would be really important if we put that in place and had enough people to do it.

As to regional versus country, it really has to be both. And unfortunately, this budgetary process under F has been totally focused on countries. And under MCC by law they can't spend regional money. Where malaria isn't a country problem, it is a regional problem. Developing new sorghum is a problem of Sahel, not the countries. It is an important step that has to be taken. So it is both. And we too much have only country now.

Ms. ROS-LEHTINEN. Thank you.

Any other remarks from either of you?

Mr. ATWOOD. The hope of many of these countries in regions in poor areas, you mentioned the Sahel, the West Africa region, the hope is that they can cooperate regionally, that they can open their borders for trade, that they can do things together, because individually these countries won't make it on their own.

So some do something better than others. We tried in the East Africa region, the countries that can produce more food, to sell that food to countries that can't produce the food. So we have created a regional office when I was there in Southern Africa and one in East Africa. And I think it is really important to look at it from a regional perspective. And it often doesn't happen because of the reasons Peter mentioned.

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

Chairman BERMAN. The time of the gentlelady has expired.

The gentlelady from Texas Ms. Sheila Jackson Lee is recognized for 5 minutes. And I do point out, I am sad to say, that we now are starting—we have 11 minutes left on a series of, I think, starting four votes, but you have 5 minutes.

Ms. JACKSON LEE. Thank you. That is just an ad hoc ring.

Mr. Chairman, thank you very much, and let me, with two hearings going on, apologize for not hearing the testimony. But I think this is one of the most vital hearings of how we reconfigure ourselves and how we make the work that many valiant Americans do every single day around the world count even more than it has traditionally counted over the last, say, 8 years in order to make good on our promise of trying to change the world.

I, frankly, like the idea of a Cabinet-level position for coordination of development. I also like the idea of a creation of a Department of Peace, which I have not heard you gentlemen discuss. It is not the exact question of this hearing, but it is diplomacy. And it means that there is some augmentation of the work dealing with a democratization, peace, recognizing the ability to confront issues without bullets and guns, but to try and focus on educating people about their needs.

So let me pose questions. I saw the impact—for example, one of our most difficult challenges is Pakistan in terms of having the people themselves accept the friendship of the United States, because they have thought that all of the work that we have done has been military base work. Our most favorable posture was when we went in with the Blackhawks during the time of the earthquake, and we were very effective in getting the hearts and minds of people. Obviously they were devastated, and it was not long-standing.

How do we craft our developmental assistance not from a selfish perspective, but from a real perspective? I don't think parents give gifts at Christmastime to children to, in essence, create love, but it is to enhance the affection and the excitement that children have as part of the family. How do we take developmental assistance and be corrective, but also build the building blocks of friendship, long-standing relationships, democratization, viewing the United States' infrastructure as being an important infrastructure? How do we do that? Can you give me, again, your point about a Cabinet level? And if you have any comments on a Department of Peace, which takes the other part of the issue, I would appreciate it.

Do you want to start, Mr. Atwood?

Mr. ATWOOD. Thank you. It is very nice to see you again. We traveled to Africa together on one occasion.

Ms. JACKSON LEE. Yes, we did. Thank you. Welcome.

Mr. ATWOOD. I think the key word here is cooperation. In the Clinton administration we tried to emphasize what we called participatory development. We insisted that our missions negotiate with the entities that we were working with, what we call results packages, basically a contract saying we can achieve the following results, and we can do this together.

I think most people in the development business understand that unless the people of the country are participating with you, nothing gets done. I mean, most of the development challenge is to get good

cooperation from the country itself, so listening to people carefully and letting our program define itself. And that has been difficult, because, believe me, the people in other countries know what our earmarks are here, they know where our money is, and so they tend to organize themselves to go after the pots of money that they know are there as opposed to really thinking about what their needs are.

So I really hope that this committee will look at an authorization bill that provides broad strategic goals, and we can get beyond this earmark issue. We are never going to get totally beyond it, but the fact of the matter is that we need a different, new approach to this.

Ms. JACKSON LEE. I thank you.

I am going to have to yield to Mr. McPherson because of my time. Thank you, Mr. Atwood. I look forward to working with you on that.

Mr. MCPHERSON. I will be very brief. One is we need the capacity to really listen to the countries. We don't understand all the issues from Washington clearly. We all know that. But we have a—I think the MCC mechanism is very interesting. It isn't applicable to everything, but it is a reflection of let us change and let us listen. And you can see some good things coming out of that, in my view.

Two, I don't think it—I think what is important on the Cabinet department versus an infinitely stronger USAID is that we get the issues settled. And I believe that we can settle it, you all can settle it, but I think there is a real possibility you won't unless the kind of leadership I know you will exercise.

Chairman BERMAN. The time of the gentlelady has expired. I know you had an additional thought. We are going to have opportunities to hear those additional thoughts.

Ms. JACKSON LEE. I thank the chairman, and I look forward to this great solution. Thank you.

Chairman BERMAN. I am going to yield myself for 5 minutes. We only have—2 minutes, because we have to be voting in 6 or 7. I am not going to be able to do what I wanted to do, was go through a series of questions with you, because we have four votes that is going to take at least 40 minutes. We were delayed an hour because of our Democratic Caucus. But here are some of the issues I had hoped to explore with you and would like the opportunity to, and I will just throw them out to you now.

Peter, I didn't have a chance to read your testimony before I came here, and I am going to do that after the hearing, but I did Brian's. And on the one hand, Brian, Mr. Atwood, we talk about—you talk about sort of the standards for countries we should be working in, the MCC guidelines, the goals, and to me that is a very appealing. It is almost a merit test. It is sort of this is where the assistance will do the most good, because in a variety of different criteria, we have a government that is going to make the best use of this kind of assistance, has the best process, the best governance, as well as the demonstrated needs.

At the same time you talk about we got to still—it is almost the counter theory, the issue of poverty alleviation. Put aside the humanitarian—short-term humanitarian crisis, but the poverty alleviation goal here is so important that in many cases we have to work

with countries that aren't going to meet the criteria put forth in the Millennium Challenge program.

And I guess my questions, which you don't have time to answer, are, one, I would love to hear you sort of reconcile these sort of different views. And secondly, I am wondering to what extent are things we do in the aid-delivery area where governments aren't performing well, are they short-term benefits that don't sustain themselves, and therefore do we have to make tough decisions with the limited resources we are going to have no matter how much we can take out of the DoD budget for rebuilding capacity? Are there things that we would have to—that have crying needs but we are going to have to forego because whatever we do to address them, because of the nature of the governance in that country, they are going to be fixes that don't last and don't have long-term benefits?

And then the other conflict which both of you are very familiar with is the huge number of initiatives that come out from the President, from outside groups that care deeply about things and come to Members of Congress. You have PEPFAR obviously; HIV/AIDS was a pressure that came from many different places; the President's clean energy initiative; the President's initiative to end hunger in Africa; avian influenza; the President's Malaria Institute; the old fights about how much should go into child survival, the global education programs. What is the process by which we can deal with our, I think, institutional desire to have input into priorities and at the same time reconcile the priorities, each of which is compelling on its own face?

And the further exploration of the earmark area where—less about an initiative than about a country and the push for that. Whatever we do, it is not going to be absolute one way or another. This body will not be capable of avoiding any earmarks. And if everything some Member wants is earmarked, there will be nothing left for any sort of executive branch decision making in terms of authority.

So these are concerns I have, as well as the other issue, aid as the grease to smooth a bilateral relationship on the economic side—forget the military for a second, the economic aid—and how we reconcile the role of that kind of bilateral program. Take Egypt or Pakistan or any of those things, and ways in which we can make sure that assistance, even if it is the necessary grease, does provide the sustainable, long-term benefits to the people of that part of the world and therefore ultimately does serve both our humanitarian interests, but our national security interests.

These are the things I wanted to explore to you. If you want to, we can pursue it informally. If you have thoughts on these, and you want to develop them more for the record here, we can do it either way.

But with that I am going to have to recess, or I am going to miss the vote.

Mr. MCPHERSON. Thank you, Mr. Chairman.

Mr. ATWOOD. Thank you. I would like to provide written responses to those.

Chairman BERMAN. Great.

[Whereupon, at 12:38 p.m., the committee was adjourned.]

A P P E N D I X

MATERIAL SUBMITTED FOR THE HEARING RECORD

PREPARED STATEMENT OF THE HONORABLE SHEILA JACKSON LEE, A REPRESENTATIVE
IN CONGRESS FROM THE STATE OF TEXAS

APRIL 23, 2008

Thank you, Mr. Chairman for convening this hearing, and for taking the lead on beginning the process of modernizing and reforming U.S. foreign assistance. The current system of U.S. foreign aide is broken, and we currently have a unique opportunity to fix this deficiency. I would like to welcome our distinguished panel of witnesses: Dr. Steven Radelet, Senior Fellow, Center for Global Development; Dr. Lael Brainard, Vice President and Director, Global Economy and Development Program, Brookings Institution; Raymond C. Offenheiser, President, Oxfam America; and the Honorable Jim T. Kolbe, Senior Trans-Atlantic Fellow, the German Marshall Fund of the United States and Former Member of Congress. I look forward to your informative testimony.

Globally, over one billion people live on less than one dollar a day. Another 2.5 billion live on less than two dollars a day. 113 million children, worldwide, do not attend school. 11 million young children die every year, and, in the developing world, the risk for women of dying in childbirth is one in 48. More than one billion people still lack access to safe drinking water, and diseases like HIV/AIDS, malaria, and tuberculosis continue to spread. In response to these shocking statistics, in September 2000, world leaders set forth eight Millennium Development Goals, measurable targets for combating poverty, hunger, disease, illiteracy, environmental degradation and discrimination against women.

In addition to the tragic human consequences of these ongoing conditions, there are also undeniable global stability and security concerns. Frustration and desperation give way to anger and violence, and poor governance and economic chaos can allow for the development of terrorist groups. Lack of public health infrastructure can allow outbreaks of disease to become pandemics that threaten all members of the international community.

Mr. Chairman, there is widespread acknowledgement that the U.S. foreign assistance mechanism is broken. The bipartisan, congressionally mandated HELP Commission found a widespread acknowledgement that the U.S. foreign assistance mechanism is broken, stating in its report *Beyond Assistance* that “not one person appeared before this Commission to defend the status quo.” Substantive and deliberately coordinated changes are needed in America’s foreign aid programs.

With the end of the Cold War’s global divisions and the new realities of economic globalization and international terrorism, our nation has entered a new era of promise, possibility, and uncertainty. This means that the United States, the world’s only superpower, has an especially heavy responsibility and vital interest in restoring its reputation in the international community and remaining engaged in all regions of the world.

