

**NOMINATIONS OF THE 110TH
CONGRESS—FIRST SESSION**

HEARINGS

BEFORE THE

**COMMITTEE ON FOREIGN RELATIONS
UNITED STATES SENATE**

ONE HUNDRED TENTH CONGRESS

FIRST SESSION

—————
JANUARY 30 THROUGH DECEMBER 19, 2007
—————

Printed for the use of the Committee on Foreign Relations



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COMMITTEE ON FOREIGN RELATIONS
110TH CONGRESS—FIRST SESSION

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JIM WEBB, Virginia	DAVID VITTER, Louisiana

ANTONY J. BLINKEN, *Staff Director*

KENNETH A. MYERS, Jr., *Republican Staff Director*

*Note: Reassigned to Committee on Finance January 24, 2008.

COMMITTEE ON FOREIGN RELATIONS
110TH CONGRESS—SECOND SESSION

JOSEPH R. BIDEN, Jr., Delaware, *Chairman*

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BENJAMIN L. CARDIN, Maryland	JOHNNY ISAKSON, Georgia
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JIM WEBB, Virginia	JOHN BARRASSO, Wyoming*

ANTONY J. BLINKEN, *Staff Director*

KENNETH A. MYERS, Jr., *Republican Staff Director*

*Note: Appointed February 12, 2008.

NOMINATIONS

TUESDAY, OCTOBER 30, 2007

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

Heath, Daniel D., to be U.S. Alternate Executive Director of the International Monetary Fund
Kennedy, Patrick F., to be Under Secretary of State for Management
Mulvaney, Sean R., to be Assistant Administrator for Management of the U.S. Agency for International Development

The committee met, pursuant to notice, at 2:40 p.m., in room SD-419, Dirksen Senate Office Building, Hon. Robert Menendez presiding.

Present: Senators Menendez and Lugar.

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

Senator MENENDEZ.: The hearing of the Committee on Foreign Relations will now come to order. Today, the committee meets to consider the nomination of Mr. Patrick Kennedy to be the Undersecretary of Management at the State Department, Mr. Sean R. Mulvaney to be the Assistant Administrator for Management at USAID, and Mr. Daniel D. Heath to be the U.S. Alternate Executive Director to the International Monetary Fund. We welcome them, as well as any of their family members and friends who have accompanied them.

I'll start off with an opening statement, and then recognize the distinguished ranking member of the full committee, and ask unanimous consent on behalf of Senator Hagel to have his opening statement be included in the record, which without objection will be included.

[NOTE. The prepared statement of Senator Hagel appears in the "Additional Material Submitted for the Record" section at the end of this hearing.]

Senator MENENDEZ. The United States plays a crucial role in promoting development and alleviating poverty around the world. USAID, the State Department, and the IMF make a significant contribution to this work, and each nominee before us will play a key role in these organizations. We look forward to the witnesses' testimony in hearing how they will contribute to these missions.

We are at a decisive moment for the future of USAID as an agency. I strongly believe that this year may very well make or break USAID. The Foreign Assistance Reform Process, or as it is known as the F Process, has been in place for over a year, but as I said in a hearing I chaired on June 12 to examine this issue, this new foreign assistance process is, in my view, flawed, and may be in serious trouble.

As I stated then, if USAID and State simply move full speed ahead and make only minor changes around the edges, then the administration will have significant problems with Congress.

Tragically, one of the consequences of this reform process has been the decimation of USAID resources as its funding, role, and mission have been reduced. As a result, USAID faces serious morale problems and questions about its future. And this, in turn, cripples our ability to expand democracy and improve the lives of the citizens of the developing world. Again, as I've said before, I refuse to preside over a slow death of USAID.

It's important to note that USAID has been, is, and should continue to be the backbone of our foreign assistance. AIDS mission dates back to the Marshall Plan reconstruction of Europe after World War II. In 1961, the Foreign Assistance Act was signed into law, and USAID was created. It is the one agency inside the United States Government that was designed with development and fighting poverty around the world as its core mission. And, at a time when international development and U.S. credibility are so needed, it does not make sense to take money, power, control, and expertise away from this agency. What is needed to revitalize the mission and health of USAID is strong leadership.

That's why, Mr. Mulvaney, your nomination today is so important for the future of the USAID as you and I have had that conversation. I hope you're prepared to make some hard decisions, along with Henrietta Fore, who has been before the committee, and to work to make sure that the expertise that USAID does have, is valued and fully utilized. And, we look forward to discussing today how you would try to accomplish this.

