

**INTERNATIONAL DEVELOPMENT POLICY
PRIORITIES IN THE FY 2012 BUDGET**

HEARING

BEFORE THE

COMMITTEE ON FOREIGN RELATIONS

UNITED STATES SENATE

ONE HUNDRED TWELFTH CONGRESS

FIRST SESSION

APRIL 13, 2011

Printed for the use of the Committee on Foreign Relations



Available via the World Wide Web: <http://www.fdsys.gpo.gov>

U.S. GOVERNMENT PRINTING OFFICE

67-887 PDF

WASHINGTON : 2011

For sale by the Superintendent of Documents, U.S. Government Printing Office
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INTERNATIONAL DEVELOPMENT POLICY PRIORITIES IN THE FY 2012 BUDGET

WEDNESDAY, APRIL 13, 2011

U.S. SENATE,
COMMITTEE ON FOREIGN RELATIONS,
Washington, DC.

The committee met, pursuant to notice, at 2:03 p.m., in room SD-419, Dirksen Senate Office Building, Hon. Benjamin L. Cardin, presiding.

Present: Senators Cardin, Menendez, Lugar, Risch, and Lee.

OPENING STATEMENT OF HON. BENJAMIN L. CARDIN, U.S. SENATOR FROM MARYLAND

Senator CARDIN. Well, let me welcome Administrator Shah and Mr. Yohannes to our committee.

Today, we will be talking about the international development policy priorities in the FY 2012 budget. I can't think of a more challenging time we've had for international development policies than we have now. There certainly are a significant number of humanitarian challenges around the globe. Poverty and the challenges of dealing with poverty, the global food shortages, and the impact of climate change all have made it even more important for how we implement our international development policies.

U.S. global development and U.S. foreign aid are critically important to our national security concerns, to promote economical and political stability throughout the world. They're part of what we call our "three-D strategies"—the development assistance, defense, and diplomacy.

What is, I think, surprising to most Americans is the amount of money America spends on its foreign assistance. There was, recently, a survey done by the Kaiser Foundation which asked Americans how much of the national budget they thought went for foreign assistance. And the numbers centered around 25 percent. As you all know, it's less than 1 percent of the Federal budget. So, it's a relatively small part of the Federal budget, but a very important part of the Federal budget, that is used for foreign assistance. It's critically important that those funds be used in the most accountable way, and that is one of the issues that we will be talking about today, to make sure that all of our funds are used appropriately to advance our foreign interests.

But, let me start off by quoting from General Anthony Zinni who said, before this committee in the past, "From our time on the front lines of America's presence in the world, we know that the United States cannot rely on military power alone to keep us safe from ter-

rorism, infectious diseases, or global threats that recognize no borders.”

And what concerns me, when you take a look at the proposed cuts, particularly in the budget that is currently being considered in the House of Representatives, which is authored by Congressman Ryan, those cuts will have real concern. The FY12 budget is cut by 29 percent—29 percent, if my numbers are correct. And by 2016, the cuts become 44 percent.

Well, those types of cuts are going to have real consequences. It would affect 5 million children, who could be denied treatment for malaria, 400,000 people will be turned away from life-saving treatment for HIV/AIDS, and farmers would lose access to seeds, soils, and technical assistance that make their farms viable in the economy.

These individual impacts, taken collectively, will affect global politics and economic stability and security. These cuts could have real, negative ramifications for U.S. interests abroad, and severely damage our efforts to promote human rights, democracy, and free markets, which, in turn, will lead to more instability and, ironically, cost the taxpayers of this country more money. So, I think it's not only wrong from the point of view of what is the right policy for America, I think it also will jeopardize us from a financial point of view.

But, as I said before, we need to have full accountability on the use of our development assistance. We need to have more efficient programs. And I want to applaud both of our witnesses today for the steps that you have taken. There have been many reviews that have been done and initiatives that have been taken. And I really do think that you're moving in the right direction to make sure that we have more efficient programs, end the duplication, establish the priorities, and make sure that the programs are managed as efficiently as possible.

But, I must also point out that there are additional, I think, standards that we need to make sure that, wherever we participate in foreign aid, that certain minimum standards are met: minimum standards in good governance, as it relates to transparency, in the countries that we do business with, that they have active programs to fight corruption in their own country, that they have programs to deal with gender equity issues. I think all of that is important as part of our expectations of where we participate in foreign development.

Recent events in the Middle East have indicated to us that it's critically important, in that region, that countries that we participate with meet minimum standards of sharing our vision to fight extremists and terrorists, to support our efforts for peace in the Middle East, and to provide basic human rights and basic standards to the people of their own country, and that we need to be tough, as we deal with these countries, to make sure that these standards, in fact, are met.

I'll be interested in hearing from our witnesses the views on some of the new initiatives that you all have started. The Feed the Future Program is one that, Administrator Shah—I would appreciate you directing some attention, in your comments, to—and the Global Health Initiative.

It's interesting, with Feed the Future, that 925 million people are suffering from hunger, worldwide. Now, when you look at that number, it's rather staggering. When you take a look at it by gender, you find that 60 percent are women. And then you start looking at the economic realities, globally, where women represent 66 percent of the work done in the universe and receive only 10 percent of the income. We need to make sure that if we are, in fact, going to feed the future, that it needs to start with equality with women in other countries.

The Millennium Challenge Corporation has initiated many matters that I think can be models for us, looking at transparency and country ownership and looking at gender equity. The President has stated that he wants to see the United States have the premier development agency in the world. I share those sentiments. At this critical crossroads, it is essential that we continue our commitment to provide the strongest development assistance in the world, fulfilling both a moral obligation as well as strengthening our long-term national and global prosperity and security.

Countries that descend into chaos and anarchy are breeding grounds for extremism. Our comparably small investments in their development will yield enormous results. I will continue to strongly advocate for not only adequate funding for these programs, but also the broader structural and organizational reforms that are necessary for the 21st century foreign assistance and development policies and delivery.

I look forward to working with my colleagues on this committee to ensure that these goals, in fact, are met.

And I want to thank both of our witnesses for their commitment to service in our country. We're very fortunate to have you in these positions, and we look forward to working with you in partnership.

And with that, I would turn to Senator Lugar.

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

Senator LUGAR. Well, it's a privilege to join Chairman Cardin in welcoming Administrator Shah and Chief Executive Officer Yohannes to the committee this afternoon.

Our hearing today takes place in the context of deep economic uncertainty at home, coupled with extraordinary upheaval overseas. These conditions necessitate that the State Department, USAID, and the Millennium Challenge Corporation prioritize initiatives that contribute to fundamental national security and foreign policy goals. As our country is challenged by a large budget deficit and an overwhelming national debt that exceeds \$14 trillion, we must examine the value of every program. This is true of programs across government, including those dedicated to international development.

In receiving your testimony today, I will be considering how your priorities and plans will satisfy a number of principles.

First, our investment in development programs must demonstrate clear objectives that are closely connected to the interests of the United States.

Second, assistance programs have to be run efficiently, minimizing duplication, waste, and unnecessary expense.

Third, the work of USAID and the MCC must be measurable and transparent, allowing programs or approaches that are showing poor results to be jettisoned or revised. I am especially interested in lessons we can draw from the MCC's rigorous evaluation frameworks.

Fourth, the United States is just one actor among many countries and organizations that provide various types of humanitarian and development assistance. The United States should emphasize those areas that we do best and that are most likely to benefit our interests over the long term.

One such area is food. Food shortages and high prices for commodities have been issues in almost every Middle Eastern country that has experienced upheaval. This underscores, again, the pivotal position of the United States as the largest and most diverse grower and exporter of food and the leader in agricultural science. This role comes with both enormous economic opportunities and national security imperatives.

The world will experience explosive growth in demand for food as large populations in China, India, and elsewhere become more affluent. Meanwhile, countries throughout Africa and Asia suffer from severe hunger and malnutrition. The United States must give high priority to executing a global food policy that both creates export opportunities for our farmers and agricultural businesses and addresses hunger in volatile regions that could negatively impact our national security. These circumstances require a new focus on increasing agricultural productivity both here in the United States and throughout the world. We must challenge the talents of America's agriculture community to improve product yields through new technologies, stretching beyond the achievements of the Green Revolution.

Further, as with our other development investments, we must lead a coordinated effort across all agencies to prevent duplication and overlap of these programs. I applaud Dr. Shah's personal interest in this topic and encourage him to continue to work with the Congress on this issue.

Finally, we should recognize that personnel from USAID, MCC, the State Department, and other agencies are on the front lines in many impoverished or war torn locations, including Afghanistan and Iraq. We appreciate the sacrifices that they make and the risks that they take daily on behalf of the United States.

We thank you, again, for your appearance today and look forward to your testimony.

Senator CARDIN. Thank you, Senator Lugar.

Administrator Shah.

Both of your entire statements will be made part of our record. You may proceed as you see fit.

STATEMENT OF HON. RAJIV J. SHAH, ADMINISTRATOR, U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT, WASHINGTON, DC

Dr. SHAH. Thank you, Chairman Cardin, Ranking Member Lugar, members of the committee. It is an honor to be here again before you and have a chance to describe the great work that we're

trying to pursue in our development portfolio under the Obama administration.

Since my full remarks are in the record, I may just limit my opening statement to three basic points.

The first is that USAID, the MCC, and the work we do in international development is fundamentally a core part of our national and economic security strategy. It is less costly and more effective to invest in agricultural development, as Senator Lugar just described, rather than dealing with the food riots, famines, and failed states that result when we fail to do so. We know that countries ravaged by HIV/AIDS and malaria and child death that is unnecessary are unable to grow and unable to achieve stability, as families destroy their capital assets and seek refuge in any manner that is possible. We know that today in Southern Sudan, a part of the world that is receiving significant influx of people from the north, a girl is more likely to die in childbirth than she is to complete a secondary education.

It's precisely because our work is so critical to our national security that we have pursued a set of reforms in how we do our work so that we can be more efficient, more effective, more results-oriented, and better stewards of precious U.S. tax dollars. In doing so, USAID is also seeking to be a better partner with the U.S. military and with the State Department and others so that we can be effective at implementing these programs and bring all of the tools the U.S. Government has to offer to our core development objectives.

These reforms were initiated through a Presidential Study Directive (PSD) on development and the Quadrennial Development and Diplomacy Review or QDDR, which resulted in reprioritizing growth in governance, science, technology, and innovation, the concept of mutual accountability, and an absolute and relentless pursuit of development results as the tenets of our development policy. At USAID, we have internalized both the PSD and the QDDR in a specific set of reforms we call USAID Forward. These include policy and budget reforms that have led to the creation of new policies at USAID so that, for example, our education strategy is now more focused on specific results, with respect to child literacy and learning all around the world. It's led to specific budget reforms that have allowed us to identify \$400 million in reallocations that we've found because we're moving resources from less efficient programs to more efficient programs. It has allowed us to pursue science, technology, and innovation investments, such as a unique partnership we called Saving Lives at Birth, that will look at new technologies to help bring the costs down and help save the 1.6 million women and children that die either during childbirth or in the first 48 hours of life. And it's allowed us, importantly, to really fundamentally restructure our human resources and our procurement strategies so we can shorten the cycle time between ideas and impact, work with a broader range of partners, and execute new accountability efforts, like the Accountable Assistance for Afghanistan Program, to allow us to better track resources, better manage subcontractors and private security contractors, and serve as better and more accountable stewards of U.S. taxpayer dollars.

Perhaps the single program where this is most visible is in the Feed the Future effort, where we have selected 20 countries to par-

ticipate, based on their willingness to increase their own investment in agricultural development, where the agricultural sector is critical to their economic success, and where we think we can work in a spirit of real results, in partnership with other donors, so we leverage our dollars 2- or 3-to-1 as we pursue an effort of eliminating hunger in these 20 countries. In pursuing this program, we think we will reach 18 million people, and help them move out of a state of poverty and hunger in 5 years, 7.2 million of which are children who go to bed hungry every night, today.

Third, and perhaps most importantly, we believe that all of our development investments should be focused specifically on achieving results. I described the results we are trying to achieve in Feed the Future. In our Global Health Initiative, we are reprioritizing those specific investments that save the most lives at, frankly, the least cost.

We're reprioritizing getting diarrheal and pneumonia vaccines to communities that do not have them, so that we can save lives at \$10 to \$20 per life-year.

We are trying to build on some of the incredible bipartisan successes of the past administration, and the first 2 years of this one, in the President's Malaria Initiative, where, for the first time, we've seen validated data that has documented a 30-percent reduction in all-cause child mortality in countries that benefit from the program, which means that, by getting poor children in local communities a \$2 or \$3 bed net to sleep under, among other things, we're not only saving their lives, but, by keeping them out of the hospitals there, we're allowing the hospitals to save other children's lives from other diseases.

And we're pursuing a results-oriented development strategy in very difficult-to-work areas like Afghanistan, where our program is part of an integrated civilian and military effort that is being executed in specific key terrain districts that are both part of current kinetic operations and part of our transition strategy.

We believe these are results that will keep us safe, keep us secure, and improve our ability for our country to have viable and effective trading partners around the world. And we recognize that budgets are an expression of both values and priorities. And we appreciate the chance to be here today to describe our priorities.

Thank you.

[The prepared statement of Dr. Shah follows:]

PREPARED STATEMENT OF DR. RAJIV SHAH

INTRODUCTION

Thank you very much Mr. Chairman, Ranking Member, and members of the committee. I am honored to join you here today in support of the President's fiscal year 2012 budget request.

Before beginning my testimony, I want to briefly comment on USAID's response to the devastating earthquake and subsequent tsunami in Japan and the remarkable events taking place in the Middle East.

In Japan, USAID is leading the U.S. Government's response, coordinating an interagency effort with the Nuclear Regulatory Commission, and the Departments of State, Energy, Defense and Health and Human Services. We also have deployed a Disaster Assistance Response Team—including urban search and rescue specialists and nuclear experts—to support Japanese emergency response efforts. I'd like to thank the brave men and women on these teams for their enormous courage. USAID has provided 10,000 personal protective equipment sets—including suits,

masks, gloves, decontamination bags, potassium iodide and other supplies—to help those working near the contaminated zone in Fukushima Prefecture.

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

USAID also has led the humanitarian response to recent events in the Middle East. As we speak, USAID teams are working on the Tunisian border with Libya and in Egypt, helping deliver assistance to those affected by conflict. In eastern Libya, we have delivered health kits capable of providing basic care to 40,000 people, with more en route. We have also provided key support to the World Food Programme, which has moved more than 10,900 tons of food in and around Libya, enough to feed more than 650,000 people.

We will work with counterparts to help the people of the region realize their democratic aspirations through a credible transition. Drawing on experience USAID has gained over decades, we will help countries strengthen civil society, extend the rule of law, and create more transparent and accountable democratic governance.

RESULTS

Both the President and Secretary Clinton have emphasized that development is as important to our Nation's foreign policy as diplomacy and defense, and as a result have actively championed the goal of reestablishing USAID as the world's premier development Agency.

Representing less than 1 percent of the Federal budget, the President's FY 2012 request balances difficult tradeoffs with a clear-eyed assessment of where we can most effectively achieve dramatic, meaningful results for the American people and the developing world.

The President's request includes significant investments in bipartisan initiatives promoting global health and food security, the foundations of which were laid by the previous administration and bipartisan supporters in Congress.

Representing the largest portion of the President's budget request for foreign operations, the \$8.7 billion USAID and State are requesting for the Global Health and Child Survival account will allow us to transform HIV/AIDS from a death sentence to a manageable disease for more than 4 million HIV-positive patients, reduce the burden of malaria by half for 450 million people and prevent hundreds of millions of child deaths from preventable diseases by providing them vaccines and bed nets.

Our Global Health Initiative is designed to efficiently deliver these results. Rather than create separate facilities to treat separate diseases, we will save money and expand the reach of coverage by integrating treatments into single points-of-care. In Kenya, we worked with PEPFAR to couple HIV/AIDS treatment with maternal and child health services. As a result, we've extended the availability of reproductive health services from two to all eight of the country's districts, at no increase in cost.

We can also help countries develop their own agricultural sectors, so they can feed themselves. For the \$1.1 billion we are requesting for bilateral agricultural development programs, we will be able to help up to 18 million people in up to 20 countries—most of them women—grow enough food to feed their families and break the grips of hunger and poverty.

We chose these potential countries for our Feed the Future Initiative selectively, based on their own willingness to invest in agriculture, undertake reforms, and encourage coordinated investment from other donors, foundations, and private companies, leveraging our investments several-fold. We have worked closely with these countries to develop rigorous agricultural strategies that will bolster the success of our Initiative.

But our foreign assistance will not just assist people abroad; it will benefit us here at home.

FROM THE AMERICAN PEOPLE, FOR THE AMERICAN PEOPLE

Our assistance represents the spirit of our country's generosity; captured in USAID's motto: "From the American People." Recent events underscore the critical importance of our humanitarian assistance request.

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

Keeping America Safe

By elevating the role of democracy, human rights, and governance, we help to consolidate freedom in new and fragile democracies and expand liberty in authoritarian and semiauthoritarian countries. We also support the rebuilding of failed and fragile

states during and after conflict, forging new compacts between state, civil society, and the private sector that lead to increased stability and ultimately keep Americans out of harm.

As Secretary of Defense Gates, Joint Chiefs Chairman Admiral Mullen, and General Petraeus have all emphasized, we need a fully engaged and fully funded national security presence, including the core components of our Nation's civilian power: the State Department and USAID.

This year, for the first time, the President's budget designates \$1.2 billion of USAID funding for Afghanistan to a separate account called the Overseas Contingency Operation Account. This transparent approach, modeled upon the Defense Department's well-established example, distinguishes between temporary costs and our existing budget in an effort to consistently budget for Defense, State, and USAID spending.

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

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

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

Our work in promoting national security is not just limited to active zones of conflict. Throughout the world, USAID is deploying development specialists today to strengthen democracies, rebuild livelihoods and build strong health and educational systems so that we do not have to deploy our troops tomorrow. As Secretary Gates has said: "Development is a lot cheaper than sending soldiers."

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

Developing the Markets of Tomorrow

In addition to strengthening our national security, USAID's work also strengthens America's economic security.

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

In 2009, we exported over half-a-trillion dollars in American goods and services to those countries, and 97 percent of those exporters were small- and medium-sized U.S. companies. That is why for every 10 percent increase we see in exports, there is a 7-percent increase in the number of jobs here at home.

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

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

Make no mistake: our success is intertwined with the progress of those around us. By fully funding the \$2.9 billion USAID is requesting for its Development Assistance account, we will save lives, expand global freedom and opportunity, and crucially strengthen America's national and economic security.

REFORM

Because development is critical to our national security and future prosperity, USAID has worked tirelessly to change how we work with all of our partners.

Consistent with the President's Policy Directive on Global Development and the Quadrennial Diplomacy and Development Review, we have launched a series of reforms we call USAID Forward.

Learning, Monitoring, and Evaluation

To ensure our assistance is effective, we are taking monitoring, evaluation, and transparency seriously. In 1994, USAID conducted nearly 500 independent evaluations. By the time I arrived, only 170 evaluations were submitted to Washington, despite a threefold increase in programs managed. In many instances, these evaluations were commissioned by the same organizations that ran the programs.

To end this practice, we introduced a new evaluation policy that is quickly setting a new standard in our field. We are requesting \$19.7 million to implement this policy and provide performance evaluations for every major project, conducted by independent third parties, not by the implementing party themselves. And we will release the results of all of our evaluations within 3 months of their completion, whether they tell a story of success or failure.

Combating Fraud, Waste, and Abuse

We are fighting vigorously to prevent and respond to fraud, waste, and abuse, and to ensure a culture of vigilant oversight. I have created a new suspension and debarment task force led by our Deputy Administrator, Don Steinberg, and staffed with talent across our Agency. This task force will provide a coordinated effort to closely monitor, investigate, and respond to suspicious activity.

Private Sector Partnerships

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

For example, through the Feed the Future initiative, we have launched groundbreaking new partnerships with Kraft, General Mills, and Wal-Mart in Ghana, Tanzania, El Salvador, and Guatemala to connect poor farmers to local and international food markets. And in Haiti, we are supporting Coca-Cola's initiative to promote the Haitian mango juice industry.

These efforts strengthen the sustainability of our economic growth work, while also improving the bottom line for American companies.

Science, Technology, and Innovation

Across our portfolio, we are seeking new ways to harness the power of science, technology, and innovation. For our request of \$22.1 million, we will recapture USAID's legacy as the leader in applying scientific and technical solutions to the challenges of development.

We have developed a new venture capital-style investment fund—the Development Innovation Ventures Fund—so we can support startups, researchers, and non-profits focused on the problems of the developing world. We are requesting \$30 million to continue using this simple but highly competitive business model to sustainably scale innovative solutions to development challenges.

By providing seed capital to incentivize the emergence of these innovations, we practice development with an exit strategy. This fund has already funded several projects, including an easy-to-use self-administered test for preeclampsia, the leading cause of maternal mortality in the world.

In Haiti, instead of rebuilding brick-and-mortar banks devastated by the earthquake, we are partnering with the Gates Foundation to begin a mobile banking revolution in the country. By allowing Haitians to save money and make transactions on their cell phones, we are encouraging local wealth creation and cutting back on corruption and wage-skimming.

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

Procurement

Fundamentally, all of the reforms I have outlined are designed to achieve the same result: to create the conditions where our assistance is no longer necessary.

The President's budget request puts this approach into practice. It cuts development assistance in at least 20 countries by more than half, including 11 countries where all bilateral Development Assistance has been eliminated. It also terminates USAID missions in three countries. And it reallocates almost \$400 million in assistance and shifts 30 Foreign Service positions toward priority countries and initiatives.

USAID must continue to do its work in a way that allows our efforts to be replaced over time by efficient local governments, thriving civil societies and vibrant

private sectors. That is why we have launched the most aggressive procurement and contracting reforms our agency has ever seen. Instead of continuing to sign large contracts with large contractors, we are accelerating our funding to local partners and entrepreneurs, change agents who have the cultural knowledge and in-country expertise to deliver lasting, durable growth.

These procurement reforms are crucial to delivering assistance in a much more effective and evidence-based way, generating real results faster, more sustainably and at lower cost so more people can benefit.

To implement the QDDR and USAID Forward, implement our procurement reforms and deliver development gains more cheaply and efficiently for the American people, it is crucial that USAID's FY 2012 operational request of \$1.5 billion is fully funded.

We can only make these reforms meaningful if we can bring in the contracting officers, controllers, and technical advisors who can provide accountability and oversight over our contracts and grants and safeguard taxpayer funds.

As we continue the Development Leadership Initiative begun under President Bush, with strong support from Congress, we plan on filling key staffing gaps in priority countries and frontline states. By bringing in experts in conflict and governance, global health, agriculture, education, economics and engineering, we can restore the technical capacity our Agency has lost over time, and has had to contract at far greater expense.

CONCLUSION

The evidence is clear: development saves lives, strengthens democracies, and expands opportunity around the world. It also keeps our country safe and strengthens our economy. But our development assistance also expresses our American values.

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

When Americans see a neighbor in need, or witness suffering and injustice abroad, we respond; we mobilize; we act. We are a generous people. That fact was never clearer than when 20 million American families donated money to Haiti relief; more than watched the Super Bowl.

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

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

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

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

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

Senator CARDIN. Thank you very much, for your testimony.
Mr. Yohannes.

STATEMENT OF HON. DANIEL W. YOHANNES, CHIEF EXECUTIVE OFFICER, MILLENNIUM CHALLENGE CORPORATION, WASHINGTON, DC

Mr. YOHANNES. Thank you, Mr. Chairman, Senator Lugar, and every member of the committee, for the opportunity to discuss the work of the Millennium Challenge Corporation.

I'm honored to be here and work with this committee to reduce poverty and to advance American interests and values around the world.

Mr. Chairman, as you know, promoting stability, building the next generation of emerging markets, and developing strong and capable partners make Americans more secure. But, to be successful, we need a robust, effective array of development tools. That's

why I am so pleased to be here with my good friend, USAID Administrator Shah.

President Obama has called on MCC to play a distinct, integral role in implementing the new U.S. global development policy, one that complements the work of USAID. Dr. Shah and I coordinate closely to find ways that our agencies can work together and leverage our comparative advantages to help poor countries help themselves.

The President's new development policy is built around core principles: economic growth, sustainability, country ownership, transparency, and results. These same principles have guided MCC since its creation in 2004, when Democrats and Republicans came together to pioneer a new vision for development that is a vision based on accountability, a focus on economic growth, and a rigorous analysis and evaluation to ensure maximum impact.

MCC takes a businesslike approach to development, requiring that each investment meet meaningful economic rates of return. But, sustainable growth and lasting poverty reduction require good governance, too. That is why MCC is so selective in deciding where to invest. We choose to work with only those countries that are accountable to their people, that stand against corruption and that create conditions for markets to thrive and human dignity to flourish.

Part of MCC's distinctiveness is our focus on results. From the start, we have emphasized rigorous, transparent program evaluation. We measure our progress by the number of girls who would receive an education in schools like the ones we established in Burkina Faso, by the growth in trade and business activity that flows from safe, modern roads like the ones we paved in Georgia, by the gains in productivity and health that will derive from cleaner and more efficient water solutions like those we are introducing in Jordan, and many other indicators of progress.