Foreign aid not only helps developing countries address poverty amongst their people, it also reflects America’s humanitarian values and helps to protect our national security. President Bush recognized the importance of foreign assistance when, in his National Security Strategy of 2002, he elevated global development to be a third pillar of national security, alongside diplomacy and defense.

Despite the importance of a cohesive and effective foreign aid strategy, the last major overhaul of the basic authority governing U.S. foreign assistance programs, the Foreign Assistance Act of 1961, was in 1973. As the HELP Commission states in its report, “the world has changed and U.S. assistance programs have not kept pace.” In today’s post-Cold War world, we face different development challenges, and

the United States has different goals and priorities, than we did when the Foreign Assistance Act was passed. Foreign assistance must be restructured, the legal framework must be synthesized and revised, and the United States government must engage in strategic planning and provide coherent leadership.

Based on the widespread consensus that the current foreign assistance system is broken, we have an opportunity to fix foreign aid. We have at least three options: to maintain the status quo (which I believe is unacceptable); to reform foreign aid goals, strategies, and programs by refocusing and redefining aid; or to reorganize the aid infrastructure and to rewrite the Foreign Assistance Act of 1961. The act has not been comprehensively reauthorized since 1985, and, instead, has accumulated amendments and changes by both Congress and the Executive Branch, to the extent that it now contains over 33 major objectives, 75 priorities, and 247 directives, none of which are prioritized. The Foreign Assistance Act should be rewritten to reflect the development goals and priorities of a world that is vastly different than it was in the 1960s.

Mr. Chairman, I believe that it is imperative that we take this opportunity to develop a clear and coherent strategy for development assistance, based on a common vision. This shared vision should reflect the goals of both the Executive and Legislative branches, as well as the priorities of the American people, and should provide the basis for an integrated approach to delivering development assistance.

Our foreign assistance must be part of a strategy to help developing countries achieve long-term, sustainable economic growth. The global problems of hunger, disease, child mortality, illiteracy, and lack of infrastructure are vast in scope, and demand long-term solutions. This Congress recently emphasized this point, passing legislation designed to transition the PEPFAR program from an emergency response to a sustainable initiative. While foreign assistance can meet immediate and emergency needs, aid alone cannot bring about the crucial changes needed to spur economic growth and stable societies.

As a result, humanitarian assistance, currently at the heart of U.S. efforts to promote development, should be only part of a more comprehensive approach toward the developing world. Aid must be part of a coherent approach involving the diplomatic, commerce, and military apparatus, investing in the capacity of developing states to develop stable economies, live in peace, and uphold the rule of law. As the HELP commission found, "sustained economic growth is necessary to ensure that a country can, over the long term, feed, educate, protect, house, and provide for the health of its citizens. The United States should help developing countries build their productive capacities so that they will be able to sustain themselves."

Key among the revisions of U.S. foreign assistance must also be to reevaluate the role of the Department of Defense. The involvement of the U.S. military in coordinating and delivering foreign assistance has increased in recent years, largely due to efforts in Iraq and Afghanistan, and even Secretary of Defense Robert Gates has advocated strengthening civilian development assistance agencies. According to Oxfam America, the share of U.S. foreign assistance administered by USAID has declined to less than 50%, while the share administered by the Department of Defense has risen from 3.5% to 18% in the past 10 years. Just as military decisions and actions should primarily be undertaken by professional soldiers, foreign assistance should be predominately coordinated and carried out by development professionals.

Mr. Chairman, it is clear that our foreign assistance apparatus is broken, and must be restructured, reorganized, and strengthened to better meet the demands of a new era. The United States must develop and implement a comprehensive approach to foreign assistance that reflects the current state of the world and the priorities of the United States. The American people deserve to know that their tax dollars are being used to the greatest possible benefit, helping alleviate global suffering due to disease, famine, and other catastrophes while also promoting U.S. goals and objectives.

Thank you, Mr. Chairman. I yield back the balance of my time.

PREPARED STATEMENT OF THE HONORABLE JEFF FORTENBERRY, A REPRESENTATIVE
IN CONGRESS FROM THE STATE OF NEBRASKA

APRIL 23, 2008

Mr. Chairman, thank you for convening our distinguished witnesses today to help us grapple with the challenges and opportunities of foreign assistance reform, which will require a significant level of effort in the 111th Congress.

Let me begin by saying we have all witnessed how forces of globalization, technology, politics, and nature have contributed to drastic changes in our world since the Foreign Assistance Authorization Act was signed into law in 1961. With so many lives at stake, we have an obligation to carefully review the assumptions and conclusions which guided our thinking at that time, and to assess their validity in light of the urgent demands of the 21st century.

I am pleased that we are beginning this process early and want to commend in particular the HELP Commission, the Senate Foreign Relations Committee and the Center for Strategic and International Studies for their thought leadership on this critical endeavor.

Given limited federal resources and the vital humanitarian needs which press upon our national conscience, we must ensure that the funds of U.S. taxpayers are managed judiciously to address those needs effectively. I also believe it is important to express a profound debt of gratitude to professionals throughout the foreign aid community, who often work with severely limited resources in the midst of enormous suffering.

As we call for change, it is important to understand that change in and of itself is meaningless unless it is grounded in a thorough understanding of desired outcomes consistent with fundamental principles of human dignity.

And as we consider the paradigms which have guided our foreign assistance efforts to date and adjust to meet the needs of suffering populations in an increasingly complex world, we should also remember that the generosity of the American people and the effectiveness of their outreach continues to be unparalleled in modern history. It is in that spirit that I look forward to working with all of you to help build a better and brighter future for the world's poor.

WRITTEN RESPONSE FROM LAEL BRAINARD, PH.D., VICE PRESIDENT AND DIRECTOR, GLOBAL ECONOMY AND DEVELOPMENT PROGRAM, BROOKINGS INSTITUTION, TO QUESTION SUBMITTED FOR THE APRIL 23, 2008, HEARING RECORD BY THE HONORABLE JIM COSTA, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF CALIFORNIA

Question:

Would each of the witnesses compare and contrast U.S. Foreign Assistance/Aid and what makes it cumbersome with that of other countries? What are other countries doing that makes it less cumbersome?

Response:

U.S. foreign assistance remains unmatched among bilateral donors, but the value of our expended aid dollars exceeds the impact we have on the ground because we suffer from a fragmented, unfocused, and outdated aid apparatus. In my full testimony I detailed some of the ways in which our system is deficient before offering recommendations for reform, and I only briefly mentioned the United Kingdom's Department for International Development (DFID), but there are indeed lessons we can learn from the approaches of other donor countries.

The U.K. reforms of the 1990s are widely credited with boosting the impact of U.K. foreign assistance programs and Britain's influence in the international aid community. The U.K. reforms demonstrated that according development independent status and equal standing alongside diplomacy and defense can yield an enormous payoff. The creation of DFID serves as an example in which fundamental organizational changes resulted in significant improvements in policies and operations while also boosting that donor's international influence. This experience held true to the dictum that form should follow function, since clarity of purpose had already been established.

The *Task Force for Transforming Foreign Assistance for the 21st Century* used such comparative analyses to inform its recommendations for reform of the American system. I recommend, in particular, Owen Barder's chapter in *Security by Other Means* which focuses on lessons from the U.K. experience. He attributes the success of the U.K. development reforms to several factors. These include the value, in terms of coherence and cost-effectiveness, of housing aid in a single government department. Such coherence is further bolstered by an integrated development ministry with a powerful voice at the highest levels of decision-making and influence in policy matters beyond assistance that nonetheless impact developing countries. The U.S. has a far less coherent policy approach that results in failure to take advantage of potential synergies and sometimes leads disparate U.S. efforts (eg. trade and aid) to work at cross purposes. The U.K., through the establishment of legislation that stringently ring-fences funds intended for global poverty reduction and a separate cabinet minister to champion development, has also so far remained true

to its long-term strategy despite pressures imposed by shorter-term exigencies. The U.K. recognizes that development and security are mutually interdependent. While this concept has also been recognized by the Bush administration in its national security strategies, it has not been realized in tangible ways within the American government—in terms of authorities and budgets—to the same degree as in the U.K. Lastly, the U.K. policies reflect a serious belief in significantly leveraging multilateral approaches.

Some of the most effective and generous aid donors, countries like Norway and Denmark, appear to be more singularly focused on economic development. Differing abilities to focus in such a manner, however, could be attributed to differing geopolitical interests and scopes of activity. The U.S. is a superpower and its global development efforts are unlikely to dominate its foreign policy to the degree possible for other donor nations. However, it has become increasingly clear that development must be understood as a key pillar of U.S. national security as well as a vital tool to promote American values and economic interests. Despite such recognition, our government still does not have a strategic process that links our global development objectives with resources in a way that is reflected in budgets. On the issue of strategy, too, it may be useful to observe what other donors are doing. The major U.K. reforms involved crafting and publicizing a series of policy-setting white papers, the first in decades for that country, and these were succeeded by the Parliament's clear and goal-defining International Development Act of 2002. Sweden also recently drafted its own strategic policy for global development.

With regard to the current cumbersome nature of U.S. foreign assistance, there are some practical steps taken by other donor countries that can serve as a model for making our aid more efficient and more effective. The untying of aid is a particularly salient one. Rather than stipulating that our food aid, for example, must be purchased from American farmers and shipped on domestically-registered transoceanic vessels, we could support a faster and more flexible system by at least allowing a sizeable percentage of our food aid to apply toward the local or regional purchase of food. Such a shift would be 25–50% less expensive than American sourcing and shipping and it would save more lives while bolstering agricultural markets in developing countries. Over the course of the past three years, Canada has shifted from 90% tied food aid to 100% untied food aid. As a part of its reforms, the U.K. ceased to link its assistance to British suppliers and contracts, and a number of other European donors have moved away from tied aid in accordance with an agreement of the Organization for Economic Co-operation and Development on untying official development assistance to the least developed countries.

WRITTEN RESPONSE FROM STEVEN RADELET, PH.D., SENIOR FELLOW, CENTER FOR GLOBAL DEVELOPMENT, TO QUESTION SUBMITTED FOR THE APRIL 23, 2008, HEARING RECORD BY THE HONORABLE JIM COSTA, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF CALIFORNIA

Question:

Would each of the witnesses compare and contrast U.S. Foreign Assistance/Aid and what makes it cumbersome with that of other countries? What are other countries doing that makes it less cumbersome?