Mr. Kennedy, there is no question that you'll be assuming a large amount of responsibility. Simply put, you'll be responsible for overseeing the people, financial resources, training, information technology, and security of the Department of State in support of our foreign policy objectives, and as recent years have documented, and there will be no shortage of challenges. We look forward to hearing your assessment of them, as well, as you come before the committee in this nomination and how you might very well proceed to tackle them, should you achieve the success of being confirmed.

And as we talk about America's role in international development, we should recognize that our foreign assistance also extends to supporting multinational institutions that will improve the economies of other countries, and direct the aid and development.

That's why I believe that America must continue to play a strong role in the major development banks and multilateral financial institutions that work toward this goal. In this hearing, we look forward to specifically discussing the work of the International Monetary Fund.

In the interest of time, I'll leave specific issues for the questioning, and with that, I'm proud to recognize the distinguished ranking member of the full committee, Senator Lugar.

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

Senator LUGAR. Well, thank you very much, Mr. Chairman, I thank Chairman Biden for scheduling this timely hearing. I thank you especially for your eagerness and willingness to chair it. These hearings are extremely important—one of the features about the Foreign Relations Committee not often known as in the last Congress, this committee had more hearings than any other committee in the Senate. And it was largely because we had the scope of the whole world, but likewise, because we have so many distinguished nominees.

From the roles that you are fulfilling, each of our ambassadors to other countries abroad, a lot of international groups that we name members to—that's why these hearings are especially important, because they offer an opportunity for you, as witnesses, to make statements to clarify your own intentions, with regard to the offices that you seek, and it gives an audience and a forum to the groups that you're talking about, today, three very important ones: the Department, USAID, and the International Monetary Fund.

And so, it's a privilege to be a part of the hearing. I look forward to the testimony. And I thank you, again, Mr. Chairman.

Senator MENENDEZ. Thank you, Senator Lugar.

We will now hear the testimony of our nominees, we'd love to have you introduce family members that may be in attendance, and when you start your testimony, please do so. In the interest of time, we ask you to keep your statement to about 5 minutes. Without objection, your full statements will be included in the record.

And with that, Mr. Kennedy, you may proceed with your opening statement.

**STATEMENT OF HON. PATRICK F. KENNEDY, NOMINEE TO BE
UNDERSECRETARY OF STATE FOR MANAGEMENT**

Mr. KENNEDY. Thank you very much, Mr. Chairman, Senator Lugar.

I'd like to introduce my wife, Mary Elizabeth Swope, who is a retired State Department Foreign Service officer, who joins me today.

Mr. Chairman, it's a distinct honor to appear before you today, as President Bush's nominee to be Undersecretary of State for Management. I want to thank the President and Secretary Rice for the confidence they have placed in me.

As a career Foreign Service officer who has worked in the administrative and management field for over 35 years, I regard this as a unique opportunity to serve our Nation. Over the years, my service at the Department of State and on loan to the Department of Defense and the Office of the Director of National Intelligence, has given me perspective on the many and varied challenges that America faces internationally.

Also, working and living abroad as part of a Foreign Service couple, I know well what it takes for our Foreign Service colleagues to live and work in foreign cultures, have assignments in different

countries, and experience the changing profile of American diplomats over the last three decades.

As a management officer, and as Assistant Secretary of State for administration, I worked on the full spectrum of management issues needed to support our diplomatic presence around the world, and—I can tell you sincerely—serving our country is a privilege in any capacity, and a career in the State Department is one of the best opportunities there is.

If confirmed, I look forward to working on the numerous challenges that lie ahead. I believe the State Department can meet those challenges only by working with the Congress, and other U.S. Government agencies.

I believe wholeheartedly that we cannot implement successful foreign policy without addressing the management and infrastructure issues on which it depends.

It is often said that an institution's major asset is its people, and I think this is no where more true than with the Department of State.

With a few important exceptions, we are not a programmatic agency. The Department advances the U.S. national interests through policy formulation and execution, public diplomacy outreach, consular support, and management services. We serve the American people through the men and women of the Civil and Foreign Services, and our foreign national colleagues abroad.