But, the ultimate result we seek is higher incomes for citizens of our partner countries. All of the successes I have just described are stepping stones toward that goal.

This is an exciting time for MCC. MCC's first compacts are now closing out and we are evaluating the results. In Honduras, for example, MCC provided agricultural productivity and business training to help more than 7,000 farmers boost their yields. We upgraded hundreds of miles of road to help farmers get their harvests to market. And we encouraged policy changes to ensure that the infrastructure improvements would endure.

Preliminary data collected by the program implementer suggests that the farmers we work with saw their annual net income rise 88 percent on land being cultivated with new practices, allowing them to invest more in their families, in their farms, and in their futures. I want to stress that this is preliminary data, and we will know more when independent evaluations are completed, later this year.

Looking ahead to the next fiscal year, the President has requested \$1.125 billion to fund MCC, which would enable us to sign compacts with Indonesia, Georgia, and Ghana. I am committed to ensuring that Americans' hard-earned money invested in MCC will yield a return in global prosperity and security.

Mr. Chairman, my own background is in banking, and I bring a banker's perspective to my job. But, my perspective is also informed by my travels in poor countries and by my faith in the values that make America strong: freedom, opportunity, responsibility, and the willingness to lend a helping hand. I have seen the toll that poverty takes in broken dreams and in wasted potential. But, I've also seen how much hardworking men and women can achieve when they are given the tools and the chance to build a better life. I am proud that our Nation supports those aspirations for dignity and progress. And I'm grateful to this committee for your leadership.

Thank you for this opportunity to testify. I request that an extended version of my testimony be entered into the record. And I'm happy to answer any questions.

Thank you, Mr. Chairman.

[The prepared statement of Mr. Yohannes follows:]

PREPARED STATEMENT OF DANIEL W. YOHANNES

Thank you, Mr. Chairman, and every member of the committee for the opportunity to discuss the work of the Millennium Challenge Corporation. I am honored to be here and to work with the committee to reduce poverty and advance American interests and values, around the world.

Mr. Chairman, as you know, promoting stability, building the next generation of emerging markets, and developing strong and capable partners makes Americans more secure. But to be successful, we need a robust, effective array of development tools. That is why I am so pleased to be here with my good friend, USAID Administrator Shah.

President Obama has called on MCC to play a distinct, integral role in implementing the new U.S. Global Development Policy, one that complements the work of USAID. Dr. Shah and I coordinate closely to find ways our agencies can work together and leverage our comparative advantages to help poor countries help themselves.

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

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

MCC'S SELECTIVE, TARGETED APPROACH TO DEVELOPMENT ASSISTANCE

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

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

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

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

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

Signing up to work with MCC means a country is committing itself to tackle the tough policy reforms necessary to create an environment in which the private sector can thrive, citizens can hold their governments accountable, and U.S. taxpayers can see they are getting a good return on their investment. Our goal is to help poor countries rise out of poverty and achieve self-sufficiency, as well as to create stable trading and investment partners for the United States, which will strengthen the American economy and make our Nation more secure.

MCC IS DELIVERING RESULTS

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

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

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

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

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

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

MCC'S INVESTMENTS ARE HELPING TO BUILD THE NEXT GENERATION OF EMERGING
MARKETS AND MAKE AMERICANS MORE SECURE

The third fundamental question is: Are the American people benefiting from MCC's investments? President Obama's new development policy is building on the best ideas of the Bush administration and calling on U.S. development agencies to help build the next generation of emerging economies. By doing so, we are investing in a better future that offers opportunities to poor people in MCC partner countries and to American businesses and our own citizens.

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

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

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

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

Our commitment to private sector engagement is the reason we have taken action to prevent state-owned enterprises from bidding on MCC contracts. MCC's original procurement guidelines included no guidance on this matter, and many—including some members of this committee—rightly expressed concern. MCC's aim is to ensure a level playing field for commercial firms that bid on MCC-funded contracts. Because state-owned enterprises have built-in advantages such as access to preferential credit terms, we took this step to ensure private companies—including American companies—get a fair opportunity to compete for MCC-funded contracts.

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

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

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

THE PRESIDENT'S FISCAL YEAR 2012 BUDGET REQUEST FOR MCC

When President Obama unveiled the new U.S. Global Development Policy last year, he made clear that the United States is "changing the way we do business" in development assistance. Laying out a set of principles and practices that are at the core of MCC's model, he called for all U.S. Government programs to embrace a focus on results, selectivity, country ownership, and transparency.

In his budget for fiscal year 2012, President Obama requested \$1.125 billion for MCC, making the agency a central part of the U.S. Government's effort to promote opportunity and prosperity in poor countries around the world.

President Obama's fiscal year 2012 budget request would enable MCC to sign compacts with Georgia and Ghana, as well as fully fund a compact with Indonesia.

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

MCC requests \$912 million of the total fiscal year 2012 request for compact programs, divided between a second tranche of funding for Indonesia and subsequent

compacts for Georgia (est. \$100–\$150 million) and Ghana (est. \$350–\$400 million). Because of its proposed size, the Indonesian compact would be funded over fiscal years 2011 and 2012, for a total compact range of \$700–\$770 million.

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

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

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

Georgia is recognized globally as one of the best investment climate reformers, even though 30 percent of its population still lives on less than \$2 a day. Over the last 5 years, its scores on the World Bank's Doing Business assessment have improved more than any other country in the index. The country has also made significant strides to privatize state-owned industries and improve its Transparency International rank on the corruption perception index. This good economic policy performance is reflected by the fact that Georgia has seen a 55-percent increase in new businesses registered.

MCC'S SUBSEQUENT COMPACTS WILL FOCUS ON CONSTRAINTS TO INVESTMENTS

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

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

While a single compact alone cannot address all binding constraints to a country's growth or transform an entire economy, a subsequent compact in a country that continues to perform well has the potential to help countries change their growth path away from aid dependence and toward greater reliance on private sector investment and internally generated revenue. For the poorest countries, even the ones with the right policies in place, it may take decades of sustained growth to lift citizens out of poverty. For low-income countries like Tanzania, where the annual per capita income is \$500, economists estimate that it could take over 20 years to double per capita income even if the country sustains annual per capita growth of 4 percent (a historically high rate).

This does not mean, however, that MCC engagement should last anywhere near that long. On the contrary, MCC's role is targeted and selective, and only the best performers will be eligible for continued, limited engagement. MCC's Board is particularly discerning when determining eligibility for follow-on partnerships. In addition to good policy performance, countries must show meaningful progress toward achieving first compact results before being considered for a subsequent compact. Of the 10 countries that will successfully conclude first compacts by the end of 2012, MCC's Board has thus far only selected three as eligible for a subsequent compact. Cape Verde was selected in fiscal year 2010 and Georgia and Ghana in fiscal year 2011.

In our approach to subsequent compact design, MCC focuses increasingly on specific constraints to investment and private sector engagement; by removing such constraints, MCC helps to expand opportunities for U.S. businesses in emerging markets. This is in line with the President's Global Development Policy directive to foster the next generation of emerging markets by encouraging broad-based economic growth and democratic governance.

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

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

MCC BELIEVES CORRUPTION ERODES PRIVATE SECTOR GROWTH

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

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

Earlier in my testimony, I spoke of the strong results we are seeing from our partnership with Honduras. Honduras, however, did not pass MCC's control of corruption indicator at the time of country selection for fiscal year 2011. For me, it was difficult to not have Honduras selected for a second compact. But MCC tries to stick to its principles, and we place great emphasis on fighting corruption.

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

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

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

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

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

MCC'S PROPOSED LEGISLATIVE CHANGES WOULD STRENGTHEN AN
ALREADY STRONG MODEL

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

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

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

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

Additionally, while having definite timeframes for MCC compacts is an important best practice for effective foreign assistance, in some cases projects face implementation challenges that mean they cannot be completed within the mandated 5-year period, particularly given MCC's emphasis on country-led implementation and MCC's high accountability standards. In these cases, MCC's options for responding to implementation challenges are limited by the 5-year timeframe. Allowing MCC, in exceptional circumstances, to extend the duration of our 5-year compact period for up to two additional years would allow MCC and our partner countries to pursue a fuller set of options for managing challenges and achieving compact objectives.

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

CONCLUSION

Mr. Chairman, my own background is in banking—and I bring a banker's perspective to my job. But my perspective is also informed by my travels in poor countries; by my personal experience; and by my faith in the values that make America strong—freedom, opportunity, responsibility, and the willingness to lend a helping hand.

I have seen the toll poverty takes—in broken dreams and wasted potential. But I've also seen how much hardworking men and women can achieve when they are given the tools and the chance to build a better life. I am proud that our Nation supports those aspirations for dignity and progress, and grateful to this committee for your leadership in promoting the security and stability of these countries.

Thank you for this opportunity to testify. I request that an extended version of my testimony be entered into the record, and am happy to answer your questions.

Senator CARDIN. As I said before, your statement will be made part of our record.

And again, I thank both of you for your presence here, but, more importantly, for your service in these extremely important positions.

You mentioned the budget submitted by President Obama. Many of us support the initiatives that President Obama has in his budget, as it relates to your agencies. The reality, though, is that what is moving through the House of Representatives is substantially below those numbers. Not only do they not increase your funds,

there are significant reductions, totaling approximately 29 percent for the FY12 budget.

Can you just relate to us, if that budget became real, if the House-passed numbers in its budget were to be reflected in the final budgets you receive, what impact that would have on the programs that you have referred to in your testimony, but, as it relates to your commitments, generally?

Dr. SHAH. Certainly. And thank you for the question. We have been working in a spirit of bipartisanship and with the desire to be very efficient in how we achieve cost reductions in the portfolio of work, which is why the FY12 budget request already presents more than \$400 million of USAID budget reallocations from programs that are good programs, achieving impacts, but to a range of other programs that we think buy more outcomes for the dollar.

That said, a 30-percent reduction to the various accounts that USAID manages would effectively end our ability to pursue the Feed the Future Program, which has, I think, particular unique and timely value, because it is a program that really was started between FY08 and FY09, with significant budget increases proposed by the Bush administration, and then picked up by President Obama. So, if we go back to FY08 levels, that program essentially will not exist, and the resources will not exist to invest in the 20 priority countries, as we've defined them.

Second, in our Global Health Initiative, we've proposed additional resources for precisely those areas of investment we think buy the most value, in terms of human life, like malaria, immunization, child survival in that first 48-hour period of life, and a number of other health priorities. Those specific programs would be affected and we would not only not be able to pursue the expansions of, say, the malaria program into the DRC and Nigeria, where we think they can save tens of thousands of lives, but we would be cutting back on those types of efforts.

Also, we have—we recognize that the consequences in our international disaster assistance accounts, for example, would greatly limit our ability to lead international responses to crises from Haiti to Sudan to elsewhere around the world.

So, they would have very significant and deleterious consequences to our national security.

Senator CARDIN. Thank you.

Mr. Yohannes.

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

We've been working with Indonesia, Zambia, and Cape Verde. And we've been working with them for the last 3 years. So, any cuts would have huge consequence, especially when you said "about 30 percent." And the biggest problem with a number of those countries is, we want to have a huge investment to transform those countries from aid-dependency to self-sufficiency. So, that funding is going to be impaired. We'll make a decision based on which investment would yield the best return for the American taxpayers.

And also, we have to scale down on some of the proposed projects, making sure that we only invest in those projects that would have the most impact in reducing poverty in our partner countries. We will be creative, and we're going to try to complement our investment with private-sector investment, as we have

done in Jordan. We signed a compact in Jordan last year for \$275 million. The compact was complemented with funds from the private sector, worth approximately \$85 million.

So, we're going to try to be creative. We're going to try to find every way to make sure that our program is not impacted, even though we understand, you know, there are some huge ramifications, in terms of not being able to get things done as we have hoped for.

Senator CARDIN. One of our more significant commitments is in Afghanistan. And I think this committee has been very supportive of the reduction of our combat costs in Afghanistan, recognizing that we need to build the country's economic future, that that will be in our economic interest and in our security interest. But, as I said in my introductory remarks, there is an expectation that our participation in any country depends upon that country's commitment to root out corruption and to have a transparent system and to deal with gender-equity issues.

We're on the verge of passing the 2011 budget; and in that budget, there is direct language requiring that you certify, Mr. Shah, that certain commitments have been made to adopt anticorruption policies, that there have been progress made in gender-equity issues. And it's pretty specific in the language that's included in that budget document that I expect will be approved later this week, maybe as early as tomorrow.

What assurances can you give us that, in making that judgment, you will comply not just with the spirit, but the letter, of what we're trying to accomplish here in making sure USAID promotes anticorruption and gender equity?

Dr. SHAH. Thank you. I would start by noting that, in the FY12 budget, we propose, across State and AID, a \$4 billion overseas contingency account that—in Iraq and Afghanistan—that essentially enables a \$40 billion reduction in military spending. And that's the kind of aggregate offset that we believe represents the large-scale fiscal stewardship that we want to pursue across all accounts. That also highlights the integral nature of our work in Afghanistan, in particular, where we are part of an integrated civilian and military plan.

And we have taken a number of specific steps to address the point that you raised and to address the certification requirements. To begin with, we've reviewed our award mechanisms, and actually broken contract sizes down into smaller award mechanisms, and collapsed the number of layers of subcontractors, so we have more visibility and more vetting of specific individuals and of the subcontract firms, themselves.

Second, we have implemented a much more aggressive vetting system that allows us to track people we are potentially funding against a range of databases, including DOD and intelligence community information.

Third, we have put in place more aggressive financial controls that allow us to better manage the way assistance is working in Afghanistan. And part of making that real was increasing, by more than threefold, our basic staffing in Afghanistan, and especially outside of Kabul, so that we could be more in touch with the programs, themselves.

And finally, we have dramatically improved specific project oversight, where we now have, between our direct-hire staff and our foreign service nationals, far more contact with specific program managers and visits to the field to explore those activities.

These all take place, of course, in a difficult security environment. And I would just point out that, over the last 8 years, USAID and its partners have lost more than 300 people in pursuit of this mission in Afghanistan. And I want to take this moment to just thank our team out there for their tremendous service.

Senator CARDIN. And we share your thoughts on that.

Let me just make an observation. We put a lot of certifications in appropriation bills here. And sometimes they're viewed as giving you leverage to make progress. But, these are meant to be more than that. And we appreciate the progress that you're making, but it's a rare case where you do not certify. And I think it's time, and I'm—Afghanistan, I hope everything works well. I hope all the funds can be allocated and the progress can be made as you have suggested. But, it seems to me that it's incumbent upon you to carry out the letter of the appropriation bill and, where the circumstances do not exist for the certification, that you be prepared to take action to block the funds, according to congressional intent.

Dr. SHAH. Sir, if I may respond to that. There are specific programs, and one very significant and central effort, that we have not certified, and therefore, are effectively holding funds against. This is part of a larger dialogue that we have with our partners in Afghanistan. And I can assure you that we're not just observing the letter or the spirit, we're using this as an opportunity to take actions to make sure we're protecting taxpayer dollars. And we are in the process of doing that right now.

Senator CARDIN. Well, thank you. I say that as a friend of your agency, but one who's going to be looking very carefully at the basis of your certifications, as it relates to fighting corruption and gender equity.

With that, Senator Lugar.

Senator LUGAR. Administrator Shah, Congress has approved a significant new sum of \$150 million, for the State Department and USAID to expend in the post-Mubarak Egypt. Let me ask, first of all, How are these funds being administered? Does the Egyptian Government presently have the capacity to absorb this \$150 million? Finally, what impact are these funds having if any? How would you gauge the effect of the \$150 million?

Dr. SHAH. Thank you, Senator. I would just start by pointing out that our approach to the program in Egypt is highly coordinated across the United States Government, and tied very specifically to our diplomatic strategy, which, as the President has identified, is about supporting an effective, peaceful, democratic transition.

Second, the Secretary, upon her return from her trip, has offered a very specific direction around ensuring that we do everything we can to support the short-term transition, but also, keep our eye on the larger fiscal situation because the essential economic situation and fiscal situation, given current events, is particularly challenging.

In those contexts, these resources have been divided into specific categories. Some of the projects are supporting the democratic

training and support for basic effective election processes—and some of the support will be targeted to larger economic and fiscal assistance. And we're currently in the process of designing that second part of the program.

The things I would highlight are: We have moved very quickly to reprogram these resources, and target them against opportunities. We are seeking to be, as we have been for decades, consultative with the Egyptian Government and with local civil society organizations, in how the funds are spent. And the team has moved very quickly on certain components of this so that they've already engaged with hundreds of individuals and groups in order to be able to be efficient and responsive to the opportunity and the needs.

Senator LUGAR. Well, who is the government? The military establishment? Just physically, who handles the money?

Dr. SHAH. There are different types of funds that we move. Some move directly to validated international organizations. Some can move directly to local civil society groups. And other parts of funds move through existing government-to-government agreements. The basic mechanisms for public administration of programs continues, as it has, unabated through the Minister of International Cooperation, with whom we had lunch earlier today. But, it is a process that we have worked on for years, and is one that allows for transparency in how resources are spent in the Economic Support Fund Program.

Senator LUGAR. Mr. Yohannes, looking at the MCC's calculations for the amount of benefits each compact provides, it appears Congress is appropriating more money for four MCC compacts than those compacts provide in benefits. These four compacts are with Mali, Moldova, Namibia, and Vanuatu. Now, how do you explain this phenomenon? Why would the costs exceed the benefits of these compacts? Does this indicate something about the MCC's criteria, forecasts, or accounting?

Mr. YOHANNES. Thank you very much, Senator. A couple of things. No. 1, our \$8 billion investment is projected to generate about \$12½ billion in additional income for our partner countries. Now, I believe, Senator, we're talking about the benefits. In fact, there may be some misunderstanding, in terms of how it's calculated.

When we calculate the benefit, we used a standard, private sector approach, which is, we take the net present value over the next 20 years. And then, if you look at that for Mali, as one of the countries where we are spending about \$460 million, and the net present value benefits, in about 20 years, is about \$457 million. But, if you discount the \$460 million for Mali, for example, to a 20-year's net NPV, then that amount is about \$320 million. So, in terms of how we calculated, I'll be more than happy to bring my economists and then work with your staff.

Senator LUGAR. Well, that would be helpful—

Mr. YOHANNES. Thank you.

Senator LUGAR [continuing]. To get more clarification for those four countries, and for the whole process.

Mr. YOHANNES. But overall, Senator, they all expect that they will have very positive numbers.

Senator LUGAR. Administrator Shah, the administration has requested \$1.1 billion for the Feed the Future Program, and an additional \$308 million for the United States contribution to the World Bank Global Agriculture and Food Security Program trust fund. The administration has also asked for \$1.69 billion in funding for the Food for Peace, Title II program. Now, let me ask, in this difficult budget climate, How can you assure us that these programs are working together in a nonduplicative manner to accomplish our foreign policy goals? In other words, how do you sort out the missions and the expenditures?

Dr. SHAH. Thank you, sir. The \$1.69 billion for title II primarily funds emergency food security programs around the world. And that would include programs like Darfur feeding programs and in certain other countries where there are acute emergencies and where we need to respond to famine and acute hunger and starvation. The \$1.1 billion plus the \$308 million, that really makes up the agricultural development investments that support us to, over time, transition from what we believe is more costly and, over time, less efficient—that we don't want to be providing food when we can help countries provide for themselves, and do that in an efficient manner.

In terms of how we coordinate those components, they are fully coordinated. USAID sits on the board of the World Bank Fund. The value of that fund is the money we put into it gets leveraged manifold by other donors. And we are constantly working aggressively, with partners from Qatar and the U.K. and Spain and Canada, to make sure that every dollar we put in gets leveraged in that capacity.

The \$1.1 billion allows us to really scale up efforts in the countries that have been carefully selected and have gone through a rigorous now-18-month process of changing their legal rules so that they can attract more foreign direct investment—in many cases, from U.S. companies, like PepsiCo—so that they can make greater investments in agriculture, themselves, and so that our resources can really target small-holder farmers, most of whom are women, who are very much a part of the solution, because, we know, as they earn more incomes and produce more food, the first thing that happens is, they improve the nutrition of their children and then send their kids to school and begin that pathway out of poverty and hunger.

So, that's how the program sticks together. And, country by country, we have developed specific country investment plans that detail how our money will be spent, but also align our resources with funds from the World Bank, from other donors, and from the local government and the private sector. And it's really the first time in decades that that kind of coordination has come together in the agriculture sector. And it gives us great hope that these programs will be highly effective, compared to their alternatives.

Senator LUGAR. Thank you very much.

Thank you, Mr. Chairman.

Senator CARDIN. Senator Menendez.

Senator MENENDEZ. Thank you, Mr. Chairman.

Thank you both for your service.

I want to follow up, on Senator Lugar's comments about Egypt. Those of us who have supported aid to Egypt and to the Middle East know our support is not, in my mind at least, unconditional. I would like to support a country that is making strides in a secular, more democratic direction—respecting the rights, for example, of Coptic Christians. And I agree that aid is an incredibly important tool of U.S. foreign diplomacy, but it also must elicit certain responses as part of that aid. I hope that we are doing that in the case of Egypt, especially as circumstances unfold there and hope you will give me a sense of some of that.

Second, President Obama's trip to Latin America shone a light on the region, one that I believe has been overshadowed by what are seemingly more pressing issues in other parts of the world. And I understand that. But, I believe this constant march, where we see aid to Latin America and the Caribbean move in a downward slope, is not in the national and security interests of the United States. What is occurring in Latin America and the Caribbean affects the American people and our debates in Congress more than those that are occurring in other parts of the world.

I mean, if you talk about undocumented immigration, narcotic trafficking, organized crime and gangs in the hemisphere, new diseases that we had largely eradicated and are now resurfacing—they know no boundaries; if you talk about the creation of opportunities for U.S. products and services to be sold in markets in the hemisphere, whose rate of growth in some countries is a GDP we'd only desire to accomplish, then you see the natural interests of the United States.

And so, I look at that reality, and then I look at where we're going, in terms of foreign assistance based on what you said in a previous hearing, Mr. Administrator, that AID would be seeking to shift funding away from some regions to other areas of the world to maximize the effectiveness of AID dollars. But, we're going in a direction that I think is not in our interest.

Based on the FY12 budget that's exactly where we're headed, with foreign assistance requests for Latin America and the Caribbean for FY12 approximately \$1.89 billion, which is about 8 percent less than FY11 requests, and 16 percent less than the FY10 base enacted appropriation. In the last decade, compared to other regions in the world, Latin America has dropped from 14 percent of the foreign assistance budget to just 10 percent, at a time when all these issues I talked about at the beginning are rising.

So, explain to me, in light of what we are seeing in our own front yard, why this makes sense. And how are we going to stop this slide? What is the priority that you have at AID for Latin America, in the context of worldwide development activities?

Dr. SHAH. Thank you, Senator. I'll start with the second point in question. We absolutely have a priority for Latin America. It's based on a desire to see real results in specific areas. Funding for USAID-managed accounts for the Latin America region has stayed relatively stable. The FY12 request for USAID-managed accounts is about \$1.29 billion, which is \$23–\$24 million less than FY11, but is also slightly higher, about \$29 million higher, than the similar request for FY10. And we, of course, made difficult tradeoffs to produce the budget, overall. And so, we're certainly seeing that.

The ability to maintain the programs in Latin America, when we factor out many of the major initiatives, is even more strong, because the initiatives do tend to skew toward sub-Saharan Africa, although we have managed to identify and make real specific, targeted, initiative-oriented investments in places like Guatemala and El Salvador. Guatemala has been designated both a Feed the Future country and a Global Health Initiative country. El Salvador is one of only four countries that are part of the President's new Partnership for Growth, where we are bringing together the entire interagency and, in a coordinated way, trying to explore expanding, significantly, growth and economic development partnerships with El Salvador.

And we've specifically targeted increases in funding in both the Mexico ESF development assistance and health accounts and in the ESF funding for CARSI. And in CARSI, in particular, we have tried to be very goal-oriented in identifying, what are the specific security benchmarks, where are we seeing real progress in areas like local and community policing and programs that interface with high-risk youth, and our ability to bring local private-sector funding into those programs to supplement U.S. taxpayer dollars.

So, Mark Feierstein, who's the Assistant Administrator in this area, has been focused on this, as have I, and we will continue to maintain this type of a results-oriented focus in Latin America programming.

Senator MENENDEZ. Do you expect to continue to see that, when you have challenges elsewhere in the world, it will be the Latin America and Caribbean accounts that suffer?

Dr. SHAH. I think—in the current budget environment, I don't feel that I'm able to really say that anything is protected. We believe this is an important investment. You're absolutely right to point out that this is both our front yard and the investments we make have direct consequences for our border, the management of our border, migration flows, as well as our own ability to have viable, effective safe trading partners.

Senator MENENDEZ. I appreciate your recognition of that. The problem is that what AID has been doing over time is taking from the Latin America accounts whenever it faces a challenge. So, while I appreciate that nothing is protected, something that never seems to be protected is this. And so, I am concerned that this is the pot by which we ultimately go to. And that is not acceptable. That is not acceptable.