Response:

The key steps to making our assistance less cumbersome and more effective include (1) clarifying our goals and objectives by preparing a national Strategy on Development (2) Re-writing the foreign Assistance Act, as part of a grand bargain between the Congress and new administration, to reduce unnecessary earmarks, bureaucratic requirements, and restrictions, alongside reducing executive branch mandates and directives; (3) streamline our organizational structure, and (4) increase the funding for and allocation of our assistance monies.

Today's investments in foreign assistance and global development are delivering strong results on economic growth, improving human capacity, enhancing governance and fighting global threats like disease, insecurity and climate change. Over the past decades, our assistance has created the capacity for millions to feed their families through Green Revolution technologies, nearly eradicated river blindness and polio, saved millions of lives through vaccinations, HIV/AIDS treatment and healthcare. That said, U.S. foreign assistance is not delivering the most bang for its buck because it:

- lacks strategic direction and focus (too many objectives and spread over too many countries);

- is too fragmented across the U.S. government, with no clear lead or authority of equal standing with our diplomatic and defense powers and no one point for accountability;
- carries too many restrictions (earmarks, presidential directives and initiatives, tied aid) that often increase costs and reduce the flexibility needed to meet the demands of today's world;
- is not coordinated with other policies that impact our national security and global development efforts (e.g., trade, migration, environment) so we often give with one hand in aid what we then take away in trade tariffs;
- lacks sufficient resources, both financial and human;
- isn't leveraged enough through multilateral channels; and
- does not adequately account for its successes and failures.

One way to compare and contrast the effectiveness, including the clumsiness, of different countries' aid is to examine the Aid Component of CGD's Commitment to Development Index.¹ Most comparisons between donors are based on how much aid each gives, either in absolute terms or as a percentage of GDP. For the CDI, quantity is merely a starting point in a review that also assesses aid quality. The Index penalizes "tied" aid, which recipients are required to spend on products from the donor nation; this prevents them from shopping around and raises project costs by 15–30 percent. The Index also subtracts debt payments the rich countries receive from developing countries on aid loans. And it looks at where aid goes, favoring poor, uncorrupt nations. Aid to Iraq, for instance, is counted at 100 on the dollar, since in Iraq corruption is rampant and rule of law weak. Aid to Mozambique, on the other hand, with its high poverty and relatively good governance, is counted at 770 on the dollar. Finally, donors are penalized for overloading recipient governments with too many small aid projects. When projects are many and recipient officials few, the obligation to host visits from donor officials and file regular reports becomes a serious burden.

The Index rewards governments for letting taxpayers write off charitable contributions, since some of those contributions go to Oxfam, CARE, and other nonprofits working in developing countries. All CDI countries except Austria, Finland, and Sweden offer such incentives. Since the Index is about government policy, it counts only private giving that is attributed to tax incentives. Private giving to developing countries is higher in the U.S. than in most countries, at 100 per person per day. But even adding that to the 250 a day in government aid leaves the U.S. well short of donors such as Sweden and Denmark, which give \$1.00 and \$1.07 a day in government aid alone.

The differences between countries in raw aid quantity are dramatic, and as a result they heavily influence the overall aid scores. The Netherlands and the Scandinavian countries take the top four slots on aid, while Japan and the U.S. end up near the bottom. But quality matters too. Norway edges out Denmark for first place on sheer aid quantity as a share of GDP, but falls to fourth in the CDI for funding smaller projects and being less selective. And the U.S. would score higher if it did not tie some 70 percent of its aid and gave less to corrupt or undemocratic governments in Iraq, Jordan, Pakistan, and elsewhere.

Many countries, including the U.S. through examples like the Millennium Challenge Account, have applied the internally-recognized lessons learned over the past decades of how to make foreign assistance most effective and are applying it to their aid structures, policies and operations. Of particular note is the case of the U.K.'s *Department of International Development*: When Tony Blair's New Labour Party came into power in 1997, it elevated development to equal standing alongside defense and foreign affairs with an immediate creation of a new structure within government with explicit direction in terms of mission and mandate. The three major new changes were:

- *New structure*: An independent ministry, the *Department for International Development*, was created, headed by a member of the Cabinet, with responsibility for aid and development. Like its predecessors, the new department had responsibility for bilateral aid and the funding of multilateral development institutions; but it was also given responsibility for ensuring a joined-up development policy across the Government as a whole.
- *One overarching mission: Poverty reduction*—broadly defined—was identified as the overarching objective of aid and development policy; and quantifiable and measurable global targets were identified by which to track progress to-

¹ http://www.cgdev.org/section/initiatives/_active/cdi/

wards this objective, based on the International Development Targets (which later became the Millennium Development Goals).

- *Mandate*: The concept of development *policy coherence* was introduced, which acknowledged that managing aid spending was only one (and arguably not the most important) part of development policy, and that the new department had a legitimate voice in the formulation of government policy in other areas (e.g. trade, conflict and foreign relations) for which other government departments had primary responsibility.

In a CGD Working Paper 70, Owen Barder notes several key benefits from the new architecture and policies that could inform efforts to modernize U.S. foreign assistance. To note a few:

- Cost and time savings, and increased impact from putting all foreign aid under one department.
- The government untied aid completely, which was estimated to increase the effectiveness of aid by between 15 and 30%.
- DFID gave a higher share of aid as multilateral assistance. Over 1996–2000 DFID provided on average 41% of its aid through multilateral organizations compared with 25% for the US.
- DFID’s singular mission of poverty reduction and economic growth provided clear guidance for the targeting of aid to the poorest countries with success measured in terms of numbers of people lifted out of poverty. The mission and the cabinet level voice, as well as provision of a substantial amount of funding under the direction of Foreign Affairs Ministry for geopolitical objectives, protected long-term investments from being diverted to short-term non-development activities.

WRITTEN RESPONSE FROM MR. RAYMOND C. OFFENHEISER, PRESIDENT, OXFAM AMERICA, TO QUESTION SUBMITTED FOR THE APRIL 23, 2008, HEARING RECORD BY THE HONORABLE JIM COSTA, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF CALIFORNIA

Question:

Would each of the witnesses compare and contrast U.S. Foreign Assistance/Aid and what makes it cumbersome with that of other countries? What are other countries doing that makes it less cumbersome?

Response:

Some of the best work on this subject is done by our colleagues at the Center for Global Development, through their annual “Commitment to Development Index.” We would certainly recommend that work to anyone seeking to answer this question.

Oxfam America can make some general observations on this subject, as we did in our recent report entitled “Smart Development.”

One key area where U.S. assistance lags behind our allies is on empowering poor countries to lead on their own development strategies. Perhaps the most powerful indicator of a donor’s willingness to put a country in the driver’s seat is non-project aid-funds that are channeled directly to a recipient country, which then determines how that funding should be spent in service of its development strategy. Evidence across Burkina Faso, Mozambique, Uganda, Vietnam, and other countries suggests that non-project aid can effectively strengthen public financial management and improve access to services such as education and health care. The key to making non-project aid work lies in strengthening states’ accountability and transparency toward their own citizens, and recognizing that in dysfunctional states, non-project aid can be expected to deliver very little.

Despite the benefits of non-project aid, legislative constraints render it almost impossible for the U.S. to provide aid. A September 2007 report by the Organization for Economic Cooperation and Development (OECD) found that of 25 major donors, few countries gave less in nonproject aid than the U.S. While the British gave 41 percent and the EC 31.5 percent, the U.S. gave less than 4 percent. Similarly, no major donor makes less use of recipient governments’ procurement or public finance management systems for its funding.

As a result, we would recommend that the U.S. government harmonize all non-humanitarian and fragile-state funding with existing development plans of recipient countries, and ensure those plans are genuinely owned and driven by the countries. Fulfilling this recommendation will require giving more authority to U.S. decision

makers in the countries, liberating the allocation of funding from achieving narrowly focused earmarks, objectives, purposes, and goals; and then committing to letting countries lead.

Furthermore, we would recommend that the U.S. recommit to supporting the MCC. As an implementing agency devoted to poverty reduction and state ownership, the MCC deserves the funding it was originally promised—\$5 billion a year. While the MCC is far from perfect, both in delivering results for citizenries and in giving real ownership to both states and citizenries, if it continues to focus strategically on both, over time it will strengthen the standing of the U.S. as an effective and principled development partner.

Finally, if the U.S. truly wants to become a smart development leader, U.S. policy makers should increase nonproject aid to developing country governments that have credible and transparent accounting and coherent development strategies. Increasing the percentage of funds going toward non-project aid would strengthen the legitimate agenda of recipient country governments.

Country ownership is also undermined by the appropriations process, which rewards agencies for delivering narrowly defined controls on a year-to-year basis and provides little space for handing over controls to foreign states or their citizens. With the notable exception of the MCC, U.S. development agencies are prohibited from committing funding over the long term, making it difficult for operational agencies and recipient governments to plan. It is little wonder that in a 2004 Oxfam International survey, developing countries also rated the U.S. as their weakest partner in terms of committing to the long term. We believe the U.S. should allow for multi-year commitments of U.S. foreign aid. Until U.S. development agencies have mechanisms that assure funding over five years or more, recipients will never be able to plan or allocate U.S. funding strategically, let alone exercise genuine ownership over this aid.

“Tied Aid” is yet another area where U.S. assistance compares unfavorably with many of our allies. The U.S. ties its aid when it requires a recipient to spend some or all of its funding on American goods and services. Of the more than \$2.6 billion in aid that the U.S. reported to the OECD’s Development Assistance Committee (DAC) for 2005, less than \$200 million was untied aid—about 7 percent of U.S. foreign aid measured against an average donor country ratio of 82 percent. From 2002 to 2004, one analysis estimated that the U.S. tied an annual average of \$6 billion to the purchases of U.S. goods and services. In short, the U.S. ties more aid than any other donor.

All things being equal, there would be little harm in seeking auxiliary benefits from aid for the U.S. economy. But all things aren’t equal. When aid goes on a round trip back to the U.S., the security and developmental impact of aid on poverty reduction is reduced—if only by the sharply discounted value of buying high-cost U.S. products and services. It is U.S. taxpayers and poor people around the world who are paying the price.

First, if development aid is an important element of the U.S. national security strategy, tied aid sends precisely the wrong message to the public whose support it seeks to garner. As a Ugandan respondent said in an Oxfam Great Britain donor survey, “USAID is notorious for using U.S. inputs, especially consultants. ‘All the money goes home’ is a popular saying with USAID.”

Second, there are cost inefficiencies. When food or other goods paid for by USAID are shipped abroad, they must be transported by U.S. ships, regardless of price. USAID has paid U.S. carriers as much as \$87.95 a ton even though the rate for some foreign ships has been as low as \$21.95 a ton.