They're our most powerful and scarcest resource, representing the United States abroad is an honor and a challenge in today's international environment. To do it well, our people must be deployed, recruited, trained, provisioned, and safeguarded. They must be sent to those assignments and posts where they can make the maximum contribution, including some of the most dangerous places on earth. They must be trained in languages and professional skills so that they can perform their diplomatic and consular roles effectively. They must be provided with the proper tools and best possible support to operate at peak efficiency, and they must have safe and secure facilities from which to operate.

I want to underline my strong commitment to recruiting, developing, and retaining a highly skilled workforce representative of America's diversity. To recruit the people the country needs, the Department must continually expand its outreach to all parts of American society. We cannot afford, and morally must not leave any stone unturned in seeking out the people that we need to advance our national interests.

Our Civil and Foreign Services provide a dynamic workforce to accomplish the Department's missions in 170 countries abroad, and at the United Nations and also around the United States.

I am pleased today that the Department fully participates in the President's Management Fellows program, and has developed its own Career Entry Program to bring in and set on the right track, the next generation of Civil Service employees. The Department has also begun an innovative program to provide Civil Service rotational opportunities.

The Foreign Service continues to recruit entry-level personnel from around the country. They must also receive additional train-

ing, especially in hard languages, and in working with other agencies on various national security issues that face our country.

The National Foreign Affairs Training Center is critical to fully developing the skills we need for our entire workforce. Among the many training opportunities offered are leadership and management training at the entry, mid- and senior levels, which provides employees with essential skills throughout their careers. And we must look forward to ways to leverage the significant skills that family members bring when they accompany employees overseas.

There are enormous challenges ahead, and we are not a perfect organization. Just recently, the surge in passport applications resulted in unacceptable waiting times for the American people we serve. Systemic changes have been made to forestall that happening again. The extremely dedicated and competent employees who worked incredible hours to reduce the backlog of applications are now being supplemented by additional staff and additional facilities. The Department also benefited from numerous other employees and retirees who were mobilized.

We can never lose sight of the fact that there are always new and better ways to carry out our responsibilities—these must be constantly pursued, and it is equally important that we engage in contact and vigorous oversight and accountability. There will always be missteps, but if we are honest and forthright, and display the dedication that has been the hallmark of the Department, we can catch problems early, and fix them.

The American people have entrusted the State Department with many responsibilities in carrying out our diplomatic mission. Accomplishing them requires the full commitment of all of our employees, and also requires the continuing support of the Congress, particularly our committees of jurisdiction.

If confirmed, I pledge to lead the Department's management team in carrying out our assigned tasks. I will take it as the number one goal to provide the Secretary of State with the management advice and management support she needs.

Thank you very much, sir.

[The prepared statement of Mr. Kennedy follows:]

PREPARED STATEMENT OF HON. PATRICK F. KENNEDY,
NOMINEE TO BE UNDER SECRETARY OF STATE FOR MANAGEMENT

Thank you, Mr. Chairman and other members of the Foreign Relations Committee.

It is a distinct honor to appear before you as President Bush's nominee to be Under Secretary of State for Management. I want to thank the President and Secretary Rice for the confidence they have placed in me. As a career Foreign Service officer who has worked in the administrative and management fields for almost 35 years, I regard this as a unique opportunity to serve our Nation.

Over the years, my service at the Department of State, and on loan to the Department of Defense and the Office of the Director of National Intelligence, has given me perspective on the many and varied challenges that America faces internationally.

Also, working and living abroad as part of a Foreign Service couple, I know well what it takes for our Foreign Service colleagues to live and work in foreign cultures, have assignments in different countries, and experience the changing profile of American diplomats over three decades of service.

As a management officer and as Assistant Secretary of Administration, I worked on the full spectrum of management services needed to support our diplomatic presence around the world. In all of this, I can tell you sincerely that serving our coun-

try is a privilege in any capacity and that a career in the State Department is one of the best opportunities there is.

If confirmed, I look forward to working on the numerous challenges that lie ahead; but I believe that the Department of State can meet those challenges only by working with the Congress and other U.S. Government agencies. I believe wholeheartedly that we cannot implement successful foreign policy without addressing the management and infrastructure issues on which it depends.

It is often said that an institution's major asset is its people, and I think that is nowhere more true than with the Department of State. With a few important exceptions, we are not a programmatic agency.

The Department of State advances the U.S. national interest through policy formulation and execution, public diplomacy outreach, consular support, and management services. We serve the American people through the men and women of the Civil and Foreign Services, and our foreign national colleagues abroad.