Last, on a third matter, I look at Congress's language, as it relates to the economic support funds for Cyprus, and find that they go to bicomunal projects aimed at reunification measures to reduce tensions and promote peace and cooperation between the two communities in Cyprus. However, according to the list of projects published on the AID Cyprus Web site, it seems to me that almost all of the work is focused heavily on the Turkish Cypriot programs and not bicomunal in nature.

So, can you explain how such projects fit within the definition that the Congress put forth of bicomunal projects meant to promote cooperation and reconciliation on the island? And in light of congressional concern about the lack of transparency and advance consultation of these funds, can you speak about the existing

bicommunal programs which follow the intent of the law and are focused on promoting cooperation, which is the purpose of these moneys, in the first place, between Greek and Turkish Cypriots?

Dr. SHAH. Thank you, Senator. We believe our programs do follow the spirit and the letter of the congressional guidance. I would note that we have supported, in FY10, over 140 civil society organizations in their efforts to build trust and understanding between communities. There are a number of different projects and programs that they pursue to do that in a myriad of different ways. But, in total, they have hosted 400 events in which 17,000 people from both communities have, in fact, participated.

So we have also seen, and track, media responsiveness to that, and, frankly, believe there have been hundreds of positive stories in the international press and more than 1,000 in the local press, that really do achieve that goal.

Senator MENENDEZ. My time is running out, so I will follow up with further questions, in writing.

The reality is that a lot of this is about tourism on the northern side, and attracting people from other parts of the world there. It isn't about bicommunal efforts. I don't know how you get to bicommunal efforts if you don't have conversations and engage the Cypriot Government, certainly on the Greek side, as part it.

So, I'm concerned with your statement that, "Yes, we follow congressional intent," because I really feel that is a lot lacking here.

So, I hope to follow up with you on Latin America, and again, I appreciate your engagement.

Thank you, Mr. Chairman.

Senator CARDIN. Well, thank you, Senator Menendez.

Let me just follow up, just very briefly, on Senator Menendez's point. We understand that there's going to be some very difficult decisions that may have to be made during this appropriation process. Many of us would like to see your budgets more robust. I think that's going to be extremely difficult during these times. But, I would just urge you to work very closely with this committee and the subcommittees of geographical interest, as well as the subcommittee that has general jurisdiction over your programs, and with the appropriators, because I think you're going to find the point that Senator Menendez made about the regional equity issues here are going to be of great interest to the Members of Congress. And I understand the priorities that you are trying to move forward. We can always do that when we have a growing budget. When we don't have a growing budget, it's a little bit more difficult to make those judgments. And I would just urge you to work very closely with our committees as those decisions are being made.

We want to work with you. And we want to have harmony as we go through this. But, if we just find out that a—some aid that we thought was going to be coming in a particular region, all of a sudden is cut back, where other regions seem to be doing better or other programs seem to be held harmless, that may cause some problems as we go forward.

So, please work very closely with Senator Menendez, as it relates to our hemisphere. And we—I'm sure that there are other subcommittees here that are going to have equal interest in what is happening in their geographical area.

Senator Lugar.

Senator LUGAR. I have no more questions.

Senator CARDIN. Senator Menendez.

Senator MENENDEZ. No.

Senator CARDIN. Let me thank, again, both of you very much for your testimony.

Senator Webb has asked that I mention that he was unavoidably unable to attend. But, he has submitted a statement for the record which will be made part of the record.

The record will remain open for 3 days.

And we thank you all very much for your participation.

[Whereupon, at 2:56 p.m., the hearing was adjourned.]

ADDITIONAL MATERIAL SUBMITTED FOR THE RECORD

PREPARED STATEMENT OF HON. JIM WEBB, U.S. SENATOR FROM VIRGINIA

I am presently chairing a personnel subcommittee hearing in the Senate Armed Services Committee, and unfortunately cannot participate in this hearing today. I would like to commend Senator Cardin for chairing this important oversight hearing on our foreign assistance programs and priorities.

As the authorizing committee for foreign assistance, the Foreign Relations Committee bears special responsibility for examining the direction, policy, and levels of funding for overseas aid. This aid plays a critical role in our diplomacy, and nowhere is this more important than in East and Southeast Asia.

This region—with 45 percent of the world's population—is the only place in the world where the direct interests of the United States, China, Russia, and Japan directly intersect. Despite the administration's stated attempt to engage Asia, the FY 2012 budget fails to provide the diplomatic funding and foreign assistance needed to rebalance our long-term and short-term strategic priorities. Of all the regions in the world except Europe, the East Asia region has the lowest budget for foreign assistance.

I look forward to working with the committee to redress this problem and increase the committee's oversight of U.S. foreign assistance.

RESPONSES OF ADMINISTRATOR RAJIV SHAH TO QUESTIONS SUBMITTED BY SENATOR RICHARD G. LUGAR

FEED THE FUTURE

Question #1. In response to my question at today's hearing regarding the Feed the Future Initiative, you stated that while both the Feed the Future and the Food for Peace Title II programs may operate in some of the same countries, because they focus on different hunger and food issues, there is no duplication between them. In addition to these two food security programs, the United States also contributes to the World Bank Global Agriculture and Food Security Program (GAFSP) Trust Fund, and the administration has requested \$1.69 billion for it in FY12. I note that using FY10 data, all three of these programs are being funded in Bangladesh and Haiti. I would also note that several other programs and accounts, including the McGovern-Dole International Food for Education and Child Nutrition program, Migration and Refugee Assistance, and International Disaster Assistance, also address issues of food security.

- Please describe in more detail exactly how each program works in these countries to address food security, where there is duplication and how they may complement each other.

Answer. The United States will continue to provide food aid during times of crisis, but a lasting solution to hunger requires a long-term commitment to agricultural growth. Agricultural growth fosters economic growth, reduces poverty, improves health, and is necessary to meet the needs of a growing world population in the face of climate change and other environmental challenges. The U.S. Government's Feed the Future (FTF) Initiative addresses the root causes of hunger that limit the potential of millions of people, using a combination of bilateral programs and multilateral mechanisms. Feed the Future promotes sustainable growth in the agriculture sector,

facilitates local and regional trade, and invests in game-changing innovations and technologies to support productivity and income increases, so that countries are better able to combat hunger, feed their people, and contribute to stable global food supplies. Other agricultural programs, such as Title II Food for Peace, and the GAFSP trust fund, employ approaches that are complementary to FTF, thereby increasing the impact of USG investments in food security.

One of the key principles of FTF is to support country-led agriculture and food security efforts, including the development of country-owned food security strategies and investment plans, with participation from U.S. food assistance implementing partners and their local counterparts. Through these country-led strategies, FTF collaborates with other U.S. agricultural programs, such as Food for Peace, to ensure efficiency and the greatest impact at the country level. During FTF strategy development, USG country teams analyze current country-specific food assistance programs in the design of their FTF strategy, targeting regional interventions that are complementary to these programs.

In both Haiti and Bangladesh, USG-provided food assistance plays a critical role in supporting vulnerable populations through short-term humanitarian assistance as well as support to safety net mechanisms. In Haiti, the food assistance programs are complementary to FTF interventions as they support earthquake-affected populations and other vulnerable groups outside of the FTF growth corridors. In Bangladesh, the food assistance programs provide a solid basis for the FTF strategy and support safety net interventions for the most vulnerable groups. Given the magnitude of poverty and hunger in both countries, USG resources are not sufficient to fully solve these problems; however, our complementary programs combined will make great strides in reducing poverty and malnutrition.

In addition, the administration's FY 2012 budget requests \$109 million in FTF economic resilience programs. Targeted toward vulnerable but viable rural communities, in areas with high concentrations of chronic hunger, these programs will bridge humanitarian and development objectives through expanded support for productive rural safety nets, livelihood diversification, microfinance and savings, and other programs that reduce the vulnerability to short-term production, income, and market disruptions. Specifically, this request will directly fund community development activities in lieu of monetization of food aid for these programs; expand the proportion of Title II Food for Peace resources available for emergency humanitarian needs; leverage the potential of the World Food Program's local and regional procurement of food assistance to strengthen local markets and increase small holder access to them; and pilot innovative, scalable mechanisms to reduce households' vulnerability to economic and climatic shocks.

The Feed the Future Initiative also works to increase donor funding for agriculture-led growth. In line with the objectives of the administration's food security initiative, the USG supported the creation of the GAFSP trust fund which pools donor funds to provide an additional, unified source of financing to support sustainable food security strategies for those developing countries that demonstrate their commitment to addressing the food security needs of their population. The U.S. contributions to the GAFSP are leveraged by significant contributions from other donors. The trust fund is eligible to make investments in five areas that are central to food security: (1) improving agricultural productivity; (2) linking farmers to markets; (3) reducing risk and vulnerability; (4) improving nonfarm rural livelihoods; and (5) supporting capacity-building and technical assistance needs. In Haiti, the trust fund awarded \$35 million for agricultural productivity growth through adoption of high-yielding technologies and research and extension. Bangladesh received \$50 million for agricultural productivity growth through technology generation and adoption and water management.

Question #2. Is it the administration's intention to seek legislative authorization for the Feed the Future Initiative?

Answer. At this time, the FY12 budget request does not include legislative authorization for the Feed the Future Initiative.

GLOBAL HEALTH

Question #3. I recently released a Senate Foreign Relations Committee Minority Staff Report on transparency and the Global Fund to Fight HIV/AIDS, Malaria, and Tuberculosis. The report is critical of the United Nations Development Program's (UNDP) refusal to make public its audit reports. My staff has recommended the withholding of funds to the UNDP until its internal policies are changed to allow for greater transparency and accountability.

- What are your views on this recommendation?

Answer. We appreciate the SFRC Minority Staff Report, and the administration strongly supports reform of the Global Fund to ensure funds reach people in need and increase the impact of the Global Fund in saving and improving lives affected by HIV, TB, and Malaria.

The administration has been playing a leading role in driving Global Fund reforms: In October 2010, Ambassador Goosby issued a call to action for Global Fund reform; the USG played an instrumental role in creating an independent panel to review the Fund's fiduciary controls and; we are working intensively with the Board to enact comprehensive reforms to improve the Fund's performance.

The report recommends withholding all funding to the U.N. Development Program and U.S. contributions from the Global Fund to UNDP until it certifies that its internal rules and procedures have been sufficiently modified to allow "any investigate[ive] arm of any multilateral organization to which the United States contributes FULL access to their audits, investigations, records and personnel." We strongly support coordinated action by the Global Fund OIG and UNDP in preventing, identifying, and aggressively addressing instances of fraud and corruption and strongly support granting the Global Fund access to UNDP Office of Audit and Investigation (OAI) reports on Global Fund grants. We understand the UNDP Executive Board will address this issue at its next meeting in June.

We are working closely with the Global Fund and UNDP to urge them to address these issues immediately. But we are not proposing to withhold resources to the Global Fund and UNDP, as recommended by the report. Our goal is to strengthen the Global Fund's operations and oversight systems, while maintaining life-saving services for people affected by the three diseases.

Question #4. The staff report also references a recently released study by the United Kingdom Department for International Development evaluating the effectiveness of 43 international funds to which Great Britain contributes for value for the investment and effectiveness in combating poverty. The report recommends that the United States conduct a similar exercise.

- As our U.S. commitments are being evaluated, do you believe that the United States should conduct a similar exercise to better evaluate contributions to international funds and organizations?

Answer. A broad and standardized review of agency performance, such as the review by the United Kingdom, is a worthwhile approach that merits thorough and thoughtful consideration. The Obama administration has made accountability for results central to our global development policy and indeed to our wider national security strategy. Especially in this budget environment, we couldn't agree more that international funds and organizations need to demonstrate results.

The United States has consistently pushed for concrete improvements in efficiency, effectiveness, and accountability in international organizations and we are currently working to implement results-based management at the U.N. and other agencies. As a routine matter, U.S. funding to multilateral agencies is subject to review as part of any funding agreement, and, of course, we exercise oversight of assessed contributions through a range of governance and accountability mechanisms, depending on the agency.

Previously, the United States established the U.N. Transparency and Accountability Initiative (UNTAI) to verify that concrete improvements in management and accountability are being made within the U.N. system. The Department of State is currently reviewing the successful UNTAI initiative and considering improving its usefulness and relevance with a follow-on effort. Nevertheless, taking a broader more standardized approach does merit additional consideration.

MULTILATERAL VS. BILATERAL AID

Question #5. Should we be focusing more on bilateral assistance vs. multilateral programs or vice versa?

Answer. Each one has its value and usefulness, and we need both bilateral and multilateral aid programs to achieve U.S. foreign policy and development objectives. The key is for a balanced approach, combining bilateral initiatives and multilateral programs to maximize their impact. Bilateral programs give us greater control over the design and delivery of aid to a specific country. Multilateral aid programs have some unique advantages: they can help generate international support and leverage donor financial resources for particular causes or issues. Multilateral programs can also help us reach places where we do not conduct bilateral programs or we do not have sufficient expertise or resources to meet the needs. For example, the U.N. played an important role in administering a multidonor trust fund for Iraq reconstruction and made valuable contributions helping Afghanistan build elections proc-

esses. Our participation in multilateral forums also provides us the opportunity and platform to help set the development agenda for the broader international community and to drive reform, transparency, and accountability in these bodies.

GLOBAL HEALTH

Question #6. In June, the Global Alliance for Vaccines and Immunizations (GAVI) will hold their first-ever pledging conference. The United States has played a huge role in the creation of GAVI. As a strong supporter of vaccines, I have closely followed the rollout of the pneumococcal vaccine.

- Should the United States make a multiyear pledge to GAVI; and if so, how much should the United States commit?

Answer. USAID is a staunch partner of GAVI. We strongly believe that immunization, and GAVI which supports global immunization, are amongst the highest impact and most cost-effective uses of U.S. Government investments in global health. Vaccines have the power to transform our global health efforts. By expanding the coverage of existing vaccines and introducing new immunizations, we can save the lives of 4 million children over the next 5 years. And future potential vaccines against malaria, TB, and HIV/AIDS will allow us to break the backs of these deadly diseases and save the lives of millions more.

USAID has played a lead role in GAVI's creation and in its first successful 10 years. In addition to the \$657 million in USAID funding to GAVI between FY 2001 and FY 2010, we play a critical leadership role on the GAVI Board of Directors and the GAVI Executive Committee. USAID also provides technical assistance to countries to strengthen national immunization programs so they can introduce and rapidly scale up access to the new vaccines that GAVI funds.

We appreciate and share your interest in addressing GAVI's funding gap. USAID's FY 2011 request for GAVI was \$90 million. The President's FY 2012 budget includes a request for GAVI of \$115 million. We look forward to discussing future commitments to GAVI with the Congress prior to the pledging conference in June.

PAKISTAN

Question #7. It is my understanding that significant child and maternal health funds in Pakistan have been allocated, but not fully committed.

- Does USAID have the authority to reprogram those funds to be dedicated to polio eradication efforts in Pakistan? Is this matter under consideration?

Answer. USAID/Pakistan in FY10 programmed an additional \$1.5 million of MCH funding toward polio eradication. This was a \$1.5 million increase from previous years. This higher level of funding is planned for FY11. Other MCH funds have been committed to other, equally essential programs.

GLOBAL HEALTH

Question #8. With USAID being the lead agency on the administration's Global Health Initiative, how does it work that the bulk of the funding comes through the global HIV/AIDS under the jurisdiction of the State Department?

Answer. With passage of the Tom Lantos and Henry J. Hyde United States Global Leadership Against HIV/AIDS, Tuberculosis, and Malaria Reauthorization Act of 2008 (Pub. Law 110-293), the U.S. Global AIDS Coordinator in the State Department was granted specific budgetary jurisdiction over all USG funding for international HIV/AIDS programs. Under this authority, funding for USAID's PEPFAR activities is provided through the State Department under the Lantos-Hyde Act. The Lantos-Hyde Act began in FY 2009 and continues through FY 2013. USAID does not believe that this funding structure, which has been in place since FY 2009, will constraint USAID's role as the lead agency under the Global Health Initiative (GHI).

ENTERPRISE FUNDS

Question #9. When communism was crumbling in Eastern Europe, an innovative new concept of development, the Enterprise Fund, was brought forward through the Support for East European Democracy Act and later the Freedom Support Act. These Enterprise Funds were private equity funds which received grants from the U.S. Government. The funds were managed under the direction of distinguished Boards of Directors, serving pro bono, tasked with investing and creating businesses to aid in the transition from command to market economies. USAID monitored their activity, and for the most part, these Funds were very successful. For example, in

Albania, one of the poorest and most underdeveloped countries in Europe, the Enterprise Fund invested in a Western-style bank which became the financial nerve center of the entire country, providing credit cards, loans, and other financial products that Albanians had not experienced before. The bank was eventually sold to an international financial institution for over \$150 million.

- Given these facts, and the obvious need for the goals of our international development efforts to evolve, how do you view the Enterprise Fund concept? Do you see a role for Enterprise Funds in our country's development strategy going forward?

Answer. An Enterprise Fund is one of a broad spectrum of USG and USAID assistance mechanisms that have been utilized to assist the former Soviet-bloc countries to successfully navigate the transition into free market economies. Between 1990 and 1995, USAID provided \$1.2 billion in funding to finance 10 Enterprise Funds covering 18 countries in the Europe and Eurasia region to assist in these transformations. The investment has leveraged total investments of nearly \$9 billion in the region. Further, the use of liquidation proceeds from the investments of the Funds has resulted in the creation to date of nine legacy foundations with over \$1 billion in assets, and the Funds are on-track to return over \$430 million to the American taxpayers. The 10th Fund is also expected to generate sufficient returns.

The Enterprise Funds themselves, while making significant developmental and financial contributions, would likely not have been as successful, without parallel assistance from USAID and other donors to simultaneously provide a wide range of necessary technical assistance, training and capacity-building, macroeconomic policy and regulatory reform, development of existing rule of law and judicial reform, and assistance to host nations to develop and implement policies and practices to create functioning democracies and free market economies out of the former centrally planned Communist system.

The Enterprise Funds were created as public/private partnerships wherein experienced private sector Boards of Directors provided oversight on a pro bono basis and hired full-time day-to-day investment managers to make investments which would promote private sector development and policies conducive to private sector development.

The Enterprise Funds invested directly in thousands of private sector businesses throughout the Europe and Eurasia region. Further, the Enterprise Funds collectively have created over 30 successful private sector financial institutions in the region.

These Enterprise Funds have played an important role in the promotion of free market economies, development of private sector businesses and financial markets, and have contributed significantly to the advancement of the USG's foreign policy objectives.

As with any such intervention and transformation, the model has continued to evolve over the 20 years in which these Funds have operated. Many lessons have been learned, which should be carefully reviewed during the consideration of creating any future investment funds in other countries.

Not all Enterprise Funds were equally successful and even the successful Funds, as might be expected in a transition economy, made progress unevenly.

When the Enterprise Funds were established, the circumstances in the Europe and Eurasia Region were well suited to the Enterprise Fund approach. There was a serious shortage, almost a complete absence of investment capital for the private sector in the region, capital markets and private financial institutions were almost nonexistent, and institutions to provide financial regulatory oversight and enforcement were underdeveloped or nonexistent. In considering the establishment of future Enterprise Funds for countries in other parts of the developing world, the decision should not be based solely on the experience of Enterprise Funds in the Europe and Eurasia Region. The specific circumstances of each country should be carefully studied to ascertain if there is, in fact, a shortage of private sector capital and if so, what types of capital and/or additional financial sector institutions, training, technical assistance or other forms of assistance are needed, and whether the circumstances are conducive to the operation of an Enterprise Fund or a similar private equity investment entity.

It's important to recognize that Enterprise Funds are only one of the possible structures that USAID has utilized to provide increased access to capital and investment expertise and there are other alternatives which should also be considered, depending on the existing circumstances in each country or region.

INTERNATIONAL DEVELOPMENT POLICY PRIORITIES IN THE FY 2011 BUDGET

Question #10. USAID's FY12 budget request includes \$322 million in core funding through several programs including Development Assistance, USAID Forward, Feed the Future, and the Global Health Initiative, for Science, Technology, and Innovation. Science, Technology and Innovation are longstanding strengths of the United States in the global economy and have the potential for a win-win situation for U.S. economic growth and for assisting developing countries. The proposal is an innovative one with its inclusion of other federal science agencies, the private sector, and philanthropic organizations.

- How do you plan to engage the private sector in this effort? How can these ideas move forward in a constrained fiscal climate with no new funding?

Answer. USAID understands the importance of achieving development outcomes more cost-effectively. This is why cost efficiency, scale, and leverage are at the heart of our innovation efforts which focus on identifying, testing, and scaling solutions—including those based on science and technology—with the potential to significantly improve USAID's ability to address development challenges more effectively, more cost-effectively, and sustainably. Working with the private sector and leveraging the resources and capabilities of partners in the private-sector, the nonprofit sector, and other governments is a critical component of this effort. However, we do not believe that our science, technology, and innovation efforts will be successful if they rely solely on private sector support. This is why USAID is requesting funding to support the development of initiatives such as Grand Challenges, Development Innovation Ventures (DIV), and mobile banking, which we believe have the potential to produce cost-saving breakthroughs in development.

USAID is actively engaging the private sector and other potential partners through a variety of outreach mechanisms, including roundtables, speeches, and conferences. Public-private partnerships, such as Global Development Alliances which have an average leverage ratio of over 4:1, are a key component of our efforts to achieve development outcomes, and the majority of the first round of DIV grants leveraged contributions from partners. USAID is also committed to working more closely with the private sector, entrepreneurs, and innovators outside government to help identify, source, and develop potential development solutions rather than viewing them purely as implementers or donors.

BUDGET CUTS IN FOREIGN ASSISTANCE FUNDING

Question #11. I note that the President's budget request cuts development assistance in at least 20 countries by more than half, including 11 countries where all bilateral Development Assistance has been eliminated. It also terminates USAID missions in three countries.

- Have these countries graduated from U.S. assistance?

Answer. Given the budget restraints facing the entire country, USAID will focus and concentrate its efforts to have the greatest development impact with the resources available. The reductions outlined in the question target countries with rapidly expanding economies or those who should be graduating from assistance, as well as those exhibiting a weak commitment to good governance. Through USAID's Country Development Cooperation Strategy and other planning processes, we are working closely with our host country partners and other donors to concentrate our efforts in fewer countries and focusing our efforts within countries. While we are continuing health and other targeted funding to some of these countries, we are aiming more broadly to change the nature of our relationship in these and other countries from assistance provider to development partner, working with nonassistance tools to further development cooperation.

Question #12. Are these mission closures already proceeding? What savings are they generating?

Answer. The missions scheduled to close in FY 2012 are currently making the preparations necessary to undertake the closure. There will be significant savings in Development Assistance and Assistance for Europe, Eurasia and Central Asia from the closures of these missions in FY 2012 (\$16.6 million below FY 2010, an 84 percent decrease). Since the proposed mission closings and position restructuring will not occur until the end of FY 2012, the budget request for Operating Expenses does not reflect any savings for these actions. Savings would begin to be realized in FY 2013.

Question #13. How does the 50-percent cut in aid to a strategic partner like Djibouti—home to our CJTF-HOA—reflect the strategic interest in sustaining that footprint in this volatile region?

Answer. Djibouti is an important strategic partner in supporting stability and combating terrorism in the Horn of Africa. The reduction of Development Assistance funding in FY 2012 is part of a focused effort concentrating on improving border and maritime security and providing food aid, basic health services, and education and job training opportunities. While Development assistance will be significantly reduced, other assistance will remain level or increase including:

- Foreign Military Financing, which will remain steady, will work to modernize and maintain equipment for law enforcement and border protection professionals, including procuring communications equipment.
- International Military Education and Training, which will increase 6.1 percent, will provide training to military personnel to continue professionalization of the Djiboutian military and improve their ability to monitor Djibouti's land and maritime borders.
- International Narcotics Control and Law Enforcement, which will begin a program for training and equipment to enhance the professionalism and capacity of the national police, particularly in forensics and border security.
- PEPFAR, which will provide increased funding focused on addressing HIV/AIDS in the Djibouti-Ethiopia transport corridor.

USAID FORWARD-MONITORING AND EVALUATION

Question #14. An important component of foreign assistance legislation introduced in the last Congress, as well as in the Quadrennial Diplomacy and Development Review (QDDR) and the administration's budget request, is effective monitoring and evaluation of foreign assistance programs.

- What is the status of your agency's work in establishing a rigorous system to evaluate our foreign assistance investments?

Answer. On January 19, 2011, USAID released a new evaluation policy. USAID's Evaluation Policy states two primary purposes: accountability to stakeholders and learning to improve effectiveness. The renewed focus on evaluation led to an evaluation policy that establishes higher standards for evaluation practice across USAID.

All large projects (defined as a project that equals or exceeds in dollar value the mean project size for that office or field mission) will be subject to evaluation. This is intended to ensure that the majority of resources under management will be subject to evaluation. Additionally, all pilot projects must, if feasible, undergo a rigorous impact and/or performance evaluation.