Third, there are delivery inefficiencies. When Ethiopia faced its worst food emergency in a decade, USAID’s vegetable oil stocks were still being shipped out from the U.S. Local USAID staff requested permission from the headquarters in Washington, DC, to make local food purchases but were refused, apparently after pressure from the U.S. farm lobby.

Fourth, those procurement restrictions often eliminate options for local delivery. For example, in Cambodia, USAID-funded NGOs must award contracts over a minimum threshold to U.S. companies. In one case, this would have forced a local health care NGO to buy oral rehydration salts at four to five times the price of locally available sachets. With the notable exception of the MCC, the legislation for which has no “buy America” clause, procurement constrictions on U.S. foreign aid consistently prioritize a form of short-term results—revenues for U.S. companies and consultants—over the longer term impact on poverty.

Fifth, the U.S. spends more on international technical assistance than any other donor—almost half its ODA by one account. The bulk of that funding goes to U.S. consultants whose real expertise is often knowing how to adhere to complex U.S. procurement and administrative procedures rather than having knowledge of con-

text, experience in the field, language skills, or a long-term poverty reduction orientation.

Oxfam America would recommend that the U.S. make efforts to untie its aid. Tied aid undermines the developmental impact of U.S. foreign assistance, handcuffs the ability of U.S. in-country staff to identify the most cost effective mechanisms for delivering results, and undermines the long-term political and security agenda by sending the message that the real purpose of U.S. foreign assistance is to line the pockets of U.S. businesses.

More background on this subject can be found in our January 2008 report “Smart Development,” which we are including as part of the response to this question.

WRITTEN RESPONSE FROM THE HONORABLE JIM T. KOLBE, SENIOR TRANS-ATLANTIC FELLOW, THE GERMAN MARSHALL FUND OF THE UNITED STATES (FORMER MEMBER OF CONGRESS), TO QUESTION SUBMITTED FOR THE APRIL 23, 2008, HEARING RECORD BY THE HONORABLE JIM COSTA, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF CALIFORNIA

Question:

Would each of the witnesses compare and contrast U.S. Foreign Assistance/Aid and what makes it cumbersome with that of other countries? What are other countries doing that makes it less cumbersome?

Response:

There are over 20 US agencies and departments involved in foreign assistance. We do have the “F process” with USAID and the Department of State to help make US aid more coherent, but that only covers these two main agencies. A significant share of US aid remains outside the process—by some estimates more than half. In addition to the F process, other channels for cooperation do exist. For instance, the Secretary of State, the Secretary of Treasury, the US Trade Representative, and Administrator for USAID sit on the Board of the MCC. Both the MCC and USAID cooperate on MCC Threshold programs and other activities on the ground. PEPFAR is effectively tasked with coordinating the entire US government’s response to the global AIDs crisis and allocates part of its budget to USAID, the Department of Defense, the Department of Labor, the Peace Corps, U.S. Department of Health and Human Services (HHS). Yet, overall, the US aid system remains very fragmented and requires rationalization.

There are lessons to be learned from other aid agencies and reform initiatives. German development policy consists largely of two agencies: BMZ oversees development policy direction, interaction with other parts of the government and work with the G8, while GTZ implements projects on the ground. The later is similar to USAID in this regard. However, this division of labor masks redundancies and there is duplication in many areas in the German development system. Nevertheless, the German system does not suffer from having so many agencies as the US and the two primary agencies do allow for a more coherent approach. This is not to say the German system represents best practice as such. But, it is less fragmented compared to the US system.

The United Kingdom’s aid institutions underwent reforms in the 1990s with the creation of the Department for International Development (DFID). The UK offers some unique differences compared to the US. One major difference is DFID is represented in the Cabinet of the British Government by the Secretary of State for International Development (who is an MP) and DFID is also represented in the House of Commons by three Parliamentary Under-Secretaries of State. DFID and the UK parliament have a somewhat closer and more uniform relationship compared to the relationships between numerous executive aid agencies and the Congress in the US. Oversight is also more streamlined with the UK parliament’s International Development Committee responsible for examining the expenditure, administration and policy of DFID and its associated public bodies. This Committee was created as part of the reforms that occurred in 1997. So, one lesson here would be to consider how Congress reforms itself as we reform our aid agencies to ensure coherence in oversight, legislation, and budgeting. DFID’s legislative mandate is much more simplified—is it to “reduce poverty.” DFID’s funding cycle is three years allowing for greater predictability and stability in aid flows—this anchors incentives in the aid recipient country so that programs are more sustainable and less subject to being reduced or eliminated. Unlike USAID, which is limited in its ability to promote itself, DFID activity fostered support for development in the formal education

sector, the media, business and trade unions and the various faith communities and also closely monitors public opinion on development.

WRITTEN RESPONSES FROM LAEL BRAINARD, PH.D., VICE PRESIDENT AND DIRECTOR, GLOBAL ECONOMY AND DEVELOPMENT PROGRAM, BROOKINGS INSTITUTION, TO QUESTIONS SUBMITTED FOR THE APRIL 23, 2008, HEARING RECORD BY THE HONORABLE DIANE E. WATSON, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF CALIFORNIA

Question:

Haiti is the number one humanitarian disaster in the Western Hemisphere. Many Haitians have been reduced to eating mud cakes—literally eating baked earth—in order to satisfy their hunger pains. This is not the first time that Haiti has been hit with a humanitarian crisis. It is a regularly recurring event due to other factors such as ongoing political instability, weak governance, and gross environmental degradation. As a case study, how should U.S. assistance to Haiti, once the humanitarian crisis is brought under control, be restructured to bring about long-term, sustainable development to the country?

Response:

Haiti faces daunting challenges in terms of extreme poverty, environmental degradation, economic and agricultural fragility, and political instability. It is a particularly tough case and ultimately Haiti's future is in Haiti's hands, but we could be more effective with our assistance than we have been. Our repeated emergency interventions in Haiti serve to highlight the emphasis within our foreign policy on crisis response. The U.S. must place higher priority on long-term preventive development strategies for engagement with weak and failing states since they often cycle back into conflict after stability has been established. This rings especially true in light of the research explored in *Too Poor for Peace?* which suggests that violent conflict can be driven by poor economic outcomes and that economic growth can reduce the risk of conflict.¹

Of the panelists who were asked this question, the representative of Oxfam is the only one from an organization with a current field perspective. He is therefore best poised to respond on the specifics of how best to structure assistance to Haiti in particular.

Question:

Some have described the aid community in Washington, D.C. as a closed, somewhat in-bred community where former employees for USAID either retire or leave the Agency and then set up shop as aid consultants, who then turn around and submit funding proposals to their former employer. Does this raise questions among any of you about the effectiveness of the USAID contracting process and, if so, what needs to be done to change the contracting process?

The findings of the *Task Force for Transforming Foreign Assistance for the 21st Century* highlighted that the contracting system in USAID presents concerns. The 2005 conference of USAID Mission Directors included recommendations to resume using USAID staff to design and manage programs as opposed to an over-reliance on contractors. This suggests that the agency has indeed been overly reliant on contractors, and given the weakened capacity of USAID, it is not currently able to exercise appropriate program design and oversight over contracting and procurement. Within the past decade, reductions in the number of direct-hire staff were accompanied by significant increases in foreign assistance spending, creating greater pressure on fewer qualified people to allocate money. As noted in my full testimony, between 1998 and 2006, aid disbursement per staff member grew by 46 percent to \$2 million, and even this figure far underestimates the actual increase for authorized contracting officers and those with warrants to allocate funds. The result is that the agency passes on increasingly large-scale projects to contractors who then turn the work over to others as they manage a process of subcontracting. This phenomenon is not limited to USAID or development assistance, as we have seen in it in our security assistance, as well.

Our government should take a closer look at our contracting processes. There can be many benefits to outsourcing, but to be effective our development programs must retain core competencies in house. To maintain responsible oversight and avoid waste, our development institutions require strengthened capacity and an increase

¹ See Edward Miguel's chapter in Lael Brainard and Derek Chollet, ed. *Too Poor for Peace? Global Poverty, Conflict, and Security in the 21st Century* (Brookings Institution Press, 2007).

in personnel. USAID in particular has experienced such an erosion of specialized technical expertise that any personnel increase must include close attention to the types of staff that are hired. To strengthen our development programs, the government must hire more contract and evaluation specialists as well as scientists, engineers and economic analysts.

Additionally, the elevation of the development mission as a national priority would raise morale and enable our government to attract the most talented professionals in the field. This was the case in the United Kingdom after the creation of the Department for International Development in the 1990s—new recruits to the British civil service began overwhelmingly seeking out positions in development over Treasury and the Foreign Office (see Owen Barder's chapter in *Security by Other Means*, Lael Brainard, ed.). Increased morale bodes well for retention. Combined with reforms to human resources and contracting policies, this could serve to stem, in part, the phenomenon of the U.S. government's development professionals leaving to work as aid consultants.

Question:

The OXFAM report on aid reform raises concerns about the U.S. Africa Command, or AFRICOM, and specifically about the potential of AFRICOM to become the dominant player in civilian-led development functions in Africa. The militarization of aid is a recurring theme in the report. Would you please elaborate your concerns. Can the military effectively carry out any long-term aid functions? If so, what are they? How would you characterize the DOD's record on reconstruction in Iraq and Afghanistan? Have any lessons been learned from the Somalia experience?

Response:

The Department of Defense has indeed initiated its own reforms in light of our nation's weak aid infrastructure. The most salient of these was the establishment in November 2005 of DOD Directive 3000.05 on "Military Support for Security, Stabilization, Transition, and Reconstruction Operations," which affirmed through doctrine that stability operations are central to the Department's mission alongside war-fighting. As noted in my full testimony, the Department of Defense has also significantly expanded its role as a direct provider of foreign assistance to bolster the capacity of weak and failing states, increasing its share of U.S. official development assistance by more than 15 percent between 2002 and 2005. These activities, as well as the wide-reaching mission the Pentagon recently attributed to the fledgling African Command, are emblematic of a tendency for DOD to fill a void resulting from weaknesses in operational civilian capacity. Reliance upon this military-led gap-filling tendency with regard to a broad range of conflict prevention and stabilization interventions even in permissive environments, however, is fundamentally unwise. Over time, it would increasingly tax an overstretched military for roles it was not trained to undertake and undermine the investments necessary to build up civilian capacity in a self-perpetuating spiral.

In the future, the Department of Defense should have a strong supportive role in certain foreign assistance activities, particularly in non-permissive environments and contexts suited to the specific strengths of our military, such as military training. Systematic strengthening of our operational civilian capabilities for foreign assistance should take the burden off of DOD for filling a capacity vacuum, enabling the military again to focus on its core capabilities and objectives.