They are our most powerful, and scarcest, resource. Representing the United States of America abroad is an honor and a challenge in today's international environment. To do it well, our people must be deployed, trained, provisioned, and safeguarded.

They must be sent to those assignments and posts where they can make the maximum contribution, including some of the most dangerous places on earth.

They must be trained in languages and professional skills so that they can perform their diplomatic and consular roles effectively on behalf of the President and the American people.

They must be provided with the proper tools and best possible support to operate at peak efficiency.

And they must have safe and secure facilities from which to operate.

I want to underline my commitment to recruiting, developing, and retaining a highly skilled workforce representative of America's diversity. To recruit the people the country needs, the Department must continually expand its outreach to all parts of American society. We cannot afford—and morally must not—leave any stone unturned in seeking out the people that we need to advance our national interests.

Our Civil and Foreign Services provide a dynamic workforce to accomplish the Department's mission; in addition to our diplomatic presence in over 170 countries abroad and at the United Nations, they are also deployed around the United States in passport agencies, visa offices, diplomatic security field offices, and dispatch agencies.

I am pleased that the Department fully participates in the Presidential Management Fellows Program and has developed its own Career Management Entry Program to bring in, and set on the right track, the next generation of Civil Service employees. The Department has also begun an innovative program to offer rotational opportunities to Civil Service employees.

The Foreign Service continues to recruit entry-level officers from all around the country. They must also receive additional training, especially in hard languages and in working with other agencies on various national security issues facing our country.

The National Foreign Affairs Training Center is critical to fully developing the skills we need for our entire workforce—Civil Service, Foreign Service, and Foreign Service Nationals. Among the many training opportunities offered, our leadership and management training at the entry, middle, and senior levels provides employees with essential skills throughout their careers.

And we must look for ways to leverage the significant skills that family members bring when they accompany employees overseas.

There are enormous challenges ahead and we are not a perfect organization. Just recently, the surge in passport applications resulted in unacceptable waiting times for the American people we serve. Systemic changes have been made to forestall that happening again. The extremely competent and dedicated employees who worked incredible hours to reduce the backlog of applications are now being supplemented by additional staff and additional facilities. The Department has also benefited from numerous other employees and retirees who were mobilized from all over the United States and overseas, to complete the mission of getting us back to the timely processing of passports.

We can never lose sight of the fact that there are always new and better ways to carry out our responsibilities. These must be constantly pursued. And it is equally important that we engage in contact and vigorous oversight and accountability.

There will always be missteps, but if we are honest and forthright, and display the dedication that has been the hallmark of the Department, we can catch problems early and fix them.

The American people have entrusted the Department of State with many responsibilities in carrying out our diplomatic mission.

Accomplishing them requires the full commitment of all our employees and it also requires the continuing support of the Congress, particularly our committees of jurisdiction.

If confirmed, I pledge to lead the Department's management team in carrying out our assigned tasks in support of American diplomacy throughout the world. I would take it as my No. 1 goal to provide the Secretary of State with the management advice and management support she needs.

Senator MENENDEZ. Thank you, Mr. Kennedy.
Mr. Mulvaney.

STATEMENT OF SEAN R. MULVANEY, NOMINEE TO BE ASSISTANT ADMINISTRATOR FOR MANAGEMENT OF THE UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT

Mr. MULVANEY. Mr. Chairman, Ranking Member Senator Lugar, thank you for the opportunity to appear before the committee.

On July 16, 2007, President Bush nominated me for the position of Assistant Administrator for Management of USAID. I am honored by his confidence in me, and am appreciative of the support that has been given me, during the nomination process.

I appreciate this opportunity to appear before you, Senator Menendez, and this esteemed committee. If confirmed, I hope to work with you and your colleagues on the committee and in the Congress, on a full range of issues. I am looking forward to your questions. Thank you very much.

At this time, I would like to recognize and acknowledge my family for their support. Without their love and encouragement, I wouldn't be here today.

This is my wife, Susan, my daughters, Kate and Rachel, and my sisters, Sue and Lisa, are here today. My mother was unable to attend. I'd also like to recognize and thank my deceased father.

As a former staff member in the House of Representatives, I understand the importance of this hearing, and the role it plays in our constitutional process. If confirmed by your committee, I pledge my best in helping the agency modernize, to keep it the world's premier development agency.