The evaluation policy establishes firm protocols and procedures for ensuring that all USAID evaluations will be transparently conducted, unbiased, integrated into project design, relevant for decisionmaking, methodologically sound, and oriented toward reinforcing local capacity.

USAID began implementing the evaluation policy earlier this year. To provide USAID staff with the tools and technical expertise necessary to make this policy a reality, USAID is offering a suite of new evaluation courses and training modules to project managers and program officers throughout the Agency. Between January and April, more than 100 trainees completed the courses.

In addition to committing to training staff, overseas missions are required to create multiyear evaluation plans that are coordinated with the program and project design, implementation and contracting cycles. To promote full transparency and disclosure of evaluation findings, USAID is creating an evaluation registry, which will be publicly accessible, and evaluation findings will be available on the USAID Web site.

Question#15. Do you plan to outsource any of these evaluations?

Answer. To ensure that evaluations are conducted in an unbiased manner, USAID's evaluation policy stipulates that most evaluations will be conducted by external third-party evaluators who are not directly involved in project implementation. To promote unbiased evaluation work at USAID missions, these evaluations will be managed by the USAID Program Office (which has multiple responsibilities but does not generally manage projects directly) rather than the offices that manage the projects.

USAID expects that the majority of these evaluations will be conducted by externally contracted organizations that have specialized expertise in evaluation. Recognizing, however, that USAID simultaneously needs to build in-house evaluation capacity, the Agency is training its staff in evaluation design, methods, and management. USAID staff and/or implementing partners will conduct evaluations when this serves the evaluation purpose, is cost-effective and does not compromise objectivity. However, it is anticipated that all evaluation teams will be led by an external expert.

Question #16. Will the system also include the ability of your staff to recommend the elimination of ineffective programs?

Answer. USAID's Operating Units will use evaluation findings to inform budget requests, which includes focusing resources on better performing programs and away from those that have a smaller probability of success.

There are two important caveats. First, programs may be ineffective for a number of reasons. For example, an ineffective or underfunded program that was based on faulty assumptions and was not yielding good results in a cost-effective manner might be eliminated. But in some cases, redesigning and/or fully funding might be the most effective and efficient approach to address that development problem in a timely way.

Second, USAID has deliberately chosen to promote evaluation as a tool for agency-wide learning and accountability. Building a culture of learning requires an environment that is willing to innovate and that acknowledges development as a process of continual learning. USAID does not intend to promote evaluation solely as a means by which to justify the elimination of ineffective programs. From past experience, the excesses of such an "audit culture" actively warps organizational incentives, and it can prevent the Agency from making evidence-based budgeting and programming decisions.

SUSTAINABLE GROWTH

Question #17. Over the past 50 years, our notion of international development has evolved as problems in the world have evolved; while we still focus on providing clean water, disease prevention, and educational opportunities, we have also come to be faced with the challenge of spurring sustainable economic development as a means of allowing countries and regions to solve their own more basic humanitarian problems. It is clear that the same approach to eradicating polio or fighting cholera will not work when it is applied to creating sustainable economic development. So a question for development agencies is how to adjust to the new reality of what development should be.

- How are USAID and the MCC seeking to further sustainable economic growth?

Answer. USAID supports sustainable economic growth through diverse efforts to improve the environment for enterprise growth and competitiveness; strengthen economic policy and governance; create sound, well-governed financial systems; support business enabling environments; support microfinance programs and business services for micro and small enterprises; and build trade capacity. Other sectors where USAID works to promote economic growth include: agricultural development; infrastructure improvement, including the upgrading of energy, telecommunications and water and sanitation services; workforce development; education; the environment; and health.

At the same time, USAID and MCC are working in parallel on many different fronts to wean countries off U.S. assistance and ensure the sustainability of development efforts by working through efficient local governments, thriving civil societies, and a vibrant private sector. In particular, USAID and MCC are collaborating in the whole-of-government "Partnership for Growth" efforts in El Salvador, Ghana, Tanzania, and the Philippines to increase investment, strengthen prodevelopment policies, and leverage new capital flows in those countries.

USAID and MCC are also working together to identify private sector investments that can sustain and enhance the investments of both agencies in MCC compact countries. We are pursuing private sector engagement to bolster the sustainability of the developing MCC compacts with Zambia and Indonesia, and to complement the recently signed compact with Malawi. Finally, USAID is implementing threshold programs for MCC that target reforms in key areas—such as anticorruption and rule of law—that can inhibit economic growth.

AFGHANISTAN

Question #18. The new authorities and significant new resources provided the Department of Defense recently created a new Afghanistan Infrastructure Fund (AIF) and a Task Force for Business Stabilization (TFBS).

- What role does USAID have in the conduct and implementation of funds associated with the Afghanistan Infrastructure Fund (AIF)?

Answer. The dual key nature of the Afghanistan Infrastructure Fund requires a joint formulation of the project list proposed to be funded from the AIF. In the field, two working groups are involved in the formulation and selection of the proposed projects: the Infrastructure Working Group (IWG) and the Executive Working Group (EWG).

The IWG, an interagency group cochaired by USAID and the USFOR–A Joint Engineering-Joint Programs Integration Office, meets on a regular basis to discuss infrastructure project coordination and planning. The IWG, keeping in mind the broader infrastructure strategy and implementation limitations (including schedules and resources), defined the requirements for the 2012 AIF project nomination process. The IWG then vets projects proposed for funding under the AIF and develops the prioritized list of projects for nomination to Department of State, USAID, and Department of Defense (DOD) leadership. This process also includes a discussion of timelines and resource levels necessary for each proposed project as well as which agency—USAID or DOD—is best placed to implement the project. The projects are often complemented by ESF-funded activities; e.g., the completion of Kajaki Dam Hydropower Plant complementing the proposed AIF-funded transmission lines from Kajaki Dam to Kandahar City.

The IWG presents the prioritized project list to the EWG, which is composed of senior leadership from the interagency group in Kabul, including the USAID Deputy Mission Director. After review by the EWG, the proposed project list is submitted to Ambassador Eikenberry and General Petraeus prior to being sent to Washington for approval by the Secretaries of Defense and State before it goes to Congress.

Question #19. What role does USAID have in the conduct and implementation of funds associated with the Task Force for Business Stability Operations (TFBSO)?

Answer. Although it depends on the sector in question, usually USAID has no role in “the conduct or the implementation of funds associated with the any projects or other activities undertaken by the Task Force for Business Stability Operations (TFBSO).” Over the past several months, USAID/Kabul through its Office of Infrastructure, Engineering, and Energy and TFBSO have discussed proposed USAID and TFBSO support for the development of the Sheberghan Gas Field in order to coordinate which entity is best placed to support key infrastructure components that will facilitate the construction of a powerplant by the private sector.

Pursuant to Section 1535 of the FY 2011 National Defense Act Authorization, the Secretary of Defense, the Administrator of USAID and the Secretary of State “shall jointly develop a plan to transition the activities of the [TFBSO] in Afghanistan to the Department of State.” Initial discussions have begun on ways in which State, Defense, and USAID could collaborate to prepare this transition plan. In relation to the transition, USAID/Kabul and TFBSO have continued their dialogue on how TFBSO-supported components at Sheberghan could possibly transition to USAID.

Question #20. What oversight role does USAID maintain for these programs? Who has the oversight function for these infrastructure and business development programs?

Answer. State and USAID work jointly with DOD to develop and finalize AIF projects as well as determine which agency is the most appropriate implementer of the proposed project. Following receipt of the funds, each implementer, USAID or DOD, will follow its authorities, regulations, practices and procedures to implement its approved projects, including with respect to oversight, such as USAID’s requirement for independent quality assurance and control for all infrastructure projects. USAID will not have oversight over USACE-implemented projects nor will DOD have oversight of USAID-implemented projects. In accordance with Section 1217(i) of the FY 2011 National Defense Authorization Act (NDAA), the Secretary of Defense, in coordination with the Secretary of State, will submit a report to the appropriate congressional committees regarding AIF implementation that includes, with respect to the fiscal year, the allocation and use of AIF funds, and a description of each project for which funds were expended or transferred.

USAID does not have an oversight role for any Task Force for Business Stability Operations (TFBSO) programs in Afghanistan. The Secretary of Defense does submit a report to the appropriate congressional committees regarding its activities and the plan for transition.

Question #21. What Title 150 funds are associated or provided to support the Afghan Infrastructure Fund (AIF) or the Task Force for Business Stability Operations (TFBSO) in FY10, FY11, and foreseen in FY12?

Answer. A concerted civil-military effort unites DOD and Function 150 funds in the Afghanistan Infrastructure Program to achieve complementary objectives. Under this program, DOD resources from the Afghanistan Infrastructure Fund (AIF) are focused on infrastructure in key terrain districts that have a greater short-term counterinsurgency impact, by providing fuel and expanding power, transport, and water services in the southern and eastern provinces. ESF resources are focused on supporting the foundational mid- to long-term infrastructure needs of the nation, such as developing indigenous power production and expanding power transmission

capability, reliability, and efficiency. These parallel but interlinked investments support the transition efforts by contributing to immediate stabilization while consolidating the gains to date in the more stable areas of the country. AIF and Function 150 funds are complementary in achieving key infrastructure objectives, but there are no Function 150 funds associated or provided to support the AIF or the TFBSO in FY10 or FY11. With respect to the TFBSO, initial transition planning has begun for the possible transition of some TFBSO activities to the Department of State and/or USAID for FY12. Depending on the number of, and types of, TFBSO projects that are determined to be desirable and feasible for transfer to the Department of State and/or to USAID, FY12 funding likely will be needed to continue implementation of those projects. USAID staff in Kabul initiated discussions with TFBSO staff in March, though discussions on gas sector development were initiated earlier.

Projects in banking, mining, and energy appear to have some potential for transfer to USAID although more due diligence is needed before an accurate assessment can be made for transition. In banking, USAID is exploring the use of mobile money applications as a way to pay Afghan Government civil servants through mobile phone operators and banks, while TFBSO has prepared a design for third party payments using a consortium of small banks that might be useful for payments via mobile money. In mining, TFBSO has been assisting the Ministry of Mines in preparing tenders for oil, gas, and mineral exploration. USAID plans to work with the Ministry of Mines in a capacity-building project that could build upon TFBSO efforts to date. With respect to energy, USAID plans to support the Sheberghan gas field redevelopment project and could build upon TFBSO work in this sector.

Question #22. Why does USAID support what appear to be typically civilian authorities and activities for the Department of Defense? Could USAID carry out any of these tasks and if not, why not? What authorities and other obstacles exist to USAID or other civilian agencies?

Answer. USAID is supportive of ensuring that the activities currently undertaken by the Task Force for Business Stability Operations (TFBSO) continue. USAID, State, and DOD are working together to make a recommendation to Congress as to the best home for TFBSO activities in conflict and post-conflict environments, and will work with Congress to effect that transition, as appropriate.

USAID was not actively consulted when the TFBSO was set up to engage in operations initially in Iraq and subsequently in Afghanistan. USAID has just begun to gain an initial understanding of TFBSO operations in Afghanistan and some limited understanding of TFBSO projects in the mining, banking, and energy sectors. As to any determination of the feasibility of USAID carrying out any of the current or planned TFBSO projects in Afghanistan, USAID will need to obtain a much more detailed understanding of the TFBSO portfolio and the current implementation status of any projects underway, including financial and other contractual commitments that may have been made. With respect to authorities or other obstacles that USAID might encounter in implementing any TFBSO projects that might be transferred per the FY 2011 NDAA, four sets of issues must be considered:

- Security restrictions set by the Embassy's Regional Security Officers that currently proscribe or limit movement throughout Afghanistan for USAID staff or USAID partners often do not apply to TFBSO staff and partners operating under DoD Combatant Command guidance. These security constraints might limit USAID's ability to engage in some TFBSO-like activities, but use of implementing partners who are not subject to Diplomatic Security requirements is possible.
- Potential lack of specific funding beginning in FY 2012 for any TFBSO activities that may be transferred to the Department of State/USAID.
- In infrastructure development, such as gas sector development, TFBSO is not bound by the same environmental regulations as USAID. As a result, for USAID to continue or support investments made by TFBSO, USAID would likely need to conduct initial environmental examinations and determine whether additional environmental assessments and mitigation measures are required.

Question #23. Given Secretary Clinton and Gates statement that "the Departments of State and Defense are committed to close collaboration on the execution of an infrastructure program" what has USAID done to narrow its focus to those areas of strategic importance to our specific goals as part of the integrated Civil-Military Campaign plan?

Answer. Through its consultative strategic planning process USAID has prioritized its focus on infrastructure investments that achieve the goals of the Civil-Military Campaign plan, including the key transition objectives. The U.S. is committed to a policy of "transition" by 2014 with GIROA taking on increasing re-

responsibility for security and development. USAID's job is to support the civilian component of this transition, to increase stability while building capacity across sectors—including infrastructure. The USAID has proposed allocating substantial resources to Afghanistan's infrastructure development to consolidate U.S. counterinsurgency and stabilization efforts and lay the necessary foundation for economic growth. Over 80 percent of Afghanistan's regional highways and 30 percent of the national highway system have been revitalized, but an interconnected national electricity energy grid does not yet exist. Asia Foundation surveys of the Afghan people reveal that access to electricity is one of the highest priorities of the Afghan people, which reflects their understanding that the lack of electricity narrows the range of available economic and social development opportunities and their perception that the Government has not been responsive to the needs of its people.

Beginning in FY 2010, a strategic reorientation of USG resources to the power sector will help meet the more than \$6.6 billion in near-term energy sector infrastructure investment required to serve Afghanistan's burgeoning power demand. While USAID is planning to prioritize improvements in power in the infrastructure program, we also will continue to support construction of key transport projects, such as the construction of the Bamyan-Dushi national highway and supporting roads operation and maintenance. Smaller investments in demand-driven water activities, including water supply systems, and renewable energy programs will support stabilization efforts by improving access to clean water and modest energy supplies to improve the quality of life. Together, these activities will result in increased opportunities for Afghan firms and greater local employment.

Question #24. What programmatic consolidation has occurred that shows a prioritization of infrastructure in our assistance for Afghanistan?

Answer. Please see the FY 2012 Congressional Budget Justification for further information on the prioritization of infrastructure, and more specifically for energy. As noted in the previous question, beginning in FY 2010, a strategic reorientation of USG resources to the power sector will help meet the more than \$6.6 billion in near-term energy sector infrastructure investment required to serve Afghanistan's burgeoning power demand.

Question #25. Describe the individuals and mechanisms for engagement that USAID has as it relates to the Civil-Military Campaign Plan and at what levels does the Mission Director in Afghanistan participate in the planning and monitoring of stabilization and development programs?

Answer. USAID is involved in the planning efforts across horizontal and vertical lines of engagement as laid out in the Civil-Military Campaign Plan. At the national level, USAID (Deputy Mission Director and technical office directors (as appropriate) participates in the Executive Working Group, and is the lead agency on infrastructure in the Economic Opportunity Working Group, as well as leading, with the Coordinating Director for Development and Economic Affairs (CCDEA), the Gender Policy Working Group. USAID also participates in the Afghan-First, Economic and Financial Policy, Governance and Rule of Law Working Groups.

The USAID Stabilization Unit and the USAID Office of Program and Project Development (OPPD) are the primary interlocutors for the various Kabul based civ-mil coordination efforts. USAID also participates in the District Delivery Program Planners Board, Transition Interagency Working Group, the Governance and Sub-National Governance Consultative Group and the Governance Policy Working Group. USAID/Afghanistan also participates in the many civ-mil anticorruption working groups.

At the subnational level, USAID Senior Development Officers serve as the lead USAID coordinator for development programs and personnel that fall under their Regional Command. USAID is a part of the Civ-Mil Fusion cells at the regional commands, and USAID personnel serve in the Task Forces, Provincial Reconstruction Teams and District Support Teams.

USAID personnel are involved in the many military planning efforts, and are able to wield their stabilization and development programs to build on military gains. At all subnational levels, USAID officers meet regularly and frequently with their military counterparts to coordinate USAID programming. Often USAID programs are designed to dovetail with military efforts. CERP projects tend to be used to build the infrastructure (i.e., schools and clinics), and then USAID projects provide the technical oversight and additional inputs (e.g., school curriculum, teacher training and clinic supplies). In the counterinsurgency effort, CERP projects tend to be used to help with the clearing and the initial "hold," while USAID stabilization efforts follow in behind to provide "hold-build" activities. Many development

programs are designed to link to stabilization programs and “build” and then “transition.”

USAID Field Program Officers at the provincial and district levels are critical in their ability to oversee and monitor stabilization and development projects. Recognizing this valuable resource, the USAID Mission Director has issued increased authorities to engage with implementing partners and provide updates on progress and the impact to the programs’ Contracting Officer’s Technical Representatives.

Question #26. Your budget request implies a reduction in assistance to Afghanistan for FY12 based on FY10 levels. However, I understand that significant funds remain in the pipeline for projects in the country which beg a few questions regarding the actual funding imperative and limited decisions to reduce in areas not imperative to our goals.

- What is the level of funding that remains unspent in current and prior year funds by fiscal year as well as broken out by category (ESF/INCLE/GHCS/NADR, etc.)?

Answer. As of March 31, 2011, USAID/Afghanistan has \$1.99 billion in its pipeline which represents roughly 6 months of funding at the current expenditure rate of \$323 million per month. An additional \$1.24 billion is appropriated, but not obligated; of which, approximately \$908.185 million is programmed to directly or indirectly benefit the Government. This latter amount requires a Secretary of State Certification that the Government of Afghanistan (GIROA) is cooperating with U.S. reconstruction, taking credible steps to protect the internationally recognized human rights of Afghan women and demonstrating a commitment to accountability and facilitating active public engagement in governance and oversight of public resources per amendments to the FY 2010 supplemental. Below is the breakdown of the pipeline by FYs and funding accounts:

Fiscal year	Fund type	Pipeline in million \$
2007	Child Survival and Health	11
	Development Assistance	10
	Economic Support	35
2008	Development Assistance	9
	Economic Support	145
	Global Health and Child Survival	9
2009	Economic Support	698
	Global Health and Child Survival	11
2010	Economic Support	997
	Global Health and Child Survival	67
Total		1,996

Question #27. What is the current and projected monthly “burn rate” given historical measures?

Answer. The current expenditure rate for the quarter ending March 31, 2011, is \$323 million per month and the projected expenditure rate is \$370 million (\$272 million disbursement + \$98 million accruals). The expenditure rate for the FY 2010 last quarter was \$240 million per month and for the FY 2011 first quarter was \$243 million per month. These rates were projected to be \$83 million per month greater due to \$250 million transfers to ARTF planned for the quarters ending December 31, 2010, and September 30, 2010.

Question #28. How has the USAID mission through the Embassy country team and the reach-back offices at USAID and State sought to narrow the broad range of development efforts to focus on the highest priorities to U.S. interests?

Answer. After conversations in February 2011 in Kabul between USAID Administrator Rajiv Shah, USAID/Afghanistan Mission Director Earl Gast, Ambassador Karl Eikenberry, and General David Petraeus about the need to focus development assistance in support of transition and Afghan ownership, USAID introduced the concept of “foundational investments.” Foundational investments are high-impact, capital-intensive interventions made in priority sectors that will have long-term, sustainable, and durable benefits for the Afghan people, and will assist the transition to Afghan self-sufficiency. Foundational investments are designed to be mutually reinforcing by leveraging gains across sectors for the overall benefit of the Afghan people. USAID/Afghanistan has prioritized the following sectors for

foundational investments: energy; agriculture; extractive industries; financial inclusion; human capacity development; and, construction. In addition, USAID/Afghanistan is developing work plans for the foundational investment priority sectors.

Question #29. How have efforts in Pakistan development coincided and integrated with efforts in Afghanistan in each border area of RC East and RC South and RC Southwest?

Answer. One area of coordination between USAID's development efforts in Afghanistan and Pakistan has been the area of trade. Thanks, in part, to USAID support, on July 18, Afghanistan and Pakistan signed a historic transit trade agreement, the Afghanistan-Pakistan Transit-Trade Agreement (APTTA), which will update and improve the joint transit system to reflect current economic conditions, infrastructure, technology, and transport practices. The new transit regime provides for 10 additional transit corridors in Pakistan and eight new corridors in Afghanistan (the new corridors, including one in Zaranj in RC-Southwest, will be a significant increase from two previous corridors: Torkham—RC-East and Spin Boldak—RC-South). This increased freedom of transit will link Pakistan to Central Asia and beyond and will give Pakistan improved access to raw materials from the region. Similarly, APTTA will link Afghanistan to the world via three Pakistani ports under designated routes. Afghan trucks will now be allowed to transport Afghan exports to any of the three Pakistan seaports (Karachi, Qasim, and Gwadar), load goods, and return with imports from other countries. Additionally, USAID/Pakistan's TRADE program is providing instrumental technical assistance to the Government of Pakistan (GOP) on APTTA. TRADE not only assisted the GOP in securing ratification of APTTA, it also helped the GOP develop a financial guarantee system that will ensure Pakistan collects duties and taxes owed on transiting Afghan goods. Assistance with the guarantee system and other issues helped Pakistani and Afghan officials overcome longstanding obstacles to APTTA's implementation at a meeting of the delegations in Kabul on May 7.

USAID's Trade Accession and Facilitation for Afghanistan (TAFA) program assisted in eliminating key policy and technical bottlenecks obstructing the signing of APTTA. During the final round of negotiations in July 2010, TAFA advisors assisted the negotiating team to understand the various alternatives and commitments available, particularly concerning the revised dispute resolution mechanism and measures to address cross-border issues, such as smuggling. Moving forward, USAID will assist both Afghanistan and Pakistan on implementation of the APTTA, focusing on antimuggling, customs modernization, trade facilitation, and other cross-border issues.

Question #30. Describe how USAID professionals are working in an environment with a stabilization imperative.

Answer. USAID professionals are working shoulder-to-shoulder with our military colleagues in the counterinsurgency environment throughout the "shape, clear, hold and build" phases, particularly following military clearing operations. USAID has expanded the definition of stabilization programming beyond just the counterinsurgency campaign to include programs that aim to reduce the social, economic, and political conditions that give rise to violence in a particular geographic setting.

Recognizing that the closer our civilians are to the population the better they can respond to on-the-ground realities, we are working to get more of our U.S. Direct Hires (USDH) outside of Kabul at Provincial Reconstruction Teams (PRTs), District Support Teams (DSTs) and in regional platforms. Currently, 53 percent of USDH in Afghanistan are working outside of Kabul; with an ultimate goal of 60 percent. The mission is working to devolve more authorities to the field, providing increased oversight of programs and building stronger links between the field staff and our implementing partners.

An increasing number of USAID employees have begun the use of the District Stability Framework (DSF). The DSF is a system developed by USAID and used by civilian-military teams. It allows the collection, analysis, prioritization, design, and assessment of local level sources of instability. With the use of this methodology, USAID Field Program Officers (are better able to align resources to drivers of local level instability. Further, this methodology allows for better continuity of effort and better synchronization of personnel and resources with our interagency partners, including the military.

Question #31. What outcomes should Congress expect as the stabilization spend rate diminishes rapidly in conflict areas that are stabilized?

Answer. As areas are stabilized, USAID will work with other donors and the Afghan Government to shift to a more traditional development role. With increased security, we will be able to build a more vibrant private sector, support social sector

development, and develop a skilled workforce that is capable of servicing needs in an a growing economy.

While our stabilization programs are small-scale and community-focused, they must also have a sustainable impact. Our largest cash-for-work program makes longer term investments by bringing together the district government with the community to decide on projects that address priority issues for the community, and then hires a 100-percent local workforce to implement the project. Through another stability program in the now stabilizing Shindand District in Herat, a \$10,000 investment in a drip-irrigation system will irrigate a pomegranate and almond orchard that the community elders expect will provide approximately 100 families with \$3,000 per year. These sorts of investments are for the long-term.

Of course, in some areas it may be a challenge to maintain positive momentum, and so to prevent insurgents from regaining a foot-hold we will need to make sure that some form of programming remains available in the near term to be targeted for areas that have moved into the transition phase of the counterinsurgency effort. One USAID program, Community Based Stabilization Grants, targets small grants to insulate communities that may be at risk of insurgent influence. Recognizing that the funding for these programs will continue to diminish over time, we continue to look at more efficient ways of using our funds, and partner with locals to understand, identify, and develop programs that mitigate instability.

Question #32. What outcomes are expected by the Afghan population and do they coincide with Afghan Government's capacity to deliver?

Answer. In March 2011, President Karzai announced the start to the Transition process, through which lead responsibility for security will be transferred to the Afghans by 2014. Afghans have signaled expectations for a "peace dividend," in the form of increased development assistance, for transitioning provinces. The latest version of the July 2010 version of the Afghan National Development Strategy (ANDS) Prioritization and Implementation Plan (PIP) signals that Afghans expect donor contributions to "core socioeconomic development initiatives" would total \$10 billion over the next 3 years, with "additional resources available to support current governance and security sector strengthening priorities."