Question:

Decades of research and experience have shown that gender inequality is a significant constraint to achieving sustainable, long term economic growth and widespread poverty reduction. If we want our foreign assistance dollars to be more cost-effective, we must ensure that our international assistance reaches both women and men in developing countries, as women are more vulnerable to poverty. Accordingly, the importance of integrating gender into program strategies and implementation is widely acknowledged, and is key to effective development. However, to be truly effective and efficient, gender integration also needs to play a critical role up front, at the strategic level of determining the overall goals and priorities of assistance, and in the organizational structure of a new or reformed agency. Otherwise, the new agency will continue to lack the mechanisms, resources and capacity required to systematically integrate gender across foreign assistance programs. How can we ensure that gender is built into a reformed foreign assistance structure up front so that we can remedy this problem?

Response:

Projects that do not incorporate gender analysis as part of their initial and ongoing assessments often suffer as a result. When development initiatives—such as

microcredit services or livelihoods projects or conditional (on education and health actions) cash transfer programs—are specifically oriented toward women, they often prove to be more effective in benefiting poor families and communities overall while also improving the socio-economic status of local women. Women’s empowerment is a vital means of countering widespread gender-inequality and violence against women. It can also be key to successful conflict resolution efforts. Given these field realities, it is not a surprise that abundant research supports a central focus on gender and women’s issues to ensure maximal effectiveness of our poverty reduction efforts.

Modernization of our foreign assistance system offers a major opportunity to incorporate a gender perspective at the core of operations and planning along with other best practices across our assistance programming. On the one hand, as with other areas of technical development expertise, a modernized U.S. foreign assistance system could benefit from more trained professionals in gender and women’s issues to advise in the design, monitoring and evaluation of development projects. On the other hand, mainstreaming gender and women’s issues into improved training for a revitalized cadre of international development officers could also be a part of any future reform process. Ideally, some combination of these two approaches may work best. A modernization of our assistance system should also involve the inclusion of gender and women’s issues as a cross-cutting concern within our national strategy for global development.

WRITTEN RESPONSES FROM STEVEN RADELET, PH.D., SENIOR FELLOW, CENTER FOR GLOBAL DEVELOPMENT, TO QUESTIONS SUBMITTED FOR THE APRIL 23, 2008, HEARING RECORD BY THE HONORABLE DIANE E. WATSON, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF CALIFORNIA

Question:

Haiti is the number one humanitarian disaster in the Western Hemisphere. Many Haitians have been reduced to eating mud cakes—literally eating baked earth—in order to satisfy their hunger pains. This is not the first time that Haiti has been hit with a humanitarian crisis. It is a regularly recurring event due to other factors such as ongoing political instability, weak governance, and gross environmental degradation. As a case study, how should U.S. assistance to Haiti, once the humanitarian crisis is brought under control, be restructured to bring about long-term, sustainable development to the country?

Response:

Of the panel of witnesses at the hearing, Ray Offenheiser, given the extensive on-the-ground representation of Oxfam, brings the most direct experience to answering this question. That said, as a starting point, as we all know the future of Haiti is primarily in the hands of Haitians and their leadership. The United States can and should play an important supporting role, but it can only follow and support strong leadership of Haitians themselves. Once the humanitarian crisis is brought under control, it is essential for the Haitian government to quickly develop a strategy that both begins to create jobs and deliver basic services in the very short run, and lays the foundation for sustained long-term development. The United States and other partners can help both the development and implementation of that strategy. It will be critical for Haitians to see the Haitian government working to open clinics and schools and introduce food-for-work or other emergency employment programs to get people back on their feet and see some immediate benefits. At the same time, the government must build the foundation for longer-term development by supporting agricultural production, building access roads that create economic opportunities for the rural poor, reducing the bureaucratic costs facing small businesses, and mimicking the model of its neighbor the Dominican Republic in building business that trade with and export to the United States. U.S. foreign assistance can help support many of these activities, and the U.S. can work in concert with the government and other partners to ensure there is adequate support for all of these activities.

At a broader policy level, unfortunately, the United States is still struggling to craft the strategies, mobilize the resources and align the policy instruments it needs to help reform and reconstruct failing, failed, and war-torn states. Improved U.S. performance in prevention, crisis response, and the long-term process of state building after conflict and after major humanitarian disasters requires a more integrated approach that goes well beyond impressive military assets and humanitarian relief operations to include major investments in critical civilian capabilities and long-term foreign assistance. Ingredients for a more successful approach include embracing prevention as an operating principle; achieving a common vision about the goals

of U.S. action; establishing criteria and methods for determining when and where to engage; clarifying interagency leadership within Washington and in the field; improving civil-military planning and coordination; developing a standing civilian surge capacity and relevant technical skills; and providing significantly higher funding to support U.S. civilian engagement in failing and post-conflict states. Reconciling the conflicting cultures, mandates, operating procedures and time horizons of government departments and agencies will be a recurrent challenge. Reforming U.S. foreign assistance to meet the challenges of today's world is a critical component of a successful response. Translating the American public support that exists for humanitarian assistance to support for investments in long-term development assistance that helps to build the conditions for economic growth, job creation and social services critical to Haiti's (and other developing countries') security and prosperity is an investment in our own security and prosperity.

It is also important to bear in mind that foreign assistance is no panacea. Stronger and larger foreign assistance programs alone will not be enough to achieve U.S. foreign policy goals. Policies affecting trade, migration, capital flows, governance, and climate change, among others, all influence our relationship with developing countries, and the most important factors in the development process are the policies of developing countries themselves.

Question:

Some have described the aid community in Washington, D.C. as a closed, somewhat in-bred community where former employees for USAID either retire or leave the Agency and then set up shop as aid consultants, who then turn around and submit funding proposals to their former employer. Does this raise questions among any of you about the effectiveness of the USAID contracting process and, if so, what needs to be done to change the contracting process?

Response:

There is no question that there are very good consultants and very good U.S. contractors doing important development work on behalf of USAID, and that there are also weaker ones that are less effective. But the root issue is not former USAID employees that leave the agency to join these contractors so much as the twin problems of (1) outdated and cumbersome legislation and executive mandates and (2) the weakened professional capacity at USAID. The Foreign Assistance Act of 1961 is out-of-date and in dire need of updating and re-writing. Over time, in an effort to update without reauthorizing the FAA, hundreds of amendments have added multiple objectives and priorities that in some cases conflict with one another, rendering it ineffectual as a rational policy framework. Dozens of executive directives add to the problem, making our aid programs administratively burdensome and less effective than they could be. This structure creates strong incentives for private firms to hire some of USAID's best talent because they have the most in-depth knowledge of how to work through the bureaucratic tangle. Solving this problem will require re-writing the FAA and reducing the number of earmarks, requirements, and executive mandates.

With respect to the related problem of weakened professional capacity, USAID is but a shadow of its former self, and has changed from a strong development policy organization to largely a contracting agency. A critical and urgent issue is to increase the quantity and rebuild the quality of the human and intellectual capital required to meet our diplomacy, development, conflict and humanitarian needs. The U.S. government needs a high performing civilian development corps, with rapid response capability and priorities that are aligned with a national security strategy and a global development strategy. The fact that there are more people employed as musicians in Defense bands than there are by the entire Foreign Service is a startling reflection of the deterioration over time of our civilian national security, economic and moral-value powers.

Question:

The OXFAM report on aid reform raises concerns about the U.S. Africa Command, or AFRICOM, and specifically about the potential of AFRICOM to become the dominant player in civilian-led development functions in Africa. The militarization of aid is a recurring theme in the report. Would you please elaborate your concerns. Can the military effectively carry out any long-term aid functions? If so, what are they? How would you characterize the DOD's record on reconstruction in Iraq and Afghanistan? Have any lessons been learned from the Somalia experience?

Response:

One of the most striking trends in U.S. foreign assistance policy is the surging role of the Department of Defense (DoD). The Pentagon now accounts for over 20

percent of U.S. official development assistance (ODA). DoD has also expanded its provision of non-ODA assistance, including training and equipping of foreign military forces in fragile states. These trends raise legitimate concerns that U.S. foreign and development policies are being subordinated to a narrow, short-term security agenda at the expense of broader, longer-term diplomatic goals and institution-building efforts in the developing world. CGD research by Stewart Patrick and Kaysie Brown¹ attribute the Pentagon's growing aid role to three factors: "the Bush administration's strategic focus on the "global war on terror"; the vacuum left by civilian agencies, which struggle to deploy adequate numbers of personnel and to deliver assistance in insecure environments; and chronic under-investment by the United States in non-military instruments of state-building."

It is critically important that DoD not overreach or make permanent its role in foreign assistance and other civilian efforts. DoD's encroachment on development activities is partially the result of the weaknesses in USAID and other agencies, which in turn is partly due to the out-of-date legislation and burdensome executive directives that the agency faces. One of the key steps to ensure that DoD sticks to its core competencies is to strengthen the core competencies of USAID and other assistance agencies. This will require fully modernizing and updating our assistance programs through new legislation, structural reorganization, and other steps to strengthen civil capacities.

With regard to AFRICOM, there are some potential positive outcomes and some legitimate concerns. On the positive side, its creation is a welcome reflection of Africa's growing importance in the U.S. national security discourse; it is an attempt to streamline DoD's fractured lines of responsibility for Africa; and it is an attempt to put into practice the integration of the "3-D's"—defense, diplomacy and development—by housing experts from each DoD, State and USAID under one roof. Its presence on the ground—limited in numbers—could help provide a signal that could help strengthen security and stability in some strong U.S. allies, such as Liberia (as full disclosure, I serve as an advisor to the government of Liberia).

That said, concerns exist over how AFRICOM's interagency process will coordinate with other U.S. programs and activities—and how DoD will ensure that its military activities do not compete with, undermine, or overshadow U.S. development and diplomatic objectives. And given the resource imbalance between the U.S. military, on the one hand, and the State Department, USAID and other civilian agencies, on the other, there is some risk that the aid activities of the Pentagon and AFRICOM could come to overshadow both symbolically and substantively the civilian aspects of U.S. engagement in the developing world. The resultant over-emphasis on short-term military dimensions of the global war on terrorism—as opposed to a more comprehensive strategy to addressing the long-term root causes of poor governance, instability and extremism in countries at risk—could have unintended consequences similar to those that arose during the Cold War, when the United States often purchased short-term acquiescence at the expense of long-term stability and sustained development.