In his National Security Strategy of 2002, the President stated that including the world's poor in an expanding circle of development and opportunity is one of the top priorities of U.S. international policy. Since then, the President and the Congress have nearly tripled the resources allocated to development. Secretary Rice has reaffirmed the President's desire to elevate development as a foreign policy objective. It now plays a key role in our national security architecture as part of the three D's—defense, diplomacy, and development.

The humanitarian and development mission of USAID has, and will continue to be, a moral imperative of this country. Post-9/11, it is also a national security imperative.

If confirmed as Assistant Administrator for Management, I will hold a position that is critical to the functioning of USAID, because the management bureau provides the tools with which our development professionals work. The position oversees 6 major operational units that include financial management, acquisition and assistance, information technology, overseas management support, ad-

ministrative services, management, policy, budget, and performance.

Generally speaking, the position and the Bureau are responsible for strengthening and maintaining agency management systems. The management function is so critical because every other operational unit within the agency relies on it, as a service provider, an enabler, and a facilitator in the pursuit of U.S. foreign assistance objectives.

Without good logistical support, USAID's efforts would be stymied, as it tries to catalyze the full range of America's public and private capabilities, and the resources it allocates to development.

If confirmed for this position, I see myself as playing a small but pivotal role to improve the lives of countless individuals, by improving the management practices of the agency.

I can assure you that I am energized and I'm exhilarated by the tasks that lie before me, and the opportunity to bring my professional experience to bear in the service of my country.

In my professional career to date, I have had a set of experiences that have drawn upon many different skills. I worked on Capitol Hill for 10 years, in several positions covering a range of office, committee, and leadership functions, with a focus on foreign policy, international economic policy, budget, and appropriations.

Five of these years were dedicated to assisting a former Chairman of the House Appropriations Subcommittee on Foreign Assistance. That experience enabled me to build a solid knowledge of the U.S. foreign assistance process and development practice.

I also developed a clear understanding of executive branch operations, and the special role that Congress plays in the design and implementation of U.S. development policy abroad.

As a complement to this public policy experience, I obtained a master's degree from Thunderbird, the American Graduate School for International Management. I've also worked in brand management for a worldwide consumer products and pharmaceutical firm, Glaxo Smithkline.

The combination of my public policy experience, particularly in the legislative area of foreign assistance, as well as my private sector management experience, I believe has prepared me for the serious responsibilities I would assume as Assistant Administrator for Management.

Should the Senate choose to confirm me for this position, it would be an honor to serve side-by-side with the roughly 8,000 dedicated USAID employees who—at great risk and personal sacrifice—answer the development challenges around the world. I will endeavor to serve them with the same distinction and purpose that they serve the American people.

In closing, I would like this committee to know that, if confirmed, I intend to make myself fully available. I'd like to consult with interested staff and members on the management challenges that the agency faces, or any proposed decisions that it would take. This is part of my own personal policy of pursuing communications with all major stakeholders interested in improving the management of the agency.

Mr. Chairman, this concludes my statement for the committee, and I welcome any questions at the appropriate time.

[The prepared statement of Mr. Mulvaney follows:]

PREPARED STATEMENT OF SEAN R. MULVANEY, NOMINEE TO BE ASSISTANT ADMINISTRATOR OF MANAGEMENT FOR THE UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT

Mr. Chairman, Ranking Member Senator Lugar, and other Senators of the Senate Foreign Relations Committee, thank you for the opportunity to appear before you this afternoon. I respectfully request that my remarks be included in the record.

On July 16, 2007, President Bush nominated me for the position of Assistant Administrator for Management at the U.S. Agency for International Development. I am honored by his confidence in me and am appreciative of the support that has been given me during the nomination process.

At this time, I would like to acknowledge and thank my family for their support. Without their love and encouragement, I would not be here. I would like to recognize my wife, Susan, and our two lovely daughters, Kate and Rachel, as well as my sisters, Sue and Lisa, who are all here today. I would also like to thank my mother, Kay Mulvaney, who was unable to attend, and my deceased father, James.

As a former staff member in the House of Representatives, I understand the importance of this hearing and the role it plays in our constitutional process. If confirmed by your committee, I pledge my best in helping the agency modernize to keep it the world's premier development agency.

In his National Security Strategy of 2002, the President stated that "including the world's poor in an expanding circle of development—and opportunity—is one of the top priorities of U.S. international policy." Since then, he has nearly tripled the resources allocated to development initiatives. Secretary Rice has reaffirmed his mandate to elevate development. It now plays a key role in our national security architecture as part of the three "D's"—defense, diplomacy, and development—and is vital to her vision of "transformational diplomacy."