Given these factors, USAID has embarked on a process to focus its assistance to Afghanistan through "foundational investments" in priority sectors—such as energy, agriculture, extractive industries, and human capital, to name a few—which are aligned with Afghan expectations as outlined in the "Kabul Process." The Kabul Process, which began in London (January 2010) and continued through the Peace Jirga (May 2010) and Kabul International Conference (July 2010), is an Afghan-led strategic planning process, which marks beginning of a transition toward full Afghan ownership of the development process. Through the Kabul Process, the Afghan Government identified 22 National Priority Programs (NPPs) and subsequently the USG, along with other donors, committed to aligning at least 80 percent of its assistance against these national priority programs, as well as moving at least 50 percent of its assistance through Afghan Government mechanisms by the end of 2012. To date, USAID has already exceeded the 80-percent alignment goal and is on track for reaching the 50-percent on-budget goal by the end of 2012.

Finally, the expectations and needs of the Afghan people are being increasingly satisfied by the Afghan Government. According to the Asia Foundation's 2010 "Survey of the Afghan People," satisfaction with the performance of the Afghan National Government has risen steadily over the last 3 years. In fact, 2010 saw the highest reported levels of satisfaction of national government performance since 2007 in almost all regions. Finally, compared to 2009, the 2010 survey found that Afghans judged government performance more positively in relation to the provision of basic public services such as education, health care, and security.

Question #33. What specific areas has there been a need for reconsideration due to development professionals' guidance on best practices and what has been the degree of consideration by other U.S. actors? (i.e., poor development practices and ineffective or unsustainable programs)

Answer. Stabilization is one of USAID's key areas of focus in Afghanistan, particularly in the conflict-stricken south and east. In these areas, USAID works hand in hand with the U.S. military to deliver quick-impact stabilization projects that help eliminate key drivers of conflict, such as unemployment and lack of government services. Stabilization efforts are also designed to support the nascent transition process by helping connect Afghans at the local level to their local governments, through the creation of district development councils and community-driven development projects. While stabilization efforts are critical to U.S. objectives in Afghanistan, they are not an end in and of themselves. In the past year, USAID has

adapted the design and implementation of its stabilization programs to build “bridges” between the short-term stabilization projects and the longer term development projects that will contribute to an Afghan-led, sustainable future. Similarly, USAID has worked with the Department of Defense (DOD) to ensure that the design and implementation of the Commander’s Emergency Response Fund (CERP) activities are connected to longer term objectives. CERP projects have traditionally paid for the “brick and mortar” activities, such as building schools or repairing small infrastructure. USAID’s projects, on the other hand, often provide technical support and expertise needed to sustain these investments. To take advantage of both of these approaches, USAID and DOD agreed to give USAID field personnel veto authority on CERP review boards at Task Force and Regional Command levels. USAID field personnel also provide input and insight during the CERP proposal review process. A good example of this interagency coordination, as well as the linkages between short-term and long-term objectives, is the District Delivery Program. Through this program, individual Afghan districts outline their development and governance priorities and develop a viable district development plan. DOD then uses CERP funds to pay for infrastructure to support this plan, and USAID both provides support to line ministry staff, as well as aligns its longer term development projects to compliment the district plan.

Question #34. The second round of discussions of the Strategic Engagement Partnership (SEP) with Afghanistan have recently concluded. What are the parameters of the Strategic Engagement Partnership (SEP) that are being considered with Afghanistan?

Answer. On May 12, 2010, President Obama and Afghan President Karzai issued a joint statement in which they committed to a series of intensive, senior-level bilateral discussions to conclude with the signing of a strengthened U.S.-Afghanistan Strategic Partnership Declaration (SPD), updating the 2005 “Joint Declaration of the United States-Afghanistan Strategic Partnership.” The current plan is to seek to conclude the new SPD in the summer of 2011. To this end, the first rounds of negotiations were held in Kabul this past March and a second round will be held this summer. As negotiations have not concluded, the below statements about the expected parameters of the new SPD are subject to change.

It is envisioned that a new SPD will provide a framework to guide our long-term relationship with Afghanistan. It is expected to address issues related to (1) security; (2) democratic development and institution-building; (3) economic and social development; and (4) regional issues. Specifically, as currently envisioned, the new SPD will set forth political commitments that:

- Reiterate the United States and Afghanistan’s shared vision and commitment to Afghanistan’s future;
- Reinforce Afghan sovereignty as Afghanistan increasingly takes on responsibility for its own security, justice, and development; and
- Articulate how the United States plans to work with Afghanistan to enhance its ability to contribute to regional stability and prosperity.

Question #35. What estimate of resources are most likely essential for longer term development in Afghanistan post 2014 and in what sectors are they essential?

Answer. By 2014 we expect our stabilization efforts to reduce as Afghan security increases, while our foundational investments lay the groundwork for long-term economic growth. We expect to focus on sectors such as infrastructure, agriculture, mining, private sector enabling environment, health, and education to provide the means for Afghanistan to achieve the necessary long-term economic growth and revenues needed to support the government.

PAKISTAN

Question #36. The FY12 budget for Pakistan contains no OCO account funds for economic development assistance. This implies that recent economic assistance is not perceived by the administration as critical in the strategic calculus of our relationship and our national security interests.

- Why has PCCF/PCF been the only account included in the OCO in this strategically sensitive country?

Answer. The Overseas Contingency Operations (OCO) request, including all of the funding for the Pakistan Counterinsurgency Capabilities Fund (PCCF) is intended to fund the extraordinary and temporary costs for operations and assistance in Iraq, Afghanistan, and Pakistan for the Department of State and U.S. Agency for International Development (USAID). This is the first year State and USAID are request-

ing funds under OCO method used by the Department of Defense to identify funding requirements for the exceptional costs incurred in these three countries.

The OCO contribution from Pakistan includes the entire amount of Pakistan Counterinsurgency Capabilities Fund (PCCF) funding (\$1.2 billion), which is a temporary contingency-based account related directly to the need to counter the insurgency within Pakistan.

The decision to not include sources of civilian assistance was predicated on the establishment of the level of long-term civilian assistance support within the Enhanced Partnership with Pakistan Act. This act authorized funding for civilian assistance in the amount of \$7.5 billion over a 5-year period (FY 2010–FY 2014) and was intended to demonstrate U.S. commitment to Pakistan and to help strengthen and build a long-term partnership between Pakistan and the United States. As such, the request did not include these funds in the OCO request which are intended for temporary extraordinary costs.

Question #37. What priority does USAID place on economic assistance relative to OCO given the fiscal and geopolitical environment in Pakistan?

Answer. USAID, together with the State Department, believe that the core, non-OCO economic assistance and the OCO assistance requested are both vital to achieving our national security objectives in Pakistan. Both serve equally important roles within the overall effort to build our long-term relationship with Pakistan. In the request, important focus was placed on balancing the amount of civilian assistance requested with security assistance for Pakistan. Since USAID is managing the bulk of the economic assistance, our focus is on ensuring effective and accountable implementation of this assistance in conjunction with the State Department's policy coordination of U.S. assistance efforts.

Question #38. How does USAID characterize the recent and prospective environment for fiscal stability in Pakistan?

Answer. The current fiscal stability in Pakistan is troubling. From 2005 to 2010, Pakistan averaged 4.9 percent GDP growth proving its resilience in the face of multiple adverse events. In recent years the growth of the economy has slowed and is predicted to only grow by 2.8 percent in 2011. Exacerbating slow growth is an underfunded government budget and a narrow tax base. The IMF estimates the deficit at 6.7 percent in FY10/11, up from 6.3 percent the previous year. This is significantly above the IMF target of 4.7 percent. The tax-to-GDP ratio is only around 9 percent, one of the lowest globally.

The government's fiscal deficits lead to heavy government borrowing that drives inflation. Over the past 3 years, Pakistan has experienced aggregate inflation of 48 percent against GDP growth of just 12.5 percent. Prices are increasing at a rate of 15–20 percent. Food insecurity affected close to half the population in 2009, and is likely substantially higher after the 2010 floods. Combined with lack of power, soaring prices are beginning to create social unrest.

Massive subsidies to the energy sector (approximately 1.4 percent of GDP) contribute to the fiscal crisis. The burden of energy subsidies has tripled in the last 3 years. The Asia Development Bank estimates that the energy shortfall (including load shedding) is estimated to have reduced GDP growth by 2.0–2.5 percent.

Despite continued problems with the fiscal deficit and subsidies, the Pakistan economy shows some positive signs. Financial sector size and depth has improved, and the banking system is becoming more efficient. The booming inflow of remittances continues to support the financial sector, as well as consumption in the real sector of the economy.

The United States and other donors realize assistance will be far more effective if Pakistan can reestablish macroeconomic stability and implement long-awaited policy reforms. USAID is working closely with critical stakeholders in an attempt to demonstrate progress in the short-term to incentive long-term reforms, and position Pakistan to seize opportunities for economic transformation as they emerge. Pakistan's recent devolution of certain fiscal authorities to its provinces will require closer attention to the fiscal capacities and budget priorities of the provinces.

U.S. economic growth assistance is closely aligned with the Government of Pakistan's (GOP) "New Development Approach/New Growth Strategy" which is focused on opening markets, increasing productivity, and improving competitiveness. U.S. assistance also complements the National Poverty Reduction Strategy, which emphasizes agriculture as the key driver of job growth in predominantly rural districts and recognizes its multiplier potential in generating macroeconomic growth. Despite political uncertainty and turnover of senior GOP officials, Pakistan has well-placed people and institutions with significant vision and capacity for policy improvements, as well as substantial ongoing reform initiatives. Additionally, new technology is in-

creasingly available to improve efficiency and eliminate opportunities for corruption. These factors create the environment needed to stimulate broad-based, inclusive economic growth.

The IMF shares this positive outlook in Pakistan's economy and estimates GDP will reach 6 percent growth by 2015.

Question #39. How does USAID assess the geopolitical environment for stability in Pakistan?

Answer. A significant proportion of the threats to Pakistan's stability are the result of insurgent activities, which are primarily centered in the Federally Administered Tribal Area (FATA) and Khyber Pakhtunkhwa (KP). The current instability in the FATA and KP owes much to decades of poor governance, underdevelopment, and regional conflict. After 9/11, insurgents were able to exploit these vulnerabilities to establish de facto control over much of the FATA and pose a threat to the Pakistani state.

Military operations against these groups began as early as 2002, but their success was limited. The GOP attempted a series of negotiated settlements, but none proved enduring or effective at curbing violence. The high water mark for insurgent groups came in early 2009, when a branch of the Pakistani Taliban moved out of the FATA and took over large settled areas of the Swat Valley in KP's Malakand Division.

U.S. stabilization activities are closely aligned with the objectives of the 2010 Post Crisis Needs Assessment for FATA and KP, which include: building responsiveness and effectiveness of the State to restore citizen trust; stimulating employment and livelihood opportunities; ensuring the delivery of basic services; and countering radicalization and fostering reconciliation. As FATA stabilizes, other donors have been coming to USAID to seek advice on how they might become involved in stabilization and development activities in FATA.

Additionally, polling indicates that USAID's community-level programs have helped engender some community support for the political administration in FATA. But the complex political environment and security concerns argue against an aggressive branding campaign for most community-level U.S.-supported activities in FATA as this could result in threats to recipients of U.S. assistance by remaining insurgent elements.

Despite the political instability and history of military coups, the military has yet to have taken sides in the political crises and largely has both engaged (i.e., peacekeeping in FATA) and not engaged (i.e., conducting the census) in operations to boost its public image with the people. In the near term, the military seems content to exert influence over the civilian government without resorting to a coup. By Pakistani law, the next general election must be held by early 2013; it is currently scheduled for February 2013 but could occur at any time.

Question #40. In a recent briefing of Congress, your staff indicated that greater than 50 percent of assistance was now flowing through the Pakistan Government.

- Why has the essential monitoring and evaluation program for Pakistan still not been established and will not be in place until mid-summer?

Answer. Several factors contributed to delays in finalizing this program. During winter/spring 2010, USAID engaged in a lengthy discussion with other USG entities over the appropriateness of using international firms to fill this function. Following the flood, attention was focused on recovery and reconstruction activities. When the new mission and Embassy leadership arrived, there was mutual agreement on the importance of this project and the mission moved forward finalizing the documents and deciding on the most appropriate contracting mechanism. We anticipate the third-party monitoring system to be operational in July 2011.

Question #41. What are the current methods for monitoring and evaluation and what is the level of confidence in this large amount of funding moving through suspect institutions within a weak civilian government?

Answer. Ensuring that Pakistani organizations, including the government, act responsibly with U.S. taxpayer money begins long before program implementation. USAID/Pakistan carefully vets all potential partners for technical capacity, risks of financial misconduct, and terrorist financing before awarding funding. USAID also conducts preaward assessments of all local organizations, examining their organizational and management structures to determine if systems are in place that will lead to the transparent and accountable use of USG funds. When weaknesses are found in these local entities, USAID provides capacity-building efforts to help them meet accountability requirements before funds are released. USAID/Pakistan is implementing a robust monitoring and evaluation structure in place to monitor progress and measure results. The mission increased staffing levels and institu-

tional support to support monitoring and evaluation, auditing, contracting, and financial management oversight capabilities of local partners.

Vetting

USAID/Pakistan carefully reviews and vets applications for technical capacity, quality, cost effectiveness, and applicability to USG objectives. Prior to awarding a grant or contract, the grant or contracting officer makes a responsibility determination as to whether or not the recipient meets business and ethical standards. The preaward assessments, discussed further below, are an important part of responsibility determination for local awards. In addition, USAID/Pakistan checks all contract and grant recipients issued by the mission against the USG Excluded Parties Listing System (EPLS) and the list of suspected terrorists designated as “Specially Designated Nationals and Blocked Persons” by the Office of Foreign Asset Control (OFAC) of the Department of Treasury. Further, certain grants and contract instruments provide USAID/Pakistan with the authority to approve subrecipient awards. Such provisions allow the mission to make responsibility determinations and vet the subgrantees and subcontractors that might ultimately be the recipient of USG funds. Finally, all grants and contracts include provisions that prohibit the funding of terrorism. In this regard, USAID/Pakistan implements the Guidance for State and USAID funding and the Risks of Terrorist Financing with respect to all of its programs in Pakistan.

Preaward Assessments

USAID/Pakistan continues to use a number of additional tools to ensure proper monitoring and evaluation of USG assistance, including conducting preaward assessments of Pakistani organizations. The assessments examine organizational and management structure, accounting, financial management systems, internal controls, technical capabilities, and quality assurance capabilities, as well as the organizations’ policies, procedures, and practices for effective and efficient management of USG resources. If the results of these assessments show that there are mitigating risk factors, pre-disbursement and post-disbursement conditions are built into the awards/agreements made with these organizations, to ensure strengthening of relevant issues and reduction of risk for USAID/Pakistan.

Since FY 2009, USAID/Pakistan has completed 81 preaward assessments of Pakistani Governmental and nongovernmental organizations, and will undertake additional assessments if needed for future awards. When needed, USAID/Pakistan also has placed staff from accounting firms with its implementing partners to support successful implementation of financial policies and procedures.

Monitoring and Evaluation

USAID/Pakistan adheres to standard procedures in the monitoring of its activities to ensure proper use of U.S. foreign assistance funds:

- Implementing partners are required to maintain accurate and constructive performance management plans (which identify goals and targets) and report their progress toward those goals quarterly.
- Activity managers and implementing partners perform spot checks whenever possible of activities to monitor progress.
- By July, USAID/Pakistan will have finalized a contract for third-party monitoring and evaluation services to verify monitoring data reported by our implementers and Government of Pakistan partner entities; monitor projects in hard-to-reach remote and insecure areas; conduct baseline, midline, and end-line surveys to capture information on program results; conduct evaluations; and train implementing partners to enter all monitoring data into this system. An inventory of ongoing evaluations will be maintained, used for coordinating evaluation efforts, and timed to provide input into strategic planning decisions.
- As exemplified by USAID’s monitoring and evaluation of flood relief efforts, USAID/Pakistan employs a variety of methods to conduct oversight in an insecure environment. In 2010, when the security environment permitted, USAID Islamabad staff visited flood relief project sites monthly. USAID provincial teams in Peshawar, Karachi, and Lahore visited projects and assessed progress in their regions as much as security allowed. USAID also used a third-party monitoring effort for flood relief, working through local Pakistani firms in Sindh, Balochistan, KP, and Punjab to verify, monitor, and document flood relief progress. These partnerships made it possible, in a difficult operating environment, for USAID to receive first-hand accounts of project challenges and successes.

- In addition, USAID/Pakistan has established a Monitoring and Evaluation Working Group to help institutionalize performance management and use of evaluation for program design and strategic planning.
- Over the past 12 months, the mission increased staff levels to add activity, financial and contracts managers to meet the increasing management burden and to ensure adherence to standard monitoring and evaluation responsibilities. The USAID Office of Inspector General established its office in Islamabad in 2010 and as of February 2011, and has 12 staff. Currently, 61 staff members in Pakistan are involved in auditing, contracting, and financial management oversight capabilities, the vast majority of which have been added within the last year.

Question #42. What is the monthly spending rate for U.S. assistance in FY10 broken out by sector?

Answer. USAID's monthly expenditure rates by sector throughout FY 10 were as follows:

FY 2010 MONTHLY EXPENDITURE RATES BY SECTOR

[In millions of dollars]

	Q1	Q2	Q3	Q4
Education	\$8.1	\$3.7	\$3.5	\$3.8
Governance	1.5	1.8	1.4	2.0
Health	7.4	4.6	4.5	2.9
Economic Growth	4.6	3.7	5.0	9.7
EQ Reconstruction	2.9	4.1	3.0	2.8
FATA	6.1	4.4	3.4	7.7

USAID has increased expenditure rates since FY 2010. As of the first quarter of FY 11, USAID has increased its monthly expenditure rate by 38 percent over FY 10 Q1 monthly expenditure rate.

Question #43. What is currently remaining in the pipeline by sector?

Answer. The estimated pipeline of our assistance to Pakistan as of the end of December 2010 is \$1.6 billion. As FY 2010 funding was not available for obligation until the end of the fourth quarter and FY 2010 supplemental funding was not available until late in the first quarter of FY 2011, it is to be expected that most FY 2010 appropriations remain in the pipeline.

Funds are being expended at \$66 million per month, well above the average USAID FY10 expenditure rate of \$58 million. The slight decrease from FY 2010 Q4 to FY 2011 Q1 is due to the need to focus on responding to the August and September floods with immediate emergency accounts and reprogramming existing ESF to support recovery and reconstruction efforts. The 1st quarter of FY 2011 expenditure rate is 38 percent higher than 1 year prior and 128 percent higher than the end of FY 2009, indicating the rollout of programs in Pakistan has picked up its pace significantly over the past year.

Q1 FY 2011

	Monthly expenditure rate	Pipeline
Education	\$6.4 million	\$364.8 million.
Governance	\$3.9 million	\$233.5 million.
Health	\$6.5 million	\$272.8 million.
Economic Growth	\$42.8 million	\$685.9 million.
Social/Humanitarian Assistance	\$6.397 million	\$62.64 million.
Total	\$66 million	\$1.6 billion.

Question #44. What are the primary obstacles and challenges that remain before U.S. assistance can flow more effectively and transparently?

Answer. Despite the devastating impact of the 2010 floods and our requirement for assessments of all partner institutions to ensure that U.S. taxpayer funding is used for the purposes intended, USAID has increased its expenditure rate by 38 percent over the past year. However, given the level of resources being committed to

the Pakistan program and the importance to our national security, we are aware that we must further increase our expenditure rate and continue to achieve results.

The 18th amendment to the Pakistani Constitution passed by Parliament in April 2010 calls for a fundamental decentralization of government services to the provinces. Given the uncertainty about what functions will be devolved to the provinces, how to do it, and how to finance these changes, an important challenge is trying to keep the momentum going and ensuring successful transition of services. There are several significant risks to effective devolution including lack of capacity at the provincial level, political infighting, and corruption.

A significant implementation challenge is the work we need to do with Pakistani institutions to strengthen their management and implementation capabilities. These are important components of the evolving partnership we are developing with the Pakistanis. We continue to assess what is necessary to speed up implementation, and to develop new mechanisms and approaches that will help us to achieve our overall objectives. Our recent refocusing of the program into four key sectors, our reduction of management units to help streamline operations, and our provision of direct assistance to overcome critical program-specific hurdles, all are examples of the ways in which we are adapting program implementation to meet these challenges.

Question #45. Consulates in Peshawar, Lahore, and Karachi are now up and operating.

- List the staff levels and agency for each U.S. consulate, including the percentage of time the staff is actually posted to the consulate site.

Answer. All employees in the consulate spend approximately 82 percent of their time posted to the site. Their remaining time away from the consulate accounts for R&R and/or Regional Rest Break travel. The staff level for each consulate site is as follows:

- Peshawar*—26 total USAID staff
 - 7 U.S. staff
 - 19 FSN staff
- Lahore—10 total USAID staff
 - U.S.
 - 7 FSN
- Karachi—8 total USAID staff
 - 2 U.S.
 - 6 FSN

*All Peshawar staff currently located in Islamabad due to security concerns

Question #46. How important is the consulate staff to the planning, implementation, and monitoring of U.S. assistance?

Answer. The USAID field office operations add to total oversight personnel available per dollar of program funding. Monitoring program work would be more difficult and program vulnerabilities would increase if the consulate staff were not in place. Each USAID consulate staff member is of great importance in these regards. This includes all phase of the development lifecycle: planning, implementing, and monitoring of programs in each region of Pakistan.

Question #47. Southern Punjab and Sindh have proven to be volatile regions of the country that also harbor threats to the Pakistan Government, threats to the region, and threats to United States.

- What are the priority areas for U.S. assistance and how does the U.S. partner with Pakistan in addressing these threats?

Answer. USAID/Pakistan is focusing its activities in northern Sindh, southern Punjab, Khyber Pakhtunkhwa (KP), and the Federally Administered Tribal Areas (FATA). These are shown to have among the worst socioeconomic indicators in the country and are some of the most vulnerable areas to extremist recruitment.

In Punjab and in Sindh, USAID's primary objective is to support the provincial governments to deliver basic education, health, and municipal services to the local population. As the GOP prepares to begin implementing devolution policy established by the 18th amendment on July 1, 2011, the provincial governments need to quickly build the capacity to provide social services. USAID/Pakistan will provide technical assistance in resource management and program planning, commodities provision, and construction of community infrastructure.

Question #48. What are the primary development programs in these areas and what are the essential parallel programs of others (donors and Pak Federal and Provincial government), including our own security assistance programs?

Answer. USAID/Pakistan is working in five priority sectors: energy, economic growth, stabilization, health, and education. We engage our Government of Pakistan counterparts at the federal and provincial level to identify individual programs and projects within these sectors.

Sindh

While several of our national programs are working in Sindh (e.g., health, economic growth), we are also targeting programs to address particular needs in the priority areas in those provinces. The programs focus in the areas of energy, stabilization, education, and health. In energy, we are renovating two thermal powerplants in Sindh (Jamshoro and Guddu) to increase the power generation capacity of the national grid and alleviate electricity shortages. We are also replacing inefficient tubewell motor sets with more energy efficient models, which will save farmers money on their electricity bills. In education, we are finalizing a Sindh education program that will increase basic education enrollment and retention rates for children in target districts of Sindh, primarily girls.

USAID/Pakistan has also entered into a 5-year agreement with the Government of Sindh for a Municipal Services Delivery Program, which will improve the quality of municipal infrastructure and public service delivery by instituting necessary policy reforms in underserved and vulnerable parts of the province. We hope this will have a stabilizing effect by increasing the provincial government's capacity to deliver critical public services, thus demonstrating responsiveness to their constituents. More than two-thirds of the budget for this program will be spent on improving and expanding drinking water supply, water quality, sanitation/sewerage, hygiene, and other municipal services in 14 out of 23-three districts of Sindh.

Finally, USAID/Pakistan is constructing a 60-bed obstetric and gynecological ward at Jinnah Postgraduate Medical College in Karachi, as well as renovating the Karachi Central Contraceptive Warehouse and the Jacobabad Civil Hospital. These projects will improve the tertiary and primary health care services for over 1 million underserved Pakistanis in Sindh and neighboring districts of Balochistan, as well as provide a consistent supply of contraceptives throughout the country.

In terms of donor and Government of Sindh engagement, in education, the World Bank and European Union are the primary donors working in Sindh, while the DFID is considering expanding its education programming. We coordinate very closely with donor counterparts to share lessons and ensure complementarity of actions to support important education sector reforms as well as no duplication of effort.

For example, the Asian Development Bank is now implementing a \$300 million loan for the Sindh Cities Improvement Investment Program (\$300 million from ADB and \$100 million Government of Sindh contribution) that seeks to improve water, wastewater and solid waste management in six of the provinces secondary cities in the north (Sukkur, New Sukkur, Rohri, Larkana, Khairpur, and Shikarpur). This project seeks to mobilize strong private sector participation to improve health, quality of life, and economic competitiveness for an estimated 4 million residents. This complements MSDP, which works in small- to medium-size towns in the same region. USAID and the ADB project are and will continue to coordinate their activities by dividing up geographical areas of work and responsibilities between the two projects in order to avoid duplication and waste.