Question:

Decades of research and experience have shown that gender inequality is a significant constraint to achieving sustainable, long term economic growth and widespread poverty reduction. If we want our foreign assistance dollars to be more cost-effective, we must ensure that our international assistance reaches both women and men in developing countries, as women are more vulnerable to poverty. Accordingly, the importance of integrating gender into program strategies and implementation is widely acknowledged, and is key to effective development. However, to be truly effective and efficient, gender integration also needs to play a critical role up front, at the strategic level of determining the overall goals and priorities of assistance, and in the organizational structure of a new or reformed agency. Otherwise, the new agency will continue to lack the mechanisms, resources and capacity required to systematically integrate gender across foreign assistance programs. How can we ensure that gender is built into a reformed foreign assistance structure up front so that we can remedy this problem?

Response:

I share your belief that gender inequality can be a constraint to economic growth and poverty reduction. Indeed, many countries with high levels of gender inequality also experience high levels of poverty. I think there is broad recognition—both internationally and within the U.S. aid community—that in order to maximize the impact of development programs on economic growth and poverty reduction, recipient

¹ <http://www.cgdev.org/content/publications/detail/14815>

countries and donors should use an analysis of gender differences and inequalities to inform the development, design, implementation and monitoring of assistance programs. The U.S. Millennium Challenge Account is the most recent good-practice policy model in this respect, although monitoring the translation of their good policy to operational practice will be important. The key to impactful gender integration, however, is not only to ensure that our assistance programs are guided by strong gender policies but that these policies are embedded in recipient country national security and economic strategies.

WRITTEN RESPONSES FROM MR. RAYMOND C. OFFENHEISER, PRESIDENT, OXFAM AMERICA, TO QUESTIONS SUBMITTED FOR FOR THE APRIL 23, 2008, HEARING RECORD BY THE HONORABLE DIANE E. WATSON, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF CALIFORNIA

Question:

Haiti is the number one humanitarian disaster in the Western Hemisphere. Many Haitians have been reduced to eating mud cakes—literally eating baked earth—in order to satisfy their hunger pains. This is not the first time that Haiti has been hit with a humanitarian crisis. It is a regularly recurring event due to other factors such as ongoing political instability, weak governance, and gross environmental degradation. As a case study, how should U.S. assistance to Haiti, once the humanitarian crisis is brought under control, be restructured to bring about long-term, sustainable development to the country?

Response:

The immediate answer is that we need to respond quickly and humanely, but also intelligently. What we should not do is flood Haiti with too much cheap food if there is a chance that doing so would undermine local farmers. That would only perpetuate this cycle of lurching from crisis to crisis.

In response to the Asian tsunami in 2004, the international community started sending food with little analysis of the local food market. It turned out that sufficient food was available either locally or in the region. Both Sri Lanka and Indonesia were in the middle of excellent rice harvests at the time.¹ The result is that local farmers, who have already been hit with a natural disaster, were hit with a man-made one, in the form of severely depressed crop prices.

We need to have smart development strategies ready to go at the time of the emergency, and do a better job of resourcing and implementing them, so that the humanitarian actions we take in the short term do not undermine a longer term development strategy that could help a country to better cope with a disaster on its own, or even avoid disaster altogether.

We have done this well in the past. USAID's response to Hurricane Mitch in Central America is a good example. After Hurricane Mitch struck parts of Honduras, Nicaragua, and the Yucatan Peninsula in 1998, international relief efforts began almost immediately. USAID's efforts in Honduras provided not only immediate relief to the communities affected, but also generated a sustainable long-term impact through financing the Food-for-Work program, clean-up efforts, and reconstruction of local infrastructure.

But in the longer term, what is going on in Haiti right now is symptomatic of our lack of a thoughtful strategy for supporting weak and failing states. How many times have we seen these man-made crises in Haiti over the last few decades? Each time, we swing into action when the crisis is upon us, but then gradually our attention turns elsewhere. We have not done what we need to do to help Haitians feed themselves, and help them build a stable government.

The way in which donors did bilateral and multilateral aid (particularly the IMF) in Haiti in the 1990s transformed the country from a net food producer to a net food importer. The current food crisis has been exacerbated by a longstanding crisis in Haiti's agricultural sector partially of our own making. We need to deliver aid to Haiti and elsewhere in a way that strengthens, rather than undermines, the relationships between citizens and their government.

Moving forward we would suggest that our strategy for supporting Haiti's development include the following objectives. First, we need to help Haitians rebuild the capacity of their own institutions to deal with their national challenges. These include government ministries, the parliament, police, public administration, and cus-

¹Oxfam International, "Making the case for cash: Humanitarian food aid under scrutiny," Oxfam International Briefing Note, April 8, 2005: 2, http://www.oxfam.org.uk/resources/policy/conflict_disasters/downloads/bn_cash.pdf

toms and tax collection. Also, we need to support their efforts to implement and measure their own national development strategy. Currently, this strategy is embodied in the Haitian government's Poverty Reduction Strategy Paper, but the process could be improved with broader consultation, and Haitian government agencies need sufficient resources to play their role; hence the need to support revenue collection to create those resources. Second, we need to support Haiti in the fight against crime, drug trafficking and corruption. This will generate the public trust necessary for Haiti to move forward with its development agenda. Third, we should build a long term foreign aid strategy for Haiti focused on key strategic issues: environment, education, justice, and job creation. We should particularly target policies and programs that support the role of small agricultural producers in providing food security. Policies neglecting this sector throughout the 1990s ended up dismantling domestic capacities to produce food and transforming Haiti into a net food importer. Finally, our strategy must promote and respect consultations with other donors and with national authorities as well as civil society. Any development plan can only be sustained when it engages and listens to the people it seeks to assist. The strategy should engage the Haitian government and people as partners, and focus on meeting measurable objectives in Haiti's PRSP.

Question:

Some have described the aid community in Washington, D.C. as a closed, somewhat in-bred community where former employees for USAID either retire or leave the Agency and then set up shop as aid consultants, who then turn around and submit funding proposals to their former employer. Does this raise questions among any of you about the effectiveness of the USAID contracting process and, if so, what needs to be done to change the contracting process?

Response:

Contractors are not bad per se. But the current system, in which USAID has been turned into little more than a contracting agency with little or no capacity to understand and respond to local conditions is bad. The fact that contractors have little or no incentive to measure their work against long term development outcomes is what hobbles our development efforts.

At its core this problem has been created by our failure to properly resource and equip USAID over the past two decades. The one agency that is supposed to lead our development agenda, USAID is currently being asked to manage billion dollar budgets with a skeletal staff that turns over much too often. When we talk to USAID contracting officers, they are over-stressed and over-stretched. Instead of deepening their knowledge of the culture, politics, languages and priorities of poor people, USAID staff have time only to shovel funding out the door. In Afghanistan, over 50% of USAID funding goes to five American for-profit contractors, who spend a significant proportion of their money on U.S. consultants, while we give almost nothing to the Afghan Government itself to demonstrate to the Afghan people that their government works for them.²

There is a role for contracting in development work. For-profit contractors can often operate on a larger scale and fulfill the complex reporting requirements of the current US foreign aid bureaucracy. Yet since their mission is contract compliance, they have few incentives to manage for actual development results over time, and therefore focus heavily on inputs dictated by the letter of their USAID contracts. In addition, when they hire U.S. consultants to do the work, they take a large share of development funding out of the countries where we should be leaving an impact.

Operational NGOs often bring years of experience working in local contexts, capable national staff and significant capacity to deliver sustainable and effective programs over time. However, because they believe in local ownership, they often demand more time to get programs started, and more discretion for local communities in the design and execution of programs. We need to build a U.S. government development strategy that supports and encourages this longer term-thinking, regardless of who ends up executing a particular plan or project.

Question:

The OXFAM report on aid reform raises concerns about the U.S. Africa Command, or AFRICOM, and specifically about the potential of AFRICOM to become the dominant player in civilian-led development functions in Africa. The militarization of aid is a recurring theme in the report. Would you please elaborate your concerns. Can the military effectively carry out any long-term aid functions? If so, what are they?

² See the Agency Coordinating Body for Afghan Relief, (ACBAR) Falling Short: Aid Effectiveness in Afghanistan (April 2008):18

How would you characterize the DOD's record on reconstruction in Iraq and Afghanistan? Have any lessons been learned from the Somalia experience?

Response:

The new US African Command (AFRICOM) is intended to acknowledge the real security concerns that African countries face. AFRICOM may be necessary to make US military efforts in Africa more effective. Unfortunately, the integration of civilian development personnel into the AFRICOM structure has raised serious concerns that the US government plans to put development aid dollars in the service of US defense policy. Oxfam is concerned that without a civilian-led effort to focus US aid to Africa more strategically, AFRICOM puts a military face on what should be a non-military goal: long-term development. The military is designed to fight wars and establish security. Those missions are driven by different doctrines and strategies than development and poverty reduction. US development aid towards African countries—and poor countries everywhere—should be led by civilian development professionals, just as military activities should be led by military professionals.

It is true that, in some contexts, soldiers and aid workers find themselves working together in the same environments. But we need to put safeguards in place to ensure that short-term security imperatives do not overwhelm the development agenda.

Question:

Decades of research and experience have shown that gender inequality is a significant constraint to achieving sustainable, long term economic growth and widespread poverty reduction. If we want our foreign assistance dollars to be more cost-effective, we must ensure that our international assistance reaches both women and men in developing countries, as women are more vulnerable to poverty. Accordingly, the importance of integrating gender into program strategies and implementation is widely acknowledged, and is key to effective development. However, to be truly effective and efficient, gender integration also needs to play a critical role up front, at the strategic level of determining the overall goals and priorities of assistance, and in the organizational structure of a new or reformed agency. Otherwise, the new agency will continue to lack the mechanisms, resources and capacity required to systematically integrate gender across foreign assistance programs. How can we ensure that gender is built into a reformed foreign assistance structure up front so that we can remedy this problem?

Response:

There are several steps which Oxfam America believes would equip a new foreign assistance program to actively integrate gender-conscious strategies into its work:

- When re-structuring the agency or creating a new one, the Convention on the Elimination of All Forms of Discrimination against Women (CEDAW), adopted in 1979 by the UN General Assembly, as well as the Inter-American Convention on the Prevention, Punishment and Eradication of Violence Against women “Convention of Belem Do Para” should be a general framework for the agency’s overarching goals and objectives.
- Ensure that the whole structure, from leadership (board, senior leadership and management) to rank and file (country missions) of the new agency have a clear mandate to work and follow up on gender policies, gender equality targets, as well as the latitude to operationalize such mandates.
- Establish a regular share of the institutional budget to fund those structures and programs.
- Consider negotiating with host countries to encourage them to implement program requirements (i.e. on health, education, agricultural development) that direct resources to fix gender imbalances in the country’s own budgetary and implementation process.
- When signing donor-recipient cooperation agreements, establish and monitor indicators related to states’ compliance with specific gender equality benchmarks.
- Establish explicit cooperation strategies with civil society organizations and international NGOs, especially those focused on women’s issues by regions and countries, in order to support follow up of indicators and benchmarks.