The humanitarian and development mission of this country has been and will be continue to be a moral imperative of this country. Post 9/11, it is also a national security imperative.

If confirmed as Assistant Administrator for Management, I will hold a position that is critical to the functioning of USAID because it provides the tools with which our development professionals work. It oversees six major operational units that include Financial Management, Acquisitions and Assistance, Information Technology, Administrative Services, Overseas Management Staff, and Management Policy, Budget, and Performance. Generally speaking, the Bureau is responsible for strengthening and maintaining agency management systems.

The management function is integral to every other operational unit within the agency. It is a service provider, an enabler, and a facilitator in the pursuit of U.S. foreign assistance objectives to advance democracy, prosperity, and human well-being in the world's developing countries. Every other operational unit of the agency is a customer of the Management Bureau. Without good logistical support, USAID is stymied in its efforts to catalyze the full range of America's public and private capabilities and the resources it allocates to the cause of development.

If confirmed for this position, I see myself as playing a small but pivotal role in helping to improve the lives of countless individuals by improving the management practices of USAID. I can assure you that I am energized and exhilarated by the tasks that lie before me and the opportunity to bring my professional experience to bear in the service of my country.

In my professional career to date, I have had a set of experiences that have drawn upon many different skills. I worked on Capitol Hill for 10 years in several positions covering a range of office, committee, and leadership functions with a focus on foreign policy, international economic policy, appropriations, and budgeting.

Five of these years were dedicated to assisting a former chairman of the House Appropriations Subcommittee on State Department and Foreign Operations. That experience enabled me to build a solid knowledge of the U.S. foreign assistance process and development practice. I also developed a clear understanding of executive branch operations and the special role that Congress plays in the design and implementation of U.S. development policy abroad.

As a complement to this public policy experience, I obtained a masters degree from Thunderbird, the American Graduate School for International Management. I also worked in brand management for a worldwide consumer products and pharmaceutical firm, Glaxo Smithkline. The combination of broad public policy experience, particularly in the legislative area of U.S. foreign assistance, as well as my private sector management experience, has prepared me for the serious responsibilities I would assume as Assistant Administrator of Management at USAID.

Should the Senate choose to confirm me for this position, it would be an honor to serve side by side with the roughly 8,000 dedicated USAID employees who at great risk and personal sacrifice answer the development challenges around the world. I will endeavor to serve them with the same distinction and purpose that they serve the American people.

In closing, I want this committee to know that, if confirmed, I intend to make myself fully available to consult with interested staff and members on management challenges at USAID and proposed decisions. This is part of a personal policy of mine to pursue communications with all major stakeholders interested in improving the management of the agency.

Mr. Chairman, this concludes my statement before the committee. I now welcome any questions that you and the other Senators here today may have for me.

Thank you.

Senator MENENDEZ. Well, thank you very much.

Kate and Rachel decided when you started to speak to pay attention, so you must have a lot of influence there.

Let me turn to Mr. Heath now, for your opening statement.

STATEMENT OF DANIEL D. HEATH, NOMINEE TO BE UNITED STATES ALTERNATIVE EXECUTIVE DIRECTOR OF THE INTERNATIONAL MONETARY FUND

Mr. HEATH. Chairman Menendez, Ranking Member Lugar, thank you for the opportunity to appear before you today. I am honored that President Bush has nominated me to serve as the United States Alternate Executive Director at the International Monetary Fund, and if confirmed, I pledge to work with this committee, the full Congress, Secretary Paulson, and the rest of the administration in furthering U.S. international economic policy goals, and the well-being of the American people.

I want to thank my wife, Jane Allman Heath, and our sons, Jared, Ken, and Nathan, who are here today a couple of rows back. I want to thank them for their support of my commitment to public service.

Unable to be present in person today, unfortunately, are Jane's parents, Charles and Gwen Allman, who have become parents to me, as well.

For much of the past 6 years, I have served as Associate Director of the White House National Economic Council. In this capacity, it has been my privilege to promote policies leading to economic growth and stability for the good of all Americans. Throughout my previous roles in Federal Government and in the private sector in Europe, I worked to expand international trade and investment of benefit to our country.

If confirmed, I look forward to bringing my skills, knowledge, and experience to help pursue policies that are a priority for the United States.