The Government of Sindh's efforts in education have been focused on important and long overdue reforms. They are transitioning to a merit-based hiring system for teachers, and are currently only recruiting female teachers, which will in turn support increased girls' enrollment. They are also implementing a policy of consolidating schools so that a single compound comprises a single school administered by a single body, not three or four as is the current norm. USAID's education program in Sindh will support this effort.

The health donors are still determining geographic locations and have not made any formal commitments to Sindh at this time.

Punjab

USAID/Pakistan activities in Punjab aim to improve basic service delivery while addressing the widespread corruption and poor governance issues that drive extremism. USAID/Pakistan and the Government of Punjab have signed agreements to support the delivery of municipal services and education with FY 2009 and FY 2010 resources, with a focus on southern districts with high poverty rates. The municipal services delivery program will focus on two components: capacity-building of the Punjab Government and the provision of infrastructure and equipment upgrades focused on a few essential urban services; i.e., safe water, sanitation, streets improvements and street lighting. Specific inputs will be prioritized by the provincial

government with inputs from districts and community engagement activities. The education program is focusing on new school construction with a particular focus on schools damaged by the floods, supporting school councils, and building the capacity of the Punjab Department of Education to manage resources, and continue to provide operations and maintenance on new buildings. An ongoing USAID program supporting teacher training will complement these provincial activities.

USAID/Pakistan is also planning to use FY 2010 funds to support the Punjab Government to address three key health needs —birth spacing using family planning and maternal and child health including immunizations. A Technical Advisory Unit supported by USAID is currently working with the federal and provincial governments to help determine policies related to the devolution of the health sector, which are critical to further developing this activity.

In addition to these activities to be implemented through the provincial government, USAID is also supporting high impact, highly visible projects in Punjab. USAID/Pakistan is rehabilitating the Muzaffargarh Thermal power Plant Rehabilitation, located 45km southwest of Multan, which will increase generation capacity to the power station by 95 MW. In a cost-sharing arrangement with farmers in Punjab, approximately 250 inefficient tubewell pump sets have been replaced with energy efficiency models, greatly reducing farmers' electric bills. In addition, USAID/Pakistan is renovating Lady Willingdon hospital in Lahore, the largest maternity hospital in the country, to improve the capacity and quality of maternal services for low-income women.

USAID/Pakistan is coordinating closely with other donors in Punjab to avoid duplication of efforts, to ensure the international community has consistent messages on policy reform, and to align our government-to-government assistance mechanisms to avoid over complicating the government's efforts to manage donor resources. For example, the World Bank and DFID provide direct support to the Punjab Government, working through a project management unit created within the Punjab Department of Education. U.S. assistance will continue to be provided through the same project management unit to ensure U.S. assistance is value added and not duplicative to ongoing work. Other major donors include DFID (budget support), GTZ (teacher development, library facilities), CIDA (debt swap teacher college renovations), World Bank (stipends, teacher development, school construction and upgrades), and JICA (school upgrades).

The Southern Punjab Basic Urban Services Program is another Asian Development Bank-funded program that was initiated in 2004. The program cost is estimated at \$128.6 million with ADB funding \$90 million and the rest being provided by the Government of Pakistan. The projects geographical focus is in 21 towns in Southern Punjab, including towns in Multan and Bahawalpur Districts. This complements similar efforts by MSDP in Punjab.

USAID is also taking the lead in coordinating donor health funding and is fostering agreement on Pakistan's health priorities and a division of labor based on the strength of each partner. Primary donors in the health field in Pakistan are DFID (health sector support and TA for maternal and child health) and the World Bank (reproductive health and infectious diseases).

EGYPT

Question #49. I asked in the hearing about USAID efforts in Egypt, with respect to the reprogrammed \$150 million. Specifically, I asked what impact are our programs having, and more importantly, with whom are we working.

Please provide more specific answers for the record to these two questions.

Answer.

What impact are our programs having?

At the brink of the revolution, USAID moved rapidly to provide urgent assistance for the transition in Egypt by reprogramming \$150 million in funds for economic growth and democracy and governance to support a peaceful, equitable transition. The Egyptian people's response to our democracy and governance and economic growth grants opportunities has been tremendous:

- Approximately 2,500 people representing more than 1,000 organizations lined up to participate in information sessions and proposal writing workshops throughout the country. USAID has received over 200 proposals to date, primarily from Egyptian organizations that have not worked with USAID before, with more coming in weekly.
- In less than 4 months, USAID has committed \$55 million in transition assistance funding. Of this, we have obligated \$32.5 million to Egyptian and U.S. partners to support democracy and governance transition initiatives and \$2.5

million in economic growth transition initiatives. USAID also transferred \$20.5 million to the Department of State's Democracy, Human Rights and Labor (DRL) Bureau and Middle East Partnership Initiative.

- In addition, USAID is currently negotiating the details of \$55 million in grants (including \$37 million to support economic growth) with U.S.- and Egyptian-based organizations.

As USAID is in the early stages of implementing the transition program, it is too soon to assess direct impact. However, the strong interest among Egyptian civil society organizations and entrepreneurs in the USAID transition program is an important indication that the people of Egypt stand ready to work with the United States through Egypt's transition to democracy.

With whom are we working?

With funding to support the transition process, USAID is engaging directly with a wide range of critical actors, including civil society organizations, youth, political party representatives, labor, and others who have been mobilized by recent events and are working to support their country's historic transition.

Specifically:

- As noted above, nearly 2,500 attendees representing more than 1,000 organizations have attended USAID grants information sessions throughout Egypt. To date, USAID has received a total of 236 proposals, 70 percent of which are from Egyptian organizations.
- USAID has obligated \$25 million to U.S. organizations that support democracy and governance activities worldwide, including the National Democratic Institute (NDI), International Republican Institute (IRI), and the International Foundation for Electoral Systems (IFES).

In general:

- To widen contact with youth organizations and encourage youth engagement in the political process, USAID, working with an Egyptian grantee, has held a series of meetings with youth in Sinai and Qena to identify their priorities for democratic change and gauge their opinion of the current situation.
- To broaden engagement away from elites and established political leaders, USAID is providing training for members of newly formed political parties on methods, and mechanisms for political participation, including communication and public speaking skills, election campaigns, and working with traditional and new media modes. USAID is also working with IRI to develop skills of women candidates, in existing and emerging political parties.
- To widen engagement with new Egyptian organizations, USAID is working with partners to expand training efforts and share civic education materials, including video spots, brochures, manuals and games. One Egyptian USAID partner has already trained 900 facilitators from other organizations on how to use media and outreach materials.
- When appropriate, USAID is also working with government-related institutions that have a role in supporting the organization and implementation of democratic elections for other purposes related to a democratic transition. In addition, USAID is providing funds to help address economic grievances expressed in the protests.

Questions #50, 51, 52. Presumably during the Mubarak era, there were a number of initiatives that were stymied by the government and their policies—for instance prohibiting NGOs and effectively barring the NED institutes.

- Are you aggressively pursuing these items now? Please be specific.
- How many grants have you issued and to whom?
- Is USAID/Egypt able to get out of Cairo and solicit grant proposals from civil companies and small and medium enterprises from around the country?

Answer. Since 2005, the USG has provided continuous support to a wide range of civil society organizations, including the National Democratic Institute (NDI) and the International Republican Institute (IRI). Local and U.S. recipients of USAID grants faced issues from time to time regarding holding events or bringing consultants into the country. The USG continually raised with the GOE these and other issues related to the freedom of association and civil society operation.

To support the political transition, USAID increased the amount of funding allocated for democracy programs to \$65 million and issued an open call for proposals in March. The call for proposals was based on a series of listening sessions with Egyptian organizations, and it reflects identified priorities to increase civic engagement, support the upcoming elections and political party development, promote transparency and accountability, improve access to justice and protect human

rights, and develop mechanisms for sustained citizen participation. USAID is moving quickly to support new Egyptian initiatives in these areas, and to continue and expand the work of organizations such as NDI and IRI.

In addition to the call for proposals, USAID has mobilized its network of existing civil society grants to respond rapidly to new opportunities. For example, Egyptian and U.S. organizations have changed their programs to provide direct medical assistance and legal advice to those injured or detained in the protests, to share transition experiences from other countries, to evaluate options for administering elections, to consider the role of women in the transition, and to host debates and conferences on constitutional reforms.

Question #53. Is USAID reviewing other Egyptian programs that are either less relevant in the new context or underperforming, in order to potentially free up additional resources?

Answer. USAID is reviewing its programs constantly to ensure they are relevant to the evolving situation. Immediately after the revolution, USAID conducted a detailed review of each program to identify areas for adjustment, expansion, or discontinuation.

USAID redirected funds to support the Annual Program Statements (APS) issued to address needs related to the transition, focusing on short-term efforts in areas such as job creation, civic participation, media, and preparation for the coming elections. It is also making an effort to do more work directly with NGOs. However, it should be noted that performance has been on target and efforts have continued throughout the transition. Nonetheless, USAID has delayed start of new programs, such as activities addressing health, education, youth, education activities, and trade to free up resources for Washington priorities such as debt relief, OPIC engagement, and the proposed Enterprise Fund.

USAID will continue to pursue interventions with the Egyptians that address economic growth challenges such as job creation, efforts to promote decentralization, community development, small and medium enterprise business development, business lending, job skills and vocational training, entrepreneurship, and youth participation. It will also continue to address needs to ensure equitable participation by NGOs, and free and fair elections. Though at times, difficult tradeoffs may have to be made, USAID will continue to pursue activities that are relevant for the Egyptian context.

Question #54. During the hearing, you mentioned that you were working with Minister Fayza Abul Naga, who was in town, and that we have been working with her for years.

- Does she represent a new way of thinking in the current government? Is she bringing forth new ideas that will help put the powerful Egyptian economy back on track?

Answer. Minister Abul Naga served in the Mubarak administration from 2001 until Mubarak recently left office, first as the Minister of Foreign Affairs, then as the Minister of Planning, and finally, as the Minister of International Cooperation. As a high-level official throughout the latter part of the Mubarak era, she does not represent a new way of thinking. The Minister supports donor assistance that is planned and managed bilaterally at the government level, and her objection to USAID's direct engagement with NGOs and the private sector clearly represents an old way of thinking. She also opposes USAID assistance to unregistered NGOs. The Minister considers that the Egyptian Government is in the best position to prioritize the needs and improve the lives of the Egyptian people. In this light, the GOE has identified, among other priorities, promoting low-cost housing construction, developing small- and medium-sized enterprises, increasing youth employment opportunities, and bilateral debt forgiveness. USAID is consulting with the GOE on these government-led priorities, and will also continue direct engagement with, and direct assistance to, civil society organizations.

Questions #55, 56, 57. During the hearing, you mentioned that you were working with Minister Fayza Abul Naga, who was in town, and that we have been working with her for years.

- Mrs. Abul Naga was appealing for debt relief. Please provide the latest Paris Club figures on the Egyptian debt situation.
- What percent of Egypt's debt is to the United States and what is their debt to reserve ratio?
- How does Egypt's debt situation compare to other countries globally with similar per capita GDP?

Answer. Paris Club claims in Egypt amounted to \$16.8 billion as of December 31, 2010, and include previously rescheduled and new bilateral loans from Paris Club members.

Egypt's total external debt at the end of 2010 was \$35 billion, around 14.7 percent of GDP. Net International Reserves fell to \$28.0 billion at the end of April 2011. The ratio of short-term external debt to international reserves is still low, just over 10 percent. The total debt to reserve ratio is roughly \$35 billion/\$28 billion. Short-term external debt is around \$3 billion to reserves of \$ 28 billion.

The United States holds 9.4 percent of Egypt's total external debt. Japan (12 percent), France (11 percent), and Germany (10.7 percent) are the only countries that hold more. Arab countries hold 4.4 percent (mainly Kuwait, Saudi Arabia, and UAE).

Countries with similar per capita incomes to Egypt have a wide range of indebtedness. Egypt's \$35 billion in external debt is in the medium to low range compared to others with similar per capita incomes.

Questions #58, 59. What impact will relieving Egypt's debt have on their economic recovery at this point in time? What would providing debt relief to Egypt cost the U.S. taxpayer, and how would it be funded?

Answer. Through the interagency process, we are discussing a variety of short-, medium-, and long-term economic reforms and interventions, of which debt relief or a debt swap are possibilities. No final decisions have been made. Debt relief would ease some long-term budgetary pressures, and reduce the costs of borrowing for Egypt in the near term. However, other more targeted programs are necessary to address the short-term needs of Egyptians confronting the negative impacts of the recent economic downturn. A debt swap could include programs jointly funded by the United States and the GOE to address economic growth issues.

Depending on what option is selected, we will discuss with the Congress the costs and implications of that intervention.

Question #60. What other options are there to outright forgiveness, such as deferment, and what would that cost in terms of ESF?

Answer. USAID is working with the interagency to identify the most appropriate interventions for Egypt, including debt forgiveness, deferment, debt swapping, or loan guarantees. Fiscal stability in Egypt is a critical need during the transition, and as we discuss intervention options within the administration, we will continue to work closely with the World Bank and International Monetary Fund about ways the debt issues can be addressed.

The cost of each option varies depending on its scope and timeline. Full debt forgiveness would cost nearly \$1 billion. A 1-year deferment would cost approximately \$20 million. Given the range, and limits of USAID's budget, we believe that coordinating with international partners gives the administration the greatest leverage.

Question #61. Tourism makes up some 16 percent of the Egyptian economy, what can be done to get that back up and running quickly?

Answer. Tourism, a vital sector in Egypt's economy, has been hard hit since the revolution. Tourist arrivals dropped by over 80 percent in February from the previous February. The economy has lost around \$1 billion each month due to low tourism revenues, and is expected to lose between \$4-\$7 billion in total. Air carriers have cancelled routes to Egypt, leaving about 40 percent fewer flights available.

Given the size of the sector, USAID is reviewing potential interventions related to international and regional marketing, training in tourism services; and diversifying tourism options in cultural, volunteer, vacation and eco-tourism. In addition, economic growth proposals related to tourism have been solicited under the Annual Program Statement and are under review.

USAID continues to support improvements in the business regulatory environment, including in the tourism sector. The reprogrammed \$100 million Annual Program Statement for economic growth encourages proposals from businesses and NGOs in the tourism sector and will support innovative and promising ideas for rapid recovery in the sector.

Questions #62, 63. Some, including the Secretary of State have suggested that Egypt is ripe for an Enterprise Fund. Do you agree?

What specifics can you share about liquidity in the Egyptian economy, and what would encourage investment in this period prior to elections slated for the fall?

Answer. The Obama administration is working with a bipartisan group of Members of Congress to establish an Egypt-American Enterprise Fund that will stimulate private sector investment, support competitive markets, encourage public-private partnerships, and provide businesses with access to low-cost capital.

As a private nonprofit entity, the fund would have wide latitude in the types of investments it undertakes. This flexibility is important because it will allow Fund managers to target the most appropriate segments of the Egyptian market for investment. The amount of capital available in Egypt is not the issue—a large number of local and international investment firms are active there, and banks tend to have sufficient liquid capital. The loan to deposit ratios of banks is below 50 percent, meaning banks have room to expand lending significantly.

Pending congressional approval, the Egyptian-American Enterprise Fund will be a not-for-profit, privately managed corporation launched with U.S. grant assistance and governed by a joint American-Egyptian board of directors. The United States plans to capitalize the Fund with up to \$60 million of Egypt ESF funding. The Overseas Private Investment Corporation (OPIC) through separate funding streams would then be able to partner with the fund to offer cofinancing downstream for OPIC-eligible investments.

Investors are generally hesitant about making new commitments in Egypt, although several U.S. firms with long-term Egyptian operations such as Apache Corporation, Coca-Cola, and G.M. have told us that they are continuing with previously planned investments. Many, especially potential new investors, are taking a “wait and see” approach before making commitments and it will take time to fully restore investors’ confidence in Egypt.

For their part, the Egyptian Government has said that they will not roll back the series of market-based economic reforms which began in 2004, and they are cognizant of the positive role international investors can play in their economic recovery. At the same time, the new government will need to make sure that any new economic policies address the concerns of Egypt’s citizens and ensure that the benefits of economic development are enjoyed by all segments of Egyptian society.

The Obama administration is taking steps to address the private sector’s concerns about doing business in Egypt, and is working closely with the U.S. Chamber of Commerce to coordinate our efforts. In early June, a delegation from the Chamber’s U.S.-Egypt Business Council will travel to Cairo to meet with government and business leaders. In late June, the U.S. Trade and Development Agency is hosting a 2-day Egypt trade and investment forum in Washington, DC, which will immediately be followed by four reverse trade missions of Egyptian company representatives to different cities in the United States. The Department of Commerce is also considering sending trade delegations to Egypt later this year.

Question #64. Is your economic development strategy long term or short term? What is the view of the World Bank on this, I understand they have had a \$300 million offer on the table for some 2 years with no takers.

Answer. USAID’s economic development strategy combines long-term programming with short-term steps to meet immediate technical assistance needs of the GOE during this period of democratic transition and economic stress. The World Bank’s strategy is similar as it is providing development policy loans that are fast moving but require reforms to promote long-term stability and growth.

The World Bank has provided two \$300 million loans to the GOE; one in the area of finance to SMEs, and the other providing targeted subsidies to expand affordable housing and mortgages. The SME finance loan is moving ahead, albeit at a slower rate than planned. The first \$100 million of the housing loan has been disbursed but the remainder is in question due to diminished GOE support in this area.

Question #65. I understand that the coming elections in Egypt will be open to observers. What plans is USAID initiating to participate?

Answer. Previously, USAID has supported extensive domestic election observation programs in Egypt, fielding more than 5,000 formal observers in the 2010 parliamentary elections and providing other more informal observation efforts, including citizen journalists, bloggers, and direct voter reporting of conditions inside polling stations.

USAID plans to support both domestic and international observation for the parliamentary and Presidential elections, and is currently reviewing a number of applications for these activities.

FOREIGN ASSISTANCE TRANSPARENCY

Question #66. The International Aid Transparency Initiative (IATI) aims to make information about aid spending easier to access, use, and understand.

- What is your assessment of IATI? Is it useful?

Answer. The United States welcomes the efforts of IATI to provide a framework for aid donors to be more transparent and to develop a common international stand-

ard for the publication of aid information. Yes, the United States has found IATI to be a useful point of reference as the USG develops a standard process for collecting and disseminating data on international aid flows across U.S. agencies in fulfillment of our aid transparency commitments under the Paris Declaration on Aid Effectiveness, the Accra Agenda for Action, the President's commitments at the Pittsburgh G20 Conference, and the Open Government and Transparency initiative.

Question #67. How does the information disseminated through IATI differ from that of the USAID dashboard?

Answer. As a point of clarification, the Foreign Assistance Dashboard Version 1.0 was launched in December 2010 by both State and USAID and is maintained by the Office of the Director of U.S. Foreign Assistance at the Department of State. Most of the information fields in the IATI standard are similar to the data fields being developed for future versions of the Dashboard.

One difference is the scope of aid information. IATI centers on Official Development Assistance (ODA) from donor countries, and facilitates other official flows and those of private philanthropic organizations (e.g., the Hewlett Foundation, which recently began reporting in the IATI format). The Foreign Assistance Dashboard covers only USG foreign assistance (including ODA, other official flows, and military grant flows) and excludes both USG foreign credit flows and aid flows from private U.S. philanthropic organizations.

Another difference lies in the reporting of forward aid budget/spending levels. IATI requests levels in detail for 3 years out from the current operating year. The USG does not plan multiyear requests, so the Dashboard will only include information for 1 year out from the current operating year.

Question #68. Is the administration planning to sign up for IATI? Why or why not?

Answer. The United States does not currently plan to sign up for IATI in light of the forward spending requirement and the opened-end financial commitment to implement and maintain the IATI Secretariat.

However, the United States has participated in the IATI Technical Advisory Group (TAG) from its inception. The TAG developed the IATI standards and formats that were adopted by the signatories in June 2010. The United States does plan to enable a cross-walk of the Foreign Assistance Dashboard information to the IATI format in the future, where consistent with U.S. law and policy.

BUDGET SUPPORT

Question #69. Which countries receive budget support from the U.S. Government? How much do we provide and how much is the administration requesting to provide (FY11 and FY12)?

Answer. The below FY 2011 and FY 2012 levels reflect the President's requests; actual allocations may change depending on need and consistent with legislative authorities.

Country	FY10 Actual	FY11 Request	FY12 Request
Afghanistan	\$1.0 billion *	\$1.1 billion	\$1.2 billion
Egypt	\$60 million	\$0	\$0
Haiti	\$7.5 million	\$0	\$0
Jordan	\$194 million	\$162 million	\$162 million
Pakistan	\$860 million **	\$763 million ***	\$749 million †
West Bank/Gaza	\$150 million	\$200 million ††	\$200 million
Zambia	\$2 million	\$0	\$0

* Figure reflects planned on-budget assistance for Afghanistan. Legislative restrictions have prevented the use of FY 2010 funds for government-to-government assistance and assistance that supports the Government of the Islamic Republic of Afghanistan until certain Secretary of State certification requirements were met. With the recent Secretary of State certification that the legislative requirements have been met, USAID will obligate FY 2010 funds for on-budget assistance programs.

** Approximately \$860 million of FY 2010 is on-budget based on the current budget, taking into account changes notified in CN #62 (flood reprogramming)

*** Approximately \$763 million is on-budget based on a 55% on-budget level of the FY 11 CBJ Request of \$1.388 billion (USAID-managed funds).

† Approximately \$749 million is on-budget based on a 55% on-budget level of the CBJ request level of \$1.361 billion (USAID-managed funds).

†† Of the \$200 million FY 2011 requested for budget support for the West Bank/Gaza, the USG has already provided \$150 million, as notified by USAID on October 7, 2010.

Question #70. Do all countries that receive budget support from the U.S. publish their budgets and make their budget information accessible and understandable? If not, which countries do not provide such information?

Answer. U.S. foreign assistance is prohibited to the central government of any country that fails to make its national budget publicly available on an annual basis barring a transparency waiver from the Deputy Secretary for Management and Resources. The Department of State conducts an annual fiscal transparency review to process to comply with the legislation and effect positive change toward better fiscal transparency in the countries that need it. In FY 2010, of the countries that received budget support, Egypt and Afghanistan required waivers in order to continue to receive USG assistance. We continue to work closely with those governments in order to improve the credibility and completeness of the budgetary information that they make available to the public.

RESPONSES OF DANIEL YOHANNES TO QUESTIONS SUBMITTED BY
SENATOR RICHARD G. LUGAR

RESULTS

Mr. Yohannes, you have previously noted that MCC is distinguished by its “commitment to technically rigorous, systematic, and transparent methods of projecting, tracking, and evaluating the impact of our programs.”

Question. What have you learned from MCC’s evaluations?

Answer. We will have independent third-party evaluations on almost every one of our projects. Most evaluations require substantial efforts to collect end-line data that can begin only after investments have been completed, and this often happens close to the end of a compact. More time is required for data analysis and discussions around draft findings. As a result, most evaluations are expected approximately a year after a compact’s completion. The first compacts with Honduras and Cape Verde were completed last September and October, respectively, and as a result, the first evaluation results are expected later this year.

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

We have closed our first two compacts in Honduras and Cape Verde, where positive income gains are being reported by the respective MCAs. Preliminary data from the project implementer shows that Honduran farmers assisted by the compact have seen their annual net income per hectare planted rise from a baseline of approximately \$1,880 to \$3,550 on average after 2 years of assistance, a gain of 88 percent. We look forward to the impact evaluation findings later this year to verify these and other effects of MCC’s investments in Honduras and Cape Verde.

MCC has significant implementation results to report, which matter because they are the drivers of the income gains we aim to achieve and what we track. For example, MCC funded projects have:

- Placed over 88,500 hectares under improved agricultural production;
- Completed 517 educational facilities; and
- Formalized land tenure for almost 40,000 hectares.

On policy results, many MCC compacts support policy reforms that help maximize the impact and sustainability of MCC’s investments, and create conditions for continued growth. For example, the Honduras Compact supported a reform in the financial sector to significantly expand access to credit by letting borrowers use new and different kinds of collateral. This law, the first of its kind in Central America, has now become a model for the region.

Question. Have MCC compacts achieved their expected economic rate of return?

Answer. MCC makes long-term investments in economic growth and poverty reduction, and our due-diligence process includes estimating the expected impact. These estimates are based on models, data, and assumptions that follow standard procedures but that vary by country and activity, often depending on the specific design of the activity and the data available. These economic rates of return are calculated based on a 20-year investment horizon, so we do not expect that compacts will achieve their expected rates of return immediately upon completion. However, about a year after compact closure we receive results of independent impact evaluations that use real monitoring data from the compact programs to reestimate ERRs for every compact project, based on what was actually achieved during the compact.

We anticipate that some of our projects will meet or exceed the preinvestment estimates, but some will not achieve the expected rates of return.

We already know, for example, that a number of our earliest infrastructure investments experienced higher than anticipated costs during implementation. In such cases, we work together with our country partners to decide which activities go forward, and the result of higher costs and fewer activities usually implied lower than anticipated returns. However, in many cases, it is possible to shift funds to those activities with the highest returns which, even given the higher costs, are still expected to generate positive net returns on investment.