WRITTEN RESPONSES FROM THE HONORABLE JIM T. KOLBE, SENIOR TRANS-ATLANTIC FELLOW, THE GERMAN MARSHALL FUND OF THE UNITED STATES (FORMER MEMBER OF CONGRESS), TO QUESTIONS SUBMITTED FOR THE APRIL 23, 2008, HEARING RECORD BY THE HONORABLE DIANE E. WATSON, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF CALIFORNIA

Question:

Haiti is the number one humanitarian disaster in the Western Hemisphere. Many Haitians have been reduced to eating mud cakes—literally eating baked earth—in order to satisfy their hunger pains. This is not the first time that Haiti has been hit with a humanitarian crisis. It is a regularly recurring event due to other factors such as ongoing political instability, weak governance, and gross environmental degradation. As a case study, how should U.S. assistance to Haiti, once the humanitarian crisis is brought under control, be restructured to bring about long-term, sustainable development to the country?

Response:

The question of how to deal with failed and failing states is not one that donor countries have been able to answer. Yet there are a few examples of interventions which have been more successful in terms of both peace operations and also developing longer-term sustainable development, such as El Salvador. Kosovo and Bosnia are example of promise for sustainable examples of post-conflict reconstruction if the final state solutions are resolved. The Institute of Peace has a lot of advice about how to construct a viable peace (see Jock Covey, Michael Dziedzic and Leonard Hawley) including managing against four pillars:

- *Moderating Political Conflict:* that is, a workable peace settlement and then ensuring viable political mechanisms, including a constitution, reconstructed political systems, free and fair elections.
- *Defeating Militant Extremists:* this includes the security aspect, as well as ensuring that spoilers are prevented from derailing peace.
- *Institutionalizing the Rule of Law:* this includes a holistic approach to the legal system, including the Police, Judiciary, lawyers and correction officers; legal codes and procedures, promoting and protecting human rights and so on.
- *Developing a Legitimate Political Economy:* this includes development, quick wins in terms of revived infrastructure, health and education; promoting stabilization funds from international finance institutions, reform of laws and practices to promote enterprise and foreign direct investment.

Often, problems arise if there is a lack of focus and implementation on all four of the areas, for example, if there is emphasis on military and short-term fixes rather than civilian, longer-term approaches. Iraq is a prime example of this. Yet, while security is a critical component of peace, the civilian aspects must run in tandem for development to be secured. Focus on building institutions and promoting good governance are therefore cornerstones which should be funded and prioritized. These are long-term commitments of up to a decade or more which require patience, flexibility and political will from substantial donors. This demands political leadership and courage in the face of calls to withdraw quickly from conflict and post-conflict zones.

Referring to your question on gender here as well, the role of women in peace making and in post-conflict reconstruction has been overly neglected. However, the role that women can play in promoting peace settlements and driving reconciliation is critical—examples include Northern Ireland, Rwanda, Colombia and Liberia. The Initiative for Inclusive Security, founded by Ambassador Swanee Hunt, promotes this agenda both as a policy objective and by offering practical advice and support to female change agents in areas of conflict and post-conflict reconstruction.

Question:

Some have described the aid community in Washington, D.C. as a closed, somewhat in-bred community where former employees for USAID either retire or leave the Agency and then set up shop as aid consultants, who then turn around and submit funding proposals to their former employer. Does this raise questions among any of you about the effectiveness of the USAID contracting process and, if so, what needs to be done to change the contracting process?

Response:

I share some of the concern around the nature of the contracting process in Washington. Like the Department of Defense, USAID can be too often implicated in having a ‘revolving door’ system between contractor and contractee. Clearly, many of

these former employees do have enormous experience and expertise that can legitimately be deployed. But there is a wider risk—not just that of the potential for corruption, but, more evidently, the resultant lack of new ideas and concepts. Yet, development as a whole has not progressed as quickly or as profoundly of any of us have hoped, even after decades of funding, which suggests that there is plenty of scope for promoting fresh approaches and new mechanisms of implementing aid as well as maintaining much of the hard-learned experience available. To mitigate some of the concerns around probity, as well as to include different actors into the contracting process, there needs to be more competition. This includes reducing the requirement to Buy America on services and goods.

Furthermore, there is a wider debate about the extent of the USAID contracting process and its lack of efficiency—it might be more appropriate for USAID to be able to recruit more staff with technical and management capacity and thereby reduce some of the multiple stages of subcontracting between the US Government and end aid beneficiary. Another option is to increase budget support to those recipient country governments that can demonstrate levels of good governance (such as used in the MCC process) rather than fund as many projects. This would reduce the need for external contractors as the governments would deliver the services themselves.

Question:

The OXFAM report on aid reform raises concerns about the U.S. Africa Command, or AFRICOM, and specifically about the potential of AFRICOM to become the dominant player in civilian-led development functions in Africa. The militarization of aid is a recurring theme in the report. Would you please elaborate your concerns. Can the military effectively carry out any long-term aid functions? If so, what are they? How would you characterize the DOD's record on reconstruction in Iraq and Afghanistan? Have any lessons been learned from the Somalia experience?

Response:

While I have every respect for the US military and recognize that there are often good intentions in their practical support for development, the military should not be a provider of long-term aid functions. Fundamentally, it is not their mission and they prioritize different things than the development community, such as shorter-term solutions and reducing complexity whereas development specialists are more willing to acknowledge that development is longer-term and involves managing complexity amongst multiple stakeholders. However, the military effort to provide security is a critical aspect for enabling an environment where development can occur, and one which is not always fully recognized by the development community. The military can also be an important player in certain shorter-term, emergency situations, such as providing logistics and communications—as in the response to the earthquake in Pakistan in 2005. They also have a track record of providing training to military forces being reconstructed in post-conflict situations, as the State Department trains police forces, so there are some exceptions to the rule, but, in general, the militarization of aid is to be avoided. Instead, the Department of Defense and former Generals should—as they have, to their credit—argue for increased support for funding for USAID and other development agencies and for hiring greater numbers of professionals to bolster the capacity of USAID to deliver rather than requiring military stop gaps.

In terms of Afghanistan and Iraq specifically, there has been a mixed record of Department of Defense reconstruction—efforts in Iraq were hampered by the lack of security and by failing to involve the State Department, USAID and other multilateral development institutions early enough or thoroughly enough in partnership. In Afghanistan, the Provisional Reconstruction Teams (PRTs), which aim to support short-term development projects as 'quick wins' to involve the local community provide some examples of what can be done. That said, PRTs run by other countries tend to be civilian-led—such as those which are British-led—and this model is preferable for the reasons outlined above.

Question:

Decades of research and experience have shown that gender inequality is a significant constraint to achieving sustainable, long term economic growth and widespread poverty reduction. If we want our foreign assistance dollars to be more cost-effective, we must ensure that our international assistance reaches both women and men in developing countries, as women are more vulnerable to poverty. Accordingly, the importance of integrating gender into program strategies and implementation is widely acknowledged, and is key to effective development. However, to be truly effective and efficient, gender integration also needs to play a critical role up front, at the strategic level of determining the overall goals and priorities of assistance, and in the organizational structure of a new or reformed agency. Otherwise, the new agency will con-

tinue to lack the mechanisms, resources and capacity required to systematically integrate gender across foreign assistance programs. How can we ensure that gender is built into a reformed foreign assistance structure up front so that we can remedy this problem?

Response:

I agree that gender inequality is an enormous barrier to development and am aware of the research which clearly indicates the value of female-specific development components. Such as the evidence that educating girls is not only important in its own right but that it also leads to improvements in broader family health and education, in increased wealth generation and in fewer, healthier babies being born. Consequently, I applaud the efforts taken by governments, NGOs, international organizations and other donors and implementers to break down some of the cultural barriers to incentivize families and girls to enable girls to attend school.

To ensure that the US foreign assistance structure supports the integration of gender into strategy, planning and implementation, it seems evident that the first step is to educate aid providers about the benefits and importance of promoting female-orientated development. This might include using women in advisory capacities in developing countries, providing empirical and qualitative evidence and other training to the new administration and so on.

WRITTEN RESPONSES FROM THE HONORABLE J. BRIAN ATWOOD, DEAN, HUBERT H. HUMPHREY INSTITUTE OF PUBLIC AFFAIRS, UNIVERSITY OF MINNESOTA (FORMER ADMINISTRATOR OF U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT), TO QUESTIONS SUBMITTED FOR THE JUNE 25, 2008, HEARING RECORD BY THE HONORABLE HOWARD L. BERMAN, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF CALIFORNIA, AND CHAIRMAN, COMMITTEE ON FOREIGN AFFAIRS

Question:

In your testimony, you stated that the U.S. diplomatic and development have been pitted against one another as rivals for a limited resources base within the function 150 international affairs budget. How did the budgeting and allocation process work before 1998 when USAID was brought under the State Department?

Response:

Prior to 1998, all of USAID's authorities were derived by delegations of authority from the IDCA director who, in turn, had derived his authorities by executive order of the President. The AID Administrator was the acting IDCA Director, so AID had its own independent authority and its budget came directly from OMB. Even after IDCA was abolished, the Secretary of State re delegated the authority given to her by the President for the foreign assistance budget to the AID Administrator. This apparently changed at the beginning of the Bush Administration and the Secretary of State now has this authority.

Even though USAID had independent authority prior to 1998, an effort was made to create country strategies and then regional budgets in coordination with the embassy country teams and State's regional bureaus. Allocations took into account the State perspective, but the development goals established by both Congress and the Agency were the prevailing influence. Today, the State Department possesses the authority and makes all final decisions. The Director of Foreign Assistance/USAID Administrator has eliminated the country strategy document previously used by USAID, so decisions tend to be made in Washington rather than in the field. This mitigates against achieving results.

Question:

Your testimony also states that "progress is less likely when those offering assistance are foreign military personnel." Can you provide examples supporting this statement?

Response:

When working on the ground in a foreign country, one must find local partners. As we have learned in both Afghanistan and Iraq, when local civilians have to work with a foreign military force they become suspect in the eyes of their countrymen. In addition, many non-governmental organizations who often use foreign nationals from the host country, find it awkward to work with a military force. Some refuse to do so, which denies the USG the services of organizations that can develop long-term relationships with people at the grassroots level.