As you know, the IMF is entering a new period, one that's marked by new leaders, recent credit market turbulence, and the growing strength of emerging market countries. Its mandate to promote international monetary cooperation and to expand job-creating trade will require the IMF to intensify its own leadership to promote transparency in public policy for market-based reforms that will generate sustained growth, and on fiscal and monetary policies that strengthen government accounts and reduce the risk of crises.

With its near-global membership, and effective U.S. guidance, I believe the IMF is well-positioned to set standards in these impor-

tant areas. The United States strongly supports recent IMF decisions to better assess countries' economic policies, including exchange rate activities. And, if confirmed, I look forward to working with my colleagues and with this committee to implement these vital reforms.

Mr. Chairman, dedicated administration officials and Congressional leaders, over many years, have helped to expand economic opportunity in the United States through domestic policies, and the policy fundamentals for economic growth and stability in other countries.

There are new challenges now to global economic performance. And, if confirmed, I will demonstrate enthusiasm and good judgment in doing my part to improve IMF policies and practices that are needed in our time.

I'm grateful to have the privilege of your considering my nomination. I'd be pleased to answer any questions, thank you.

[The prepared statement of Mr. Heath follows:]

PREPARED STATEMENT OF DANIEL D. HEATH, NOMINEE TO BE UNITED STATES
ALTERNATE EXECUTIVE DIRECTOR OF THE INTERNATIONAL MONETARY FUND

Chairman Menendez, Ranking Member Hagel, and members of the committee, thank you for the opportunity to appear before you today. I am honored that President Bush has nominated me to serve as the United States Alternate Executive Director at the International Monetary Fund, and if confirmed, I pledge to work with this committee, the full Congress, Secretary Paulson, and the rest of the administration in furthering U.S. international economic policy goals and the well-being of the American people.

First, I would like to thank my wife, Jane, and our sons for their support of my commitment to public service. For much of the past 6 years I served as Associate Director of the National Economic Council. In this capacity, it has been my privilege to promote policies leading to economic growth and stability for the good of all Americans. Throughout my previous roles in Federal Government and the private sector in Europe, I worked to expand international trade and investment of benefit to our country. If confirmed, I look forward to bringing my skills, knowledge, and experience to help pursue policies that are a priority for the United States.

As you know, the IMF is entering a new period, marked by new leaders, credit market turbulence, and strength of emerging market countries. Its mandate to promote international monetary cooperation and expand job-creating trade will require the IMF to intensify its own leadership toward transparency in public policy, market-based reforms to generate sustained growth, and fiscal and monetary policies that strengthen government accounts and reduce the risk of crisis. With its near global membership, and effective U.S. guidance, the IMF is well-positioned to set standards in these important areas. The United States strongly supports recent IMF decisions to better assess countries' economic policies, including exchange rate activities. If confirmed, I look forward to working with my colleagues to implement these vital reforms.

Mr. Chairman, dedicated administration officials, and Congressional leaders over many years have helped to expand economic opportunity in the United States through domestic policies and the policy fundamentals for economic growth and stability in other countries. There are new challenges to global economic performance, and if confirmed, I will demonstrate enthusiasm and good judgment in doing my part to improve IMF policies and practices needed in our time.

I am grateful to have the privilege of your considering my nomination. I would be pleased to answer any questions.

Thank you,

Senator MENENDEZ. Thank you very much. We welcome your families, as well. We understand the sacrifices that are engaged, not only for those who serve, but also for their families. And, so we appreciate them being with you, and they all look great—I'm sure they'll look different on Halloween, but they all look great today.

Let's start with 7-minute rounds, and I'll recognize myself.

Mr. Kennedy, first of all, I've had several people tell me of your distinguished service, so the questions go toward the position you're going to be taking more than—I understand that you're not necessarily at the heart of these issues, but you will be dealing with these issues. So, I want to get a sense of how you'll be dealing with them, as you approach the positions—I want to create under why these questions come to you.

I read with interest the Washington Post article that talked about FSO forced assignments. That has not happened since 1969, as far as directed assignments. I'm wondering why is it that, I mean, obviously this is a tough theatre, so it's understandable, why is it that, having not seen those direct assignments in the Foreign Service since 1969, we're seeing them now, and do you believe that continued forced assignments in the future are something that's going to be more commonplace?

If you would put your microphone on.