Question. What should be done differently to increase the impact of MCC programs?

Answer. MCC is a learning institution, and our results framework actually serves as a direct feedback loop for taking information from past programs and using it in the design of future programs. This mechanism ensures that we will use the results of impact evaluations to inform how we design investments for greater impact. We are already doing a lot to improve our programs, based on our first years of implementation experience.

For example, we are increasingly recognizing that policy reforms can be an essential part of increasing impact and sustainability of investments. For this reason we are making policy reform a bigger and more explicit part of compacts. The recently signed Malawi Compact is a great example—it includes a \$25 million project to support policy reforms and institutional capacity-building in the energy sector. We are also seeking more private sector partnerships that bring additional resources and talent to MCC investments, as a way to increase impact and sustainability.

COMPACT COSTS APPEAR TO EXCEED BENEFITS

Question. Following up on my question about MCC's calculation for the amount of benefits each compact provides, it appears Congress has appropriated for four MCC compacts more than those compacts provide in benefits. The four compacts are with Mali, Moldova, Namibia, and Vanuatu compacts. Specifically, the NPV of the \$460 million Mali compact is \$457 million; the NPV of the \$262 Moldova compact is \$260 million; the NPV of the \$304 million Namibia compact is \$240 million and the NPV of the \$65 million Vanuatu compact is \$54 million.

- How do you explain this phenomenon?
- Why would the costs exceed the benefits of these compacts?
- Does this indicate something about the MCC criteria, forecasts, or analysis?

Answer. The figures cited above are for total (undiscounted) compact costs and discounted benefits, and therefore do not reflect an apples-to-apples comparison of costs and benefits. As described below, it is useful to compare compact costs, discounted over 5 years (the implementation period of the compact), with projected compact benefits, discounted over 20 years. With this comparison, the benefits of these four compacts exceed their costs.

Compact	Compact Amount ¹ (millions US\$)	PV of Costs ² (discounted millions US\$)	PV of Benefits ³ (discounted millions US\$)	Benefit/Cost Ratio
Mali	\$ 460.8	\$ 351.3	\$ 457.1	1.30
Moldova	\$ 262.0	\$ 176.5	\$ 259.9	1.47
Namibia	\$ 304.5	\$ 213.4	\$ 240.5	1.13
Vanuatu	\$ 65.7	\$ 52.6	\$ 54.0	1.03

Notes:

- Compact costs encompass any full or partial compact terminations.
- Present Value (PV) of costs is equal to the sum of all projected MCC investment costs within the compact period evaluated at a 10 percent discount rate. Annual costs were obtained from the financial plans listed in Annex III of each compact and discounted at 10 percent per year over five years. Compacts that included CIF were discounted over six years (CIF + 5 compact yrs). Any terminated funds have been subtracted from annual costs, starting with the final year of the compact and working backward.
- PV is equal to the sum of all projected benefits accruing within the expected lifespan of the project evaluated at a 10 percent discount rate. Estimates of the PV of benefits are based on the most recent ERR models available and will be updated when project design or costs change significantly. Where compacts have been terminated early, the benefits have been reduced accordingly. Impact evaluations after the conclusion of each compact will give better estimates of total benefits.

MCC is making long-term investments in poverty reduction. When making an investment decision, MCC starts with the basic question—do the expected returns on investment, in terms of increased incomes for people in our partner countries, justify the costs of the program? Like any investor, we expect the benefits of our programs to accrue for years after the initial investment is made. For this reason, we estimate the total benefits—increased incomes—of our compacts over a 20-year period. Also, like any responsible investor estimating a return on an investment, we discount gains to reflect the idea that future dollars have lower value the farther out in time they are. MCC publicly reports these discounted total benefits as the estimated impacts of our compact programs. We also routinely report total compact amounts, but have not typically presented them in their discounted form. We are certainly willing to do so in an effort to present an apples-to-apples comparison that discounts both the dollars and the estimated benefits.

Indeed, when MCC makes an investment decision, we do that apples-to-apples comparison through a benefit-costs analysis. Our current practice is to look for investments where ex ante analyses indicate that the Estimated Rate of Return (ERR) is expected to meet or exceed 10 percent. MCC also sometimes reports net present values (NPVs) or Present Value of Benefits, as they can be easier to interpret than ERRs. These NPV calculations compare total benefits, discounted over the life of the project (usually 20 years), with the total compact costs, discounted when they are incurred (all MCC costs are incurred during the 5-year implementation period). The practice of discounting costs and benefits when they occur is consistent with OMB Circular No. A-94, “Guidelines and Discount Rates for Benefit-Cost Analysis of Federal Programs.”

Question. While one could argue that the disbursements of the compact could be discounted over the term of their disbursement/compact term, it would be inappropriate for the costs of the compact to be discounted during the 20-year period that you referenced at the hearing. If the benefits of the compact only slightly exceed the discounted costs, a financier would argue that the country could be better off investing the compact funds in the risk-free asset.

- How can these four compacts be justified?
- Did the expectation of benefits from these four compacts change during implementation?

Answer. MCC agrees that costs should be discounted over 5 years and, indeed, the discounted costs cited at the hearing were actually discounted over 5 years rather than 20, while discounted benefits cited were discounted over 20 years. The four compacts in question can be justified based on the comparison of discounted costs and discounted benefits, as described above.

SECOND COMPACTS

Question. Though MCC was not intended to provide perpetual development aid, the MCC Board has declared that three countries are eligible for second compacts—Cape Verde, Georgia, and Ghana. In these difficult fiscal times, how do you balance offering a country a second compact with trying to affect change in a new country with a first compact?

Answer. MCC's mandate is to partner with countries where investments will have the greatest potential returns in terms of poverty reduction and economic growth, and where U.S. taxpayer resources can be used most effectively. In some cases the greatest opportunity for impact may be in deepening partnerships with existing MCC partner countries. MCC's authorizing legislation specifically allows for MCC to pursue subsequent compacts.

MCC does not have an inherent preference for working with new or existing partners. The MCC Board of Directors makes decisions on which countries are eligible for MCC assistance. The Board's determination of eligible countries is based primarily on country performance on MCC selection indicators. In determining country eligibility, the Board also considers the opportunity to reduce poverty and generate economic growth within a country, and the availability of MCC funds.

MCC's Board is extremely selective when determining eligibility for subsequent compacts. Of the eight countries that will conclude compacts by the end of 2011 (Armenia, Benin, Cape Verde, Honduras, Ghana, Georgia, Nicaragua, and Vanuatu), MCC's Board has only selected three as eligible for a second compact—Cape Verde in FY10 and Georgia and Ghana in FY11.

MCC's engagement with partner countries is not open-ended. MCC carefully considers the appropriate nature and duration of each country partnership based on the country's policy and implementation performance, as well as the opportunities to have an impact on growth and poverty reduction. This includes consideration of the potential sustainability of MCC's investments, and on the country's ability to attract and leverage public and private resources in support of development. MCC's targeted, selective engagements are critical to ending the cycle of aid dependency, ensuring sustainability, and promoting country ownership.

LEGISLATION

Question. Is MCC seeking any legislative authority changes? If yes, what are they and why is MCC seeking those changes?

Answer. Yes, MCC is seeking legislative authority changes. One such change is concurrent compact authority, which would allow MCC to have multiple compacts with a country at once, and to start projects at staggered times to improve project management and allow for more innovation and creativity in program design. MCC would be able to start projects when ready rather than holding the entire package until all projects are ready—and disbursements on average should begin sooner.

In exceptional circumstances, an authorization change could allow MCC to extend compacts for up to 2 years (e.g., natural disaster, termination of a nonperforming contractor, or other events outside the recipient's control).

MCC has also sought legislative changes aimed at ensuring that changes in countries' income categories do not prevent the agency from working with the best policy performing countries that also have populations living in extreme poverty. Sudden shifts in income category, due in part to changes in global inflation and exchange rates, pose serious policy and structural issues for MCC. These and other economic trends mean a substantial number of compact-eligible countries are now in the Low Middle Income Country (LMIC) category.

Each year, countries abruptly graduate from one income category to another with no transition period. This impacts whether they can be candidates for MCC assistance at all, and changes both the policy performance standards against which they are measured and the levels of funding that they can receive.

MCC will work with members of your committee, the House authorizing committee, and others in the Congress to make these important legislative adjustments.

INDONESIA

Question. Please describe the process that determined the climate change focus of the Indonesia compact. What other types of projects were considered? How does the efficiency of the current Indonesia compact focus compare to alternative projects that were considered? Is there a tradeoff between MCC's core goal of promoting economic growth with other political goals?

Answer. Indonesia has been developing its compact since it was selected by MCC's Board of Directors as eligible for compact assistance in December 2008 (FY09).

When the Board takes such a decision, it not only declares that the country in question is eligible for assistance, but it invites that country to submit a proposal, and directs MCC to “seek to negotiate a compact” with the country. Since that decision, MCC has undertaken compact development activities in partnership with the Government of Indonesia.

Indonesia underwent a rigorous analysis to identify economic constraints in 2009, which was followed by an extensive consultative process that the government conducted. While the government considered a broad range of themes, including a microfinance apex institution to building infrastructure for universities, that were submitted to MCC in 13 concept papers, these and other ideas were dropped following an initial screening against MCC investment criteria which included some comparison of efficiencies between projects as well as preliminary analysis of economic returns and potential beneficiaries.

In September 2010, the Government of Indonesia decided to move forward with three investment themes: (1) green prosperity to support a low-carbon sustainable growth strategy; (2) procurement modernization to streamline and professionalize public procurement in order to reduce corruption and increase efficiency and effectiveness; and (3) access to basic services for economic growth—to address workforce development and early childhood stunting, two significant issues in Indonesia.

ENGAGEMENT

Question. Over the years, I have encouraged the MCC to engage with the private sector, foundations, nongovernmental organizations, and other donors to develop new funding and implementation partnerships and am pleased that the MCC is now doing so. How is MCC working to leverage its investments?

Answer. MCC is working with other donors, often expanding the projects of other donors (e.g., the World Bank’s Kalahi-CIDSS project in the Philippines), building on foundational project work (e.g., the Asian Development Bank (AsDB) on vocational education in Mongolia) and designs (e.g., the AsDB in Mongolia on roads) by other donors, developing coordinated implementation (e.g., the European Bank for Reconstruction and Development, the World Bank, and MCC on the Regional Infrastructure Project in Georgia), and working to extend MCC project impact (e.g., New Zealand Aid Programme and AusAid in Vanuatu). A standard feature of MCC compact development is holding information and coordination meetings with donors in-country to maximize the opportunities to build on and supplement one another’s work. Increasingly, MCC is proactively seeking opportunities to divide efforts along lines of cost-effectiveness and skill sets. Other donors are also interested in this approach. Both AusAid and the New Zealand Aid Programme have been actively expressing interest in working with MCC to design a cost-effective strategy for coordinated efforts in the Pacific region.

We are also working to develop a more proactive partnership outreach to the private and nongovernmental sectors. During compact development, MCC solicits input from the private and nongovernmental sector, and representatives of these interests are included in the countrywide consultations. More directly, many MCC programs are specifically designed to promote private sector activity (e.g., credit lines, grants to farmers, training to improve skills and productivity). In addition, there are already a number of examples of engagement with the private sector in investment and management, as opposed to procurement (e.g., El Salvador, Ghana, Jordan, Mali). The Agricultural Business Initiative in Ghana, Mali, and Morocco was designed as a pilot in attracting private sector investment to extend the impact of MCC-funded projects. MCC has recently introduced an Annual Partnership Solicitation, on grants.gov, which is intended—as the name suggests—to solicit interest from the private and nongovernmental sectors in partnership and investment in MCC countries.

MCC is also working with other USG agencies, including OPIC, USTR, and USAID, to capitalize on opportunities to bring together our respective programs fostering private sector engagement in development. Finally, there have been outreach events focused on diaspora communities, including the Armenian and Salvadoran communities. Engagement with the private and nongovernmental sector, as well as donors and other potential partners, has been identified as among key priorities for MCC now and in coming years.

Last, MCC’s new “Invitation to Innovate (I to I)” plan is a framework designed to facilitate the development of partnerships with the private sector and nongovernmental organizations (NGOs).

EARLY TERMINATIONS

Question. Before you joined the MCC, compacts were terminated early or suspended in Madagascar, Nicaragua, Honduras, Armenia. Since your arrival, none have been terminated. What caused the early terminations and was done to prevent them?

Answer. MCC terminated the Madagascar compact in full, and suspended or terminated parts of the compacts in Nicaragua and Honduras and placed part of the Armenia compact under operational hold. In all cases, MCC's Board made these decisions in response to a pattern of actions inconsistent with MCC's eligibility criteria. The Board has shown its willingness to make difficult decisions and hold countries accountable.

MCC selects partners where conditions are best for growth, poverty reduction, and effective use of scarce development resources. But development is an inherently risky business, and many countries' democratic institutions are more vulnerable than we would like.

MCC communicates very clearly to our partners that we expect them to adhere to our high standards for governance and that we will hold countries accountable for sustaining good policy performance. MCC maintains an active policy dialogue with countries during compact implementation, and makes it clear that countries are expected to maintain or improve policy performance.

MCC's indicators are good at measuring current policy performance, but no one can predict with certainty the future behavior of our partner country governments.

TECHNOLOGY

Question. How has MCC used technology in its compacts? What more can MCC do to utilize technology to increase the amount of benefits each compact generates?

Answer. Technology adoption has been employed across a range of compact investments. For example, information technology systems have been employed widely for the performance, procurement, and financial management systems that our partner countries have employed to effectively manage compact resources.

As part of its partnership with MCC, Cape Verde will expand upon its e-government system to elevate efficiency and transparency of its procurement system to world class standards. MCC will support NOSi (Operational Nucleus for the Information Society), the Cape Verdean agency responsible for e-government, by providing equipment, software, and technical expertise. Roughly \$1 million in compact funds have been allotted to strengthening Cape Verde's e-government system.

The Cape Verdean e-procurement system will serve as the backbone of compact procurements in the areas of infrastructure, agriculture support, and private sector development. The system will standardize purchasing procedures and terms and conditions. For the average citizen, this translates into the guarantee of a less corrupt, more transparent and efficient use of government resources.

Compacts in Lesotho, Nicaragua, and Benin have employed IT to modernize their land registries and implement land tenure policy reforms supported by MCC. The design and construction of major road, water, irrigation, and other public works has, where appropriate, employed advanced technologies to ensure that compact investments are durable and of quality. The Honduras Compact also includes two main subactivities surrounding the implementation of a movable property registry—hiring a consulting firm to provide legal technical assistance to implement a secured transaction law to allow for the use of movable property guarantees and technical design/implementation of a movable property registry system—authorized by the aforementioned law.

MCC is funding the Automated Clearing House which will connect Lesotho's major commercial banks to a provider in South Africa to speed the clearing of checks. MCC is also funding a debit smart card activity being implemented by the Lesotho Post Bank, which will facilitate deposits, withdrawals, and retail transactions in fairly remote areas to holders of biometrically secured smart cards.

In Ghana, MCC has funded the computerization and automation of the entire network of 120 plus rural banks and their more than 500 branches including modern banking software, LANs, and satellite dishes for each branch to connect to its HQ office and to connect all of the banks to the national payments system thus enable transfers such as government payments and remittances. MCC is also funding the computerized data center at the ARB Apex bank, the regulator of the rural banking network to support the newly automated transaction capacity using the satellite technology.

Millennium Challenge Account-Armenia, in collaboration with ACDI/VOCA, VISTAA and the Federation of Agricultural Associations found an innovative way

to address the lack of reliable information about current market prices by taking advantage of widespread cell phone use in Armenia. The innovation is the Armenian Agricultural Market Information System (ARMIS), which sends out daily fruit and vegetable prices from large markets in the Yerevan, Armavir, Lori, and Shirak regions upon text message request. Farmers pay a small fee per text message, ensuring that there is demand for this service and long-term sustainability of its operations. Farmers text message using a 4-digit crop- and market-specific number, which triggers an automated response via text message from the ARMIS system. With this information, farmers can bargain and negotiate with potential produce buyers from a stronger competitive position.

Cell phones are also used in Honduras to improve communication between growers with other growers, technicians, buyers, input suppliers, and transport and services providers. What used to take days to find out before can now be obtained in minutes, better decisions can be taken which save or earn money (e.g., market conditions/prices, buyer volume needs, pickup and delivery dates, input costs, coordinating logistics). Market prices are sent automatically to cell phones or accessed by calling a number. This knowledge of actual market prices (and tendencies) assists growers in negotiating farm gate prices for those who sell to intermediaries at farm gate.

MCC also takes the sustainability of its investments seriously, and examines the capacity of its partners to sustain such technologies once compact investments are complete.

INNOVATION

Question. What innovative development programs has MCC supported? Which ones seem promising? What have you learned from the innovations that have not succeeded?

Answer. One of MCC's greatest innovations is its model—MCC's ability to respond to partner countries' long-term development priorities, to base investment decision on rigorous economic analysis, to put countries in the driver's seat when implementing programs, to be transparent in projection and achievement of results, and to hold firm on policy performance are innovations in and of themselves.

MCC has worked on a wide range of projects, from traditional infrastructure projects, to agriculture, irrigation, water and sanitation, land tenure, and various microenterprise and small business support projects. The innovation of our model, which emphasizes country ownership, ensures that the countries themselves identify their project priorities.

Last month, I launched a new initiative called "Invitation to Innovate (I to I)." Through this program, we will seek innovative ideas from the private and non-governmental sectors to support MCC's mission. Partnerships solicited through the Annual Program Statement are expected to provide new funding opportunities, introduce new technologies and approaches for development, increase the sustainability of MCC investments, and enhance training and expertise in the implementation of MCC compacts. Partners may include private sector companies, nongovernmental organizations, social responsibility funds, foundations, other donors, and development-oriented investment funds.

RESPONSES OF DANIEL YOHANNES TO QUESTIONS SUBMITTED BY SENATOR BENJAMIN L. CARDIN

Question. In working with well-governed, accountable partner countries, the administration has prioritized country ownership as a key component of its development policy, which follows a founding principle of the MCC.

- How are you helping to build local capacity in-country so that partner countries can eventually assume full responsibility for their development?

Answer. Partner country Millennium Challenge Account (MCA) "accountable entities" are primarily responsible for the management and implementation of a compact agreement, including the conduct and oversight of procurements. These entities are entirely staffed by host country citizens. MCC helps build the capacity of the accountable entities to execute this responsibility by providing training and continuous technical assistance on responsible procurement, financial management, and technical practices and by facilitating the exchange of best practices among MCAs.

In Cape Verde, for example, MCC's compact helped to facilitate a new electronic procurement system designed to standardize procurement procedures and provide government officials, suppliers, and the public information on procurement rules, opportunities, and transactions records. This small investment, together with MCC-

supported training of 450 officials from across the government, as well as the government's own investments in broadband access and accounting systems, allowed Cape Verde to put into practice its new procurement law. The law, modeled on international procurement standards such as those used by the World Bank and MCC, is designed to increase transparency and efficiency across the public sector.

MCC's compact with Ghana includes a procurement capacity project developing a cadre of procurement professionals and improving the public procurement capacity of the Ghanaian Government. A complementary key to this program's success is the establishment of a professional designation, certification, and career path for procurement professionals in the Ghanaian civil service.

Question. Under your leadership, the MCC has made several groundbreaking improvements to gender integration, such as including a focus on gender as one of five corporate strategic priorities of the agency, developing operational guidance for how to integrate gender throughout the MCA process, and providing incentive awards for exemplary staff performance in gender integration.

- In the context of the FY12 budget, how can the MCC ensure that resources are available to support these innovative improvements, which stand not only to improve the lives of beneficiaries but also to improve the effectiveness of MCA projects overall?

Answer. One of my top priorities is to ensure gender integration throughout the lifecycle of MCC compact activities—design, implementation, and evaluation. For example, integrating gender assessment into the project design and tracking is one MCC's corporate goals and MCC staff is trained on and encouraged to incorporate gender considerations into their work. As such, MCC is working to mainstream gender into its business operations and the work of all MCC staff. With regards to MCC's Social and Gender Assessment team specifically, MCC management will continue to review staffing needs.

Question. Experience has shown that gender integration is most successful when staff is held accountable to incorporating gender work into their portfolios. Over the past year, the MCC has made remarkable improvements in holding MCC staff accountable for gender integration.

- Under your leadership, how can you ensure to hold MCA staff and implementing agencies accountable for their performance on gender integration?

Answer. MCC has increased the number of staff focused on gender, and, this year, we have adopted and begun to implement new gender integration milestones and operational procedures in all of our compacts. These milestones and operational procedures set the stage for holding both MCC and our partner countries accountable for gender integration. For example, MCC is requiring that each new MCA accountable entity include a staff member with gender expertise and gender assessment and monitoring is required for all relevant activities.

Question. Two of the countries for which compact funding has been requested in FY 2012—Ghana and Georgia—have already been awarded MCC compacts.

- If multiple compacts become a common occurrence, do you believe this alters the fundamental concept of MCC providing targeted, time-limited support?
- How would a succession of MCC compacts in a country be different from the long-term USAID development model?

Answer. Engaging in subsequent compacts is consistent with MCC's model. MCC's authorizing statute specifically authorizes subsequent compacts. MCC's mandate is to partner with countries where investments will have the greatest potential returns in terms of poverty reduction and economic growth, and where U.S. taxpayer resources can be used most effectively. In some cases the greatest opportunity for impact may be in deepening partnerships with existing MCC partner countries.

Second compacts may indeed present some of the best opportunities to reinforce the key elements of the MCC model. By being very selective in choosing second compact partners, MCC creates a strong incentive for ongoing policy and implementation performance among partner countries. By building on lessons and experience in first compacts, second compacts provide good opportunities to drive deeper policy reforms and for innovation and new partnerships with private sector and civil society. Continued engagement with a well-performing country gives MCC the opportunity to help countries establish a firm path toward growth and greater private sector investment and away from dependence on aid.

A subsequent compact, or even two, in a country would be different from the USAID development model in several ways, the most significant of which is MCC's approach to selectivity. MCC's Board has been very selective in choosing second compact partners. Second compacts are not an entitlement, or an assumed follow-

on to a first compact. Eligibility for a second compact depends on countries maintaining good performance on MCC's indicators, and on first compact implementation. In second compacts will not be the norm because not all current MCC partners will have second compacts. MCC will continue to look for country partnerships where opportunities are greatest to support economic growth, make investments with good returns for poverty reduction, and use scarce U.S. development resources effectively. In this regard, and as MCC's authorizing statute envisioned, second compacts will be a part of MCC's toolkit to pursue poverty reduction in well-performing countries.

However, MCC's engagement with partner countries is not open-ended. MCC carefully considers the appropriate nature and duration of each country partnership based on the country's policy and implementation performance, as well as the opportunities to have an impact on growth and poverty reduction. This includes consideration of the potential sustainability of MCC's investments, and on the country's ability to attract and leverage public and private resources in support of development. MCC's targeted, selective engagements are critical to ending the cycle of aid dependency, ensuring sustainability, and promoting country ownership.

In addition, the elements of MCC's model that distinguish it in a first compact—focus on economic growth, transparency in projected impact and independent evaluation, and commitment to supporting countries' own priorities for growth and poverty reduction—will continue to distinguish MCC in subsequent compacts.

RESPONSES OF ADMINISTRATOR RAJIV SHAH TO QUESTIONS SUBMITTED BY
SENATOR BENJAMIN L. CARDIN

Question. Administrator Shah, the President's development policy called for your inclusion in meetings of the National Security Council "as appropriate." Can you attest to your level of involvement on the NSC as the development voice at the policy-making table, and do you expect a more formalized role for USAID in the future as the U.S. Government's lead development agency?

Answer. USAID plays a very active role in formally convened NSC-led discussions on development. The Agency is a core participant in the Global Development Inter-agency Policy Committee (IPC), which is the forum for implementation of the President's policy directive on global development and has been responsible for drafting discussion papers and leading discussion of critical development topics in that forum. USAID's leadership participates regularly in a variety of other IPCs, including both country and region-specific issues as well as sectoral issues. As Administrator, I participate regularly in Deputies' and Principals' Committee meetings on a variety of issue areas, including national security and other administration priorities.

Question. To what extent does USAID actually have sole control over its core accounts? What role does the State Department play in determining where these funds should be directed and for what purposes? And please discuss your plans for USAID to design its own budget.

Answer. The Quadrennial Diplomacy and Development Review (QDDR) recognizes the establishment of the Office of Budget and Resource Management (BRM) at USAID in September 2010, and charges it with significant budget responsibilities. Specifically, the QDDR states that USAID will propose a comprehensive development and humanitarian assistance budget for USAID-managed programs to the Secretary and Deputy Secretary of State, and be responsible for executing its budget within country and strategic objective levels. This will allow the Administrator to ensure that overall priorities and country and sector strategies drive resource requests and deployment. State will continue to be responsible for integrating all foreign assistance budget proposals for the Secretary's approval, and the Secretary will continue to submit an integrated State/USAID Congressional Budget Justification that includes integrated country justifications, while clearly identifying which agency will implement which resources.