Question:

In your testimony, you praise the MCC model—requiring eligibility criteria for assistance to countries with good governance, invest in people, and promote economic freedom—and argue that it is based on sound development thinking. You also argue that the MCC eligibility criteria could be the basis for a new mandate for development assistance. However, you also argue that the U.S. will have to work in nations that are not good partners to promote poverty alleviation. You assert that Congress should provide a mandate to work in states that are considered failing or failed. Please explain how you reconcile your support for the MCC model, while at the same time arguing that the U.S. should provide assistance to reduce poverty in countries that are not good performers, but, in fact, failing or failed.

Response:

I support the *eligibility* criteria of the MCC, not necessarily the MCC model. The MCC is engaged with countries that are in the end game of development. The eligibility criteria developed were legitimate and developmentally sound. So, if this represents the end game of a development process, it stands to reason that the criteria could be transformed into goals for a development agency or department. There are good partners who do not qualify for MCC support but who give every indication of being committed to development. The goal should be to help them reach the “end game.” Then, there are nations with bad, possibly corrupt governments, perhaps on the verge of failure, but in any case “weak states.” These may not be good partners at the governmental level, but they are countries that are worth the risk. In these countries and under a separate account—e.g., the weak-states account—we should work with sub-groups that are good partners and who want to bring about positive change. The opposition in Zimbabwe would be a case in point.

Question:

Many argue, including you, that congressional earmarks and presidential initiatives have hampered the ability to carry out needs and results-based, effective foreign assistance programs and limit flexibility in the field. I'm astounded by the various earmarks and initiatives that currently exist—basic education, water and basic sanitation, HIV/AIDS, the President's Clean Energy Initiative, the President's Initiative to End Hunger in Africa, avian influenza, the President's Malaria Initiative, just to name a few. How would you advise Congress on dealing with the countless earmarks and initiatives in our foreign assistance program?

Response:

I believe that restraint needs to be exercised by both Congress and the Executives when it comes to earmarks or initiatives. If the Congress and the new Administration could agree on a broad strategic framework for foreign assistance—a new legal mandate—the initiatives and earmarks would have to be justified within that context. We have gotten carried away with earmarks and initiatives to the point where those parts of development that are not earmarked are difficult to fund. Democracy/governance or agriculture programs have no earmarks, for example, and they get squeezed out of the budget. We will never eliminate earmarks or initiatives, and some may be warranted, but we need to weigh new proposals for the impact they will have on our larger strategic goals and on the most appropriate country strategy.

Question:

The U.S. provides economic assistance to strategic allies, such as Egypt and Pakistan, which also face development challenges. Such assistance is not based on good governance and democratic principles. Rather, such assistance is provided to reward these countries for sharing and promoting U.S. strategic foreign policy interests. How do we reconcile our approach to these countries that are strategic allies but that also have critical development challenges?

Response:

Countries that do not respect human rights and fail to involve their people in the development process are not good development partners overall. Nevertheless, if we select good local partners, some development results can be achieved. This has been the case in Egypt and Pakistan despite authoritarian governments. One cannot ignore U.S. strategic interests. However, when development money is treated as a reward or a gift, Congress cannot expect the aid agency to achieve the same level of results. The Economic Support Fund (ESF) controlled by State should be seen primarily as a diplomatic weapon, not a development fund.

Question:

A recent op-ed in the *LA Times* raised the idea of a conflict, in practice, between development goals and human rights. The case in point is Rwanda, a country that has emerged from a horrible genocide in 1994 to make a remarkable economic comeback over the last 14 years. While the article praises the Rwandan government for the strides made in economic recovery, social stability, and lack of corruption, it also cites human rights organizations that claim the government uses draconian laws and prosecutions to dominate and control political expression. This, they argue, is undermining this nascent democracy. For example, in Rwanda, political identity is restricted by law to a national notion of "Rwandan" rather than the ethnic identities of "Hutus" and "Tutsis". In your remarks, you suggest "a combination of diplomacy and development programs that will effectively inhibit those who would seek to use grievances or conditions of underdevelopment to incite people to violence." In other words, if I may reduce this to a simple formulation, "prosperity and stability" trump "chaos and violence." While I find this argument compelling, I also am concerned that in the case of Rwanda, there are "political fault lines" just below the surface that can't be ignored. Human rights organizations point to President Kagame's last presidential victory which he won with 95% of the vote. They also raise a concern that he is not likely to relinquish power in the 2010 presidential elections.

Presidents and ruling parties clinging to power in Africa is not a new phenomenon. I remind you of the enormously success story Zimbabwe was after liberation in 1980, with vast economic growth, a 90% literacy rate, an internationally acclaimed higher education system, and a democratic government. This all began to unravel just two decades later when Mugabe's ruling party; ZANU-PF faced a credible challenge from a new opposition party. Today, President Mugabe clings to power through state-sponsored terror, a failed economy with a 66,000% inflation rate, and a shattered democracy. There are many emerging African democracies that are not out of the woods yet when it comes to achieving economic recovery, social stability, and institutionalize political structures that value smooth transitions from government to government rather than retreating into authoritarian tendencies.

Mr. Atwood, as you envision our development program in the future, how do we balance economic growth and social stability with "moral accountability" in emerging political-economies and what specific aspects of diplomacy and development tools do you think will work?

Response:

I believe that there is a definite connection between a government's respect of human rights and its ability to achieve development results. I also believe that an effective development program can create positive change and influence a government's behavior over time. There are lines we should not cross: I would not advocate working directly with certain governments who abuse human rights. However, I would suggest that in close calls, we should always favor engagement. We cannot influence the course of history if we stand aside and watch from afar. In these close-call cases, the Executive needs a special "weak-states account," an authorization to take more risks, perhaps after consultation with the oversight committees.

WRITTEN RESPONSE FROM THE HONORABLE J. BRIAN ATWOOD, DEAN, HUBERT H. HUMPHREY INSTITUTE OF PUBLIC AFFAIRS, UNIVERSITY OF MINNESOTA (FORMER ADMINISTRATOR OF U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT) TO QUESTION SUBMITTED FOR THE JUNE 25, 2008, HEARING RECORD BY THE HONORABLE LYNN C. WOOLSEY, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF CALIFORNIA

Question:

Decades of research and program evaluations show that considering gender, that is, the different roles and responsibilities women and men play in their communities, in program design dramatically enhances project effectiveness. Yet, 35 years after the Percy Amendment and five years since requirements on gender were integrated in USAID's policy directives (ADS), the agency continues to be severely under-resourced in its ability to integrate gender into projects with few gender experts on staff and lack of training for agency-wide staff on conducting gender analysis. How can we ensure that strategies to rebuild the U.S. civilian development corps will incorporate resources for increased expertise and capacity on gender up front, so that we can remedy this problem and more effectively program our foreign assistance?

Response:

The best way to ensure that the US foreign assistance program places the appropriate emphasis on gender differences and the empowerment and education of

women and girls is to incorporate this objective in one of the strategic goals in a new authorization bill. No serious professional doing development work disputes the need to pay more attention to gender issues. The issues revolve around whether to integrate women-and-development strategies or to handle them out of a separate office. Ultimately, integration is the best answer, but this is possible only if there are adequate resources. A separate women-and-development office assures that attention will be paid at some level, but this does not always translate into programs on the ground.

PREPARED STATEMENT OF THE HONORABLE GENE GREEN, A REPRESENTATIVE IN
CONGRESS FROM THE STATE OF TEXAS

JUNE 25, 2008

Thank you, Mr. Chairman, for holding this hearing today, and I would like to welcome our panelists.

Our country's image is marred in war and I think that it is of the utmost importance that we really consider where we stand in terms of our current foreign assistance structure, capacity, and level of readiness.

America has always prided itself on the soft power that we exude around the world.

We are a helpful people and we need to work to reclaim our international image as a country that reflects this ideal.

The capacity numbers at USAID and the State Department clearly show us that we are overstretched and our foreign assistance goals are not being realized.

At USAID, there is an insufficient number of personnel, a lack of professional specialists, inadequate training and travel funds, too many administrative requirements, and burdensome regulations.

At State, staffing levels are low and the training is often inadequate for the job that these individuals are asked to do.

Meanwhile, we find ourselves in a situation where the Department of Defense and outside contractors are now doing much of our foreign assistance work.

Additionally, when we appropriate the funds to hire more personnel, the trend has been that this money is used towards hiring personnel for strictly the wars in Afghanistan and Iraq.

This is an unfortunate consequence of this Administration.

I look forward to our witnesses recommendations on how we can fix this and how we can rebuild our great country's image abroad.

Thank you, Mr. Chairman.

PREPARED STATEMENT OF THE HONORABLE DONALD A. MANZULLO, A
REPRESENTATIVE IN CONGRESS FROM THE STATE OF ILLINOIS

JUNE 25, 2008

Mr. Chairman, thank you for calling this important hearing regarding America's foreign assistance programs. Foreign assistance funding is a critically important part of America's engagement overseas. Over the years, foreign assistance has made all the difference in rehabilitating countries after major disasters or wars.

According to the Organization for Economic Cooperation and Development (OECD), America is the world's largest provider of foreign assistance, at approximately \$26 billion. Whether this assistance is in the form of disaster relief, HIV/AIDS prevention, or microfinance, the American people continue to demonstrate their generosity in using their tax dollars to help uplift those less fortunate. As representatives of the American people, it is our duty to ensure that this funding is used effectively and not wasted.

Mr. Chairman, I strongly believe that foreign assistance is most effective when it is closely linked with broader national interests. For example, during the post World War II era, American foreign assistance successfully helped many countries in Asia and Europe rebuild and fend off the scourge of communism. Today, many countries that once received foreign assistance, such as South Korea, are now important allies of the United States.

Despite these positive examples of American foreign aid successes, the focus of current assistance has lost some of its precision and is in need of recalibration. I strongly believe that we need to return to a structure where foreign aid is closely linked with our foreign policy objectives. The Administration's efforts to better inte-

grate the U.S. Agency for International Development within the State Department is a step in the right direction.

The best way to refocus our aid programs is to work better within the existing framework to foster greater coordination between the programmatic and political sides of our foreign policy establishment. It is critically important to ensure that our Washington decision makers are in closer contact with overseas missions to ensure that broad goals are being met. Receiving more frequent and better input from American diplomats abroad will greatly help Washington-based policymakers in deciding which programs to support. Similarly, it is important for diplomats abroad to understand the driving forces behind policy decisions so that they can help tailor funding programs to meet the real conditions on the ground.

Mr. Chairman, I simply do not believe that creating yet another government bureaucracy will help bring focus to the mission. The best example of this is the Department of Homeland Security. By combining dozens and dozens of previously unrelated entities into a cabinet level bureaucracy we hoped to bolster homeland security. The Department's poor track record speaks for itself. I fear this is what will happen again.

I look forward to the testimony from our distinguished panel.