Question. Accountability has been an explicit focus of the Feed the Future Initiative and USAID should be commended for their work on the Feed the Future Results Framework. However, it remains unclear how USAID country missions will be accountable for integrating gender throughout their implementation plans. How is Feed the Future holding missions accountable for integrating gender throughout all stages of planning and implementation in the field?

Answer. Strengthening human rights and fueling sustainable economic growth in developing countries both depend on empowering women and working toward gen-

der equality. According to the FAO, women comprise, on average, 43 percent of the agricultural labor force in developing countries, ranging from 20 percent in Latin America to 50 percent in Eastern Asia and sub-Saharan Africa. Eliminating poverty and hunger cannot occur without bolstering the role women play in their societies and economies.

The Feed the Future (FTF) Initiative attacks the root causes of global hunger through accelerated agricultural development and improved nutrition. This commitment to catalyze agricultural-led growth will raise the incomes of the poor, increase the availability of food, and reduce undernutrition through sustained, long-term development progress. Because of their prominent role in agriculture and the persistent economic constraints they face, women are the main focus of many FTF programs.

USAID has taken important steps to address gender issues. The administration's Feed the Future Initiative reflects a dedication to increasingly include women and girls as leaders, implementers, and beneficiaries of our programs.

Prior to investing a high level of resources in the implementation of Feed the Future strategies, USAID coordinates multistakeholder reviews of the technical quality of the country's food security multiyear strategy for integration of gender concerns in all investments. Each Multi-Year Strategy is thoroughly reviewed for gender integration and is not approved without first ensuring that gender issues are addressed throughout the plan. Moving forward, USAID will work with missions to develop Gender Action Plans to accompany each Multi-Year Strategy. The status of each Feed the Future focus country and the overall investment portfolio will also be reviewed every year to:

- Ensure the incorporation of gender best practices in all Feed the Future investments. We will provide technical assistance, where necessary, and up-to-date information on best practices through promotion and dissemination of resources. Training is also a critical component, and the Agency will work with missions to engender FTF-related solicitation and procurement documents through in-country trainings, technical assistance and the delivery of training resources including the "Tips for Integrating Gender into Agricultural Solicitations" document.
- Assess the quality and content of a Feed the Future focus country's consultative process on gender integration as one criterion for deeper investments. USAID will assess how the country uses social/gender analysis to involve and help ensure meaningful participation of women and men, and how the country involves organizations representing their respective interests in the development and implementation of the Feed the Future activities.

USAID is establishing a rigorous monitoring and evaluation (M&E) system that will monitor performance and measure progress toward Feed the Future goals at the country, regional, and initiative level. Feed the Future M&E system development requires that all USAID missions define the development hypotheses behind their strategies, develop a country-specific results framework, clearly identify beneficiaries, and undertake baseline studies. Gender equality and women's empowerment are, by requirement, considerations that are integrated into all of those steps.

The Feed the Future M&E system will measure gender results by collecting sex-disaggregated data, tracking the impacts of our investments on women and men, and measuring the progress of women's achievements relative to men's. All Feed the Future standard (people-specific) indicators collected at a household or individual level are either disaggregated by sex or specific to women.

Additionally, impact evaluations will examine critical questions related to gender equality, gender integration, and women's empowerment. Missions are strongly encouraged to set impact evaluation agendas that include questions on gender impacts.

Finally, under Feed the Future, USAID is developing an index—the Women's Empowerment in Agriculture Index—to measure changes in women's empowerment in the agriculture sector. The concept of Women's Empowerment or Inclusion in Agriculture is broad and multidimensional and measures change in the following: women's role in household decisionmaking around agricultural production, women's access to productive capital (such as loans or land), the adequacy of women's income to feed family, women's access to leadership roles within the community, and women's labor time allocations.

Question. One of the problems that has plagued USAID over the years is the lack of accountability of any particular officials for the performance of the programs under their purview. Partly as a result, Congress has created a large number of special coordinators who report through other departments and agencies. USAID is sometimes left with minimal control over its programs, yet is still held responsible

when the programs fail to achieve their objectives. What is being done to change the dynamic so that USAID has the ability to design and manage for results?

Answer. The Presidential Policy Directive on Development and the Quadrennial Diplomacy and Development Review (QDDR) have reiterated the importance of USAID as the lead development agency for the United States Government. With Congress' support for the Development Leadership Initiative, USAID has significantly expanded the ranks of development professionals at the Agency and therefore its capabilities to design and implement effective development programs and manage these for results. The QDDR establishes USAID as the lead agency for the Feed the Future Initiative, and anticipates that the Agency will assume leadership of the Global Health Initiative soon. USAID is also a core agency implementing the Global Climate Change Initiatives and our staff participates actively in many other inter-agency processes as the administration pursues a whole of government approach to development. Through these efforts USAID is drawing on the expertise of all federal agencies to tackle the priority development challenges facing the world and coordinating efforts to provide the most development impact.

USAID has instituted a variety of reforms through USAID Forward, including more rigorous evaluation, procurement mechanisms that promote increasing local capacity and partnering, where appropriate, with host countries, and emphasis on science, technology, and innovation. These reforms, coupled with the increases in staff, will continue to improve USAID's ability to design and manage for results.

Question. In the most recent strategy document, the Global Health Initiative principle of "a woman- and girl-centered approach" has been expanded to a "focus on women, girls, and gender equality." Can you describe how USAID programs are addressing the question of gender equity by addressing gender-related power dynamics between partners and in families, gender-related barriers to access and demand for services, and factors such as mobility, access to education, control over resources, and the link between poverty and gender?

Answer. USAID's global health programs consider gender equality a key determinant of women's and girls' health and well-being and recognize that the lower status that women and girls often have relative to male counterparts in their homes and communities requires a concerted effort to transform unequal gender norms and power relations.

USAID continues to invest in cutting edge data collection through the Demographic and Health Surveys (DHS), which includes modules on domestic violence, female genital cutting/mutilation (FGC/M) and women's status. Thirty-three countries have used the DHS domestic violence module (10 more than once); 27 countries have implemented the FGC/M module (of which 16 have collected the data more than once); and 3 countries have implemented the women's status module (of which 2 have collected the data more than once). These data were instrumental in bringing about legislative changes on domestic violence in Kenya, and the development of new legislation in Uganda that protects women from domestic violence, promotes gender equality in the home and prohibits FGC/M.

In rural Yemen, USAID is raising awareness of child and adolescent health needs and girls' rights and challenging local beliefs that support the common practice of child marriage. As a result, the age of marriage has increased from 14 to 17 in project sites; 53 girl-child and 26 boy-child marriages have been averted; and the first-ever female school principal was appointed, encouraging parents to enroll and keep their daughters in school. The intervention is being replicated in two new districts.

In Namibia, Ethiopia and Tanzania, USAID programming is engaging older and younger men to identify and address harmful attitudes toward gender norms and relationships. Program participants have reported positive changes in behavior, including increased discussion about sexuality, the treatment of women with more respect, and increased awareness about HIV or feeling less negative toward HIV-positive people.

In Malawi, Rwanda and Swaziland, USAID is working to explicitly engage men in health services, such as the prevention of mother-to-child transmission of HIV, as a way of increasing their support of women's health needs and access to services, and increase couple family planning and HIV counseling.

A recent USAID-supported analysis in health care facilities around the world revealed widespread humiliation and abuse of women during childbirth, a time of intense vulnerability for women. The study found that such disrespect of women has become "normalized," negatively affecting women's use of facility-based skilled care. USAID is supporting global advocacy, additional research, and maternal health programming to tackle this problem.

In Northeast Bangladesh, which has the country's lowest health indicators and where women live in seclusion, USAID is supporting an integrated family planning—maternal, neonatal, and child health program to improve access to services, through trained community health workers who reach women in their homes to provide culturally appropriate newborn care and reproductive health to mothers. As a result, family planning in intervention sites has increased to 42 percent, compared with 27 percent in control sites.

In Kenya, USAID is providing microfinancing to disadvantaged women and families in the lowest wealth quintiles (including young women) who are living with or are affected by HIV/AIDS. This program incorporates family planning and reproductive health information, and refers women to local service providers to help them delay, space, or prevent pregnancy.

Question. Violence against women is a horrific and widespread human rights crisis that undermines the effectiveness of existing U.S. investments in global development and stability, such as increasing basic education or creating stability in Afghanistan and Pakistan. Given the pervasiveness of sexual and gender-based violence and the inherent links between violence and the various sectors in which USAID is engaged, how can USAID utilize a more comprehensive approach to ending violence against women and girls internationally?

Answer. USAID has adopted a comprehensive approach to gender-based violence (GBV) in all its programming by: (a) mobilizing women/girls and men/boys to prevent and mitigate violence; (b) working with communities to address norms that perpetuate gender-based violence; (c) supporting policies and programs to prevent and respond to GBV in various settings, such as schools, workplace, and home; (d) supporting policies and activities that protect the rights of women and children and strengthen sanctions against violence; (e) increasing access to psychosocial, legal, and health services; (d) supporting special protections for women and children in conflict and humanitarian emergencies; (e) supporting policies and activities that protect the rights of transgender persons and strengthens sanctions against violence directed at those who evidence variant gender expression; and (f) providing original research and analysis of the prevalence of gender-based violence and its effect on development objectives.

USAID's commitment to combating gender-based violence has also been elevated by the Agency's most senior leadership, who are positioning the Agency to advance the implementation of United Nation Security Council Resolution 1325 and four related United Nations resolutions, 1820, 1888, 1889, and 1960, which call for the protection of women and girls from sexual and gender-based violence in situations of armed conflict. To protect women and girls in conflict-affected countries, USAID assistance will combine targeted prevention and response activities with an overall focus on the safe and equitable delivery of relief and recovery assistance, and the active engagement of women in peace-building and reconstruction efforts.

Further, in February, the Agency launched a Counter Trafficking in Persons Code of Conduct, holding USAID personnel and implementing partners accountable to a high level of ethical conduct and committing the Agency to provide training and tools to identify trafficking and implement appropriate programs. The Agency is developing a new Counter Trafficking strategy, finalizing a Field Guide to Combat TIP as a programming resource for missions, and developing a survey tool to identify evidence-based practices in anti-TIP programming.

Question. As you know, the QDDR incorporates an unprecedented emphasis on gender integration, recognizing it as a key approach for effective development. As the QDDR reaches the stage of implementation, how can you ensure that USAID employs gender integration as a crosscutting approach for diplomacy and development rather than relying on separate women's projects? The FY12 budget request does reference this. But can you now tell me what that will actually look like? Can you please share what concrete steps you view are necessary for USAID to fully achieve this vision of addressing both women's and girl's needs effectively throughout project outcomes, both in Washington and abroad? What structures are being built at USAID? What requirements will you have of contractors and programming? What will the Monitoring and Evaluation on gender look like?

Answer. We have taken a number of steps throughout the Agency to ensure that women's and girl's needs are met throughout project outcomes in Washington and abroad. Last year, we updated our gender programming requirements to reflect the administration's core commitment to gender equality and women's empowerment. This guidance reinforces the importance of gender analysis in informing the design of strategies and programs to deliver better results, and makes it a mandatory com-

ponent of strategic planning and project design at every level for all USAID staff and implementing partners (e.g., contractors).

Furthermore, all USAID officers now have at their disposal a strong set of tools from which to implement and strengthen the integration of gender into their projects. For example, we have complemented the above guidance with additional documents on the subject matter, such as the Tips for Conducting a Gender Analysis at the Activity Level, the USAID Gender Integration Matrix: Individual Opportunities and Responsibilities, and Sample Scopes of Work for Gender-Related Analyses and Training.

We have increased our technical assistance to the field, with more than 35 missions carrying out country gender assessments last year alone to incorporate into planning and programming. And finally, we have provided gender integration training to approximately 600 USAID staff and implementing partners worldwide.

Last month, USAID established a Policy Task Team to craft a new policy on gender equality and women's empowerment—our first in nearly 30 years. As with our other policy task teams, the Gender Policy Task Team will consult widely with stakeholders, including USAID staff, beneficiaries, and others in the development community and on Capitol Hill on, among other things, the best way to achieve our gender integration goals.

We recently restructured the former Women in Development Office into a new Office of Gender Equality and Women's Empowerment focused on building partnerships. This office will also give greater support to female entrepreneurship, scaleup initiatives designed to enhance women's ownership of key assets like land and housing, and work to reduce gender gaps in access to new technology and infrastructure.

To assist the Agency in meeting its gender goals, we recently welcomed Carla Koppell as our new Senior Coordinator for Gender Equality and Women's Empowerment. Carla will accelerate our efforts to integrate gender equality as cross-cutting throughout the agency. Carla most recently served as director of the Institute for Inclusive Security of the Hunt Alternatives Fund, and has worked extensively with women and civil society leaders from conflict areas around the world including Afghanistan, Colombia, Iraq, the Middle East, and Sudan.

Carla joins a growing number of gender experts in USAID including Dr. Caren Grown, whom we welcomed as our Senior Gender Advisor in our Policy, Planning & Learning Bureau earlier this year. Caren is currently coleading the Task Team in charge of drafting the new policy on gender equality and women's empowerment programming.

The Agency has placed a significant emphasis on evaluation, measuring, and documenting program achievements and shortcomings, and generating data on what works to drive decisionmaking. These processes will be applied to our approach to gender integration. The new Evaluation Policy establishes consistent terminology; requires at least one performance evaluation for each major program and any untested and innovative interventions, and encourages impact evaluation for each major development objective in a country program, especially for innovative or untested approaches and interventions. The policy calls for evaluation to be integrated into programs at the design stage and requires sufficient resources be dedicated to evaluation, estimated at approximately 3 percent of total program dollars. To avoid bias and situations where implementing partners evaluate themselves, it is expected that external experts will lead evaluation teams, and requires that evaluations use methods, whether qualitative or quantitative, that generate the highest quality, reproducible evidence linked to the evaluation questions. The policy also builds local capacity by including local evaluators on evaluation teams and supporting partner government and civil society capacity to undertake evaluations. Finally, the new policy insists on transparency of findings with a commitment to full and active disclosure.

Taken together, we believe these steps will reaffirm our commitment to gender equality and help harness the power, creativity, and energy of women and girls to deliver meaningful results for the developing world today and into the future.

Question. Five days after being sworn in, Haiti experienced a devastating earthquake. You led a swift, aggressive and coordinated response to the devastation that they experienced. Now that we have transitioned from emergency response and onto reconstructing and rebuilding Haiti, what are some of the new initiatives that USAID is engaged in? And, what is USAID doing to enhance civil society's capacity to advocate for reform?

Answer. New Initiatives: USAID is doing business differently in Haiti. In every sector, we are seeking to build local capacity at the national and municipal levels so the Government of Haiti can meet the people's needs and become less dependent on foreign aid. We are also achieving greater focus and more effective use of our

resources by working primarily in three geographic corridors—north of Port-au-Prince, the St. Marc area, and Cap Haitien—and in four primary sectors: infrastructure and energy, economic security, health, and governance.

USAID is also trying to promote sustainable development and promote innovation by engaging the private sector through Public-Private Partnerships, such as Haiti Hope, a \$9.5 million partnership with Coca-Cola and others, that aims to double income of 25,000 mango farmers in 5 years; or a partnership with CHF & Haytrac (Caterpillar's Haiti dealer), that trains Haitian men and women to use heavy equipment for rubble removal and demolition of damaged structures. USAID has also partnered with the Gates Foundation, Digicel and Voila cell phone providers to provide basic banking services and money transfers. The project has 14,000 users thus far. The following is a summary of our activities in the four sectors referenced above.

- *Infrastructure/Energy*: USAID aims to improve infrastructure that supports communities as well as commercial development in Port-au-Prince and the development corridors of St. Marc and Cap Haitien. USAID's goals are to improve access to and the reliability of electricity; reduce the use of charcoal and firewood for cooking; increase access to international markets through new ports; and increase access to housing.
- *Food and Economic Security*: USAID is investing in agricultural development for competitive commodities; raising rural income and increase food security; and creating a robust formal micro-, small-, and medium-sized enterprise sector resulting in improved performance of the agricultural sector, improved nutritional status of women and children and increased employment.
- *Health and other basic services*: USAID is working to improve the health care system with better infrastructure and widespread access to good care; improve and expand the capacity of the Haitian Government (GOH) to provide health services; enable the GOH to govern and set standards for education; enhance opportunities for at-risk youth; and provide services for persons with disabilities.
- *Government/Rule of Law*: USAID's programs aim to create a more stable state, characterized by credible elections; support a more inclusive, transparent, and accountable public administration, and a government capable of delivering basic services; and strengthen the rule of law and adherence to human rights.

With regard to civil society, USAID is working to enhance participation in relief and recovery through dialogue between citizens and the GOH. We currently have programs with Haitian NGOs to:

- Support oversight of the executive branch;
- Strengthen capacity to identify and advocate for local development priorities, and provide oversight of reconstruction spending;
- Support civic education;
- Strengthen capacity to advocate for and monitor justice service delivery; and
- Support public information campaigns on the prevention of violence against women, children, and other vulnerable groups.

We also continue to support the GOH's decision to include a civil society representative on the board of the Interim Haiti Reconstruction Commission. In so doing, we also anticipate that the IHRC, in its role as a coordinating body, will facilitate dialogue among civil society, government, and other actors.

Question. Do you have an estimate of what the overall humanitarian response in Haiti is likely to cost the U.S. Government?

Answer. In FY 2010 and to date in FY 2011, the U.S. Government (USG) has provided nearly \$1.3 billion for humanitarian response activities in Haiti, including \$1,219,298,717 toward the January 2010 earthquake and \$62,533,934 toward the October 2011 cholera outbreak. All of USAID's Office of U.S. Foreign Disaster Assistance (USAID/OFDA) earthquake and cholera humanitarian response programs in Haiti are currently scheduled to conclude by the close of calendar year 2011 in recognition of the evolution of both responses from the immediate, life-saving phase to a longer term situation requiring development interventions.

Question. Will the FY 2010 supplemental funding be sufficient for the humanitarian response?

Answer. Though current conditions on the ground indicate that FY 2010 supplemental funding will be sufficient for the humanitarian assistance portion of the Haiti response, USAID continues to closely monitor needs in Haiti. In particular, the effects of continued displacement from the earthquake, cholera, Hurricane

Tomas, and high prices for staple foods are being analyzed and may lead to requests for additional emergency food assistance.

Question. In your view, how well is the humanitarian operation being coordinated?

Answer. International humanitarian coordination mechanisms in Haiti were stronger than in many recent crises due to the speed and quantity of cluster activation, as the U.N. and Government of Haiti (GOH) activated 12 clusters, or sectoral coordinating bodies, within the first 10 days of the crisis to identify and prioritize relief needs. Later in the response, however, staffing challenges hindered the ability of the U.N. Office for the Coordination of Humanitarian Affairs (OCHA) to robustly manage information on the response, leading other relief organizations to assume a heightened coordination role within their sectors.

As the lead federal agency for international disaster response, USAID coordinated an unprecedented number of USG agencies in the aftermath of the Haiti earthquake. With USAID leadership, the USG humanitarian response accomplished the following:

- Within hours of the earthquake, USAID established a 24-hour interagency Response Management Team (RMT) with 20 interagency liaison officers, including staff from the U.S. Department of Homeland Security, U.S. Department of Health and Human Services, and U.S. Department of Defense (DOD), working in close coordination at the USAID Operations Center.
- USAID grantees were part of an international effort that accomplished the largest emergency shelter distribution in history and increased piped fresh water to Port-au-Prince above preearthquake levels.
- The U.S. Military elevated operations at the damaged Port-au-Prince airport to levels that were three times greater than preearthquake capacity and coordinated with USAID for flight prioritization. Through interagency coordination, the U.S. Department of Energy and DOD helped restore the fuel supply to Haiti, allowing the transport of relief commodities to drastically affected communities.
- USAID met regularly with representatives of other donor nations to avoid gaps or redundancies in assistance. Strong humanitarian donor coordination enabled common messaging, joint donor missions to the field, and joint efforts to streamline requests and expedite response activities.

Question. Please discuss ways that the humanitarian relief operation has begun to transition toward early recovery and some of the main obstacles that exist with regard to funding, resources on the ground, and absorptive capacity.

Answer. Since mid-2010, USAID has been working on ways to integrate emergency earthquake-response programming into USAID/Haiti's four-pillar, post-earthquake renewal and economic opportunity strategy. Specifically, USAID's Office of Foreign Disaster Assistance (USAID/OFDA) and our mission in Port-Au-Prince outlined ways the mission might provide follow-on funding for programs initiated by USAID/OFDA to repair moderately damaged structures, rendering them safe to inhabit, and to provide technical expertise to GOH housing and urban planning officials.

USAID's food assistance helped meet the immediate food needs of nearly 4 million in the first 4 months after the earthquake. Since then, USAID's response has evolved to support early recovery while ensuring that vulnerable people are able to meet their basic food needs. In addition, as the cholera outbreak stabilized—with declining overall case fatality rates, a decreasing rate of new cholera cases, and establishment of cholera treatment facilities and cholera-related commodities in-country sufficient to meet current needs—USAID began planning to transition emergency response programs to longer term programming, integrating cholera treatment into development health activities.

Question. What are some of the key lessons USAID has learned so far in the U.S. response to the earthquake? Do these lessons apply to other situations or are they unique to Haiti?

Answer. An independent team commissioned by USAID to review the first 6 months of the USG humanitarian response to Haiti's earthquake issued the following recommendations: structurally strengthen USAID as the lead federal agency for international disaster response, more effectively bridge the divide between diplomatic response and humanitarian relief, establish a USG International Disaster Response Framework, clarify the role of DOD in humanitarian crises, and more stringently monitor the impact of assistance funding. The majority of the recommendations can be broadly applied to USG disaster response activities world-

wide, although the different country contexts will naturally necessitate different balances of appropriate USAID, U.S. Department of State, and DOD levels of involvement in each response.

Question. The President's new global development policy seeks a shared, cooperative approach among donors so that the United States is not shouldering an overwhelming majority of bilateral assistance to poor countries. How are you achieving this division of labor and coordinating effectively with other donors? Similarly, how are you leveraging partnerships with the private sector, NGOs, foundations, and diaspora communities to maximize our investments?

Answer. Under the implementation plan for the Presidential Policy Directive on U.S. Global Development Policy, USAID's role with respect to division of labor among donors is to:

- Track and participate on behalf of the USG in the ongoing international dialogue on cross-country division of labor; negotiate for commitment to concrete action in the Busan (Fourth High Level Forum on Aid Effectiveness) outcome document;
- Create a work plan based on mainstreaming division of labor, accountability and transparency into the work of the three technical working groups related to the U.S.–EU summit outcome on aid effectiveness; and
- Provide guidance to the field on participation in joint assistance strategies and similar framework agreements that codify country-level division of labor.

In addition, USAID is using its Country Development Cooperation Strategy drafting and review process to collect information on existing donor division of labor in-country.

Regarding partnerships, USAID is the recognized leader in cultivating public-private alliances for development. Since 2001, through the use of Global Development Alliances and other partnership models, USAID has generated more than 1,000 alliances with over 3,000 individual partners. USAID has formed alliances with corporations, private foundations, other donors, philanthropists, NGOs, social entrepreneurs and diaspora communities.

Partnerships currently leverage approximately \$4.20 for each \$1.00 of USAID funding, in both cash and in-kind contributions. USAID currently has 283 active partnerships with a total value of \$8.8 billion.

Private sector companies and organizations have proven to be valuable partners. For example, the Water and Development Alliance (WADA) is a global partnership between the Coca Cola Company and USAID. Launched in 2005, WADA addresses a broad range of water sector challenges in 22 countries around the globe. The WADA partnership supports customized responses to community water-related challenges in each country through activities jointly designed and funded by local USAID missions and Coca Cola system partners.

Similarly, throughout Asia, USAID's innovative public-private partnership with MTV (through their EXIT Foundation) has leveraged over \$65 million in cash and in-kind resources. The partnership raises awareness and increases prevention of trafficking in persons across Asia through a wide-reaching social marketing media campaign. USAID put \$5.48 million into the partnership, which means the partnership resulted in a match of more than \$10 in private resources for every \$1 from USAID.

Other donors have also worked in partnership with us. For example, in Cambodia, USAID leveraged nearly \$12 million from DfID, the U.K. Department for International Development, for a social marketing and behavior change project focused on addressing the needs of vulnerable, at-risk populations in HIV/AIDS, as well as reproductive health and child survival. When added to USAID's initial \$12.5 million commitment, this resulted in a \$24.4 commitment to the health of the Cambodian people. Under the partnership, DfID channels resources to USAID and provides in-kind contributions through commodities. The program has exceeded targets ahead of schedule, achieving much more than USAID could have done alone.

In addition, USAID has also forged partnerships with U.S.-based diaspora communities. In 2010, USAID partnered with Western Union to jointly fund the pilot African Diaspora Marketplace business plan competition that awarded matching grants of up to \$100,000 to African diaspora entrepreneurs who had launched small and medium enterprises in their country of origin.