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

Since 2003, the State Department has been dispatching people to Iraq, first as individuals on loan to the Department of Defense under the Coalition Provisional Authority and then since 2004, as part of the American Embassy there. And the number of people we have had serving in Iraq continues to grow every year.

This year we will be adding close to 50 additional Foreign Service personnel to serve, not only in Baghdad, but on the Provincial Reconstruction Teams, as well. And, I think we have reached the point, sir, where the number of people who simply have it as their first choice on their Foreign Service assignment list, no longer keeps pace with the demands of the State Department diplomatic surge, which is mirroring the military's own surge.

And so, we have a process that—as you note, sir—has been in place for many years, and has been clarified, and I believe that State Department people will step up, once we go through the identification process, and I think it is logical, sir, that since we're serving 1-year terms, that this might happen again next year. But I have every confidence that when the individuals who are identified in this process will serve well and honorably.

Senator MENENDEZ. Well, I don't doubt they'll serve well and honorably, but they're serving not as their choice. And so, the question is, do you believe that, in fact, this is—what I gathered from your answer was that this is a result of growth? Is it a result of growth only? Do you believe this is a one-time set of circumstances? Or do you believe that this may be a continuing set of circumstances?

Mr. KENNEDY. I think, sir, that if it is the national policy to continue to deploy 250 or more Foreign Service personnel in Iraq every year, that it is possible that we would have to use directed assignments again next year, yes, sir.

Senator MENENDEZ. Let me ask you about diplomatic security, it's one of the areas that you will have jurisdiction over. Certainly, recent reports regarding activities in Iraq of the private security contracting firm Blackwater, USA, have been covered extensively in the news. In my mind, the incident points to a larger management issue.

As the government seeks to privatize U.S. Government activities and control personnel costs, contractors have often been turned to deal with those responsibilities. The Secretary's panel on personnel protective services in Iraq recommended that, "When the FBI investigation into the September 16 shooting incident involving Blackwater is completed, the United States Embassy in Iraq should submit its recommendation as to whether the continued services of the contractor involved is consistent with the accomplishment of the overall United States mission in Iraq."

Now, that statement, which I'm quoting, is that a reference to Blackwater itself? Do we believe that Blackwater's presence in Iraq ultimately would be curtailed? Is additional contracting staff needed to monitor and audit these contracts?

Mr. KENNEDY. I thank you very much, Mr. Chairman. That statement is a reference to Blackwater. I was a member of the panel, and participated in the review in Iraq, at the Secretary's direction, and in the writing of that report.

The four members of the panel felt that since there was an ongoing investigation by the Department of Justice and the Federal Bureau of Investigation, it would be inappropriate for us to prejudge the result of that investigation, but should the results of the investigation go in one direction, we called upon the United States Ambassador to make a recommendation to the Secretary, whether or not we should, at that point, change contractors or not.

Senator MENENDEZ. Okay. Go ahead.

Mr. KENNEDY. Going to the second point, one of the points that the panel was very strong on in its long series of recommendations is we thought that we had in place various policies and procedures that were relatively robust. At the same time, you can always improve a policy or procedure. One has to keep an open mind in looking at those things.

But the most important issue was that we had to increase oversight and accountability. We simply did not have enough special agents—Federal officers in the Diplomatic Security Service, to accompany each convoy which was moving someone with State Department personnel, and therefore, one of the recommendations that we made was that additional special agents should be deployed. The Secretary has accepted that recommendation, and those agents are either in Iraq now, or more are being moved there, as we speak, literally.

And, therefore, we will have significantly increased oversight and accountability by placing a diplomatic security special agent as the agent in charge on every move that takes place by one of our contractors.

Senator MENENDEZ. Well, talking about oversight, today's article talks about the possibility that the FBI investigation into the Blackwater incident may have been compromised, because guards received immunity for statements that they made to State Department officials investigating the incident. Now, it seems to me that how we act in terms of giving immunity grants to individuals, and the process under which we give immunity grants to individuals, if it is as reported, shows that either it's procedurally flawed or substantially problematic.

Mr. KENNEDY. When the Secretary took steps after the incident on September 16, she—after talking with the Prime Minister of Iraq—set three parallel channels moving. One is a joint United States-Iraq Commission to look at issues there.

The second is an investigation which the FBI is heading now, to look into the facts on the ground of the specific incident and whether or not there was any activity involved which would be a violation of law.

The third action that she took was to commission a panel, of which I was a part, to review the processes that we use—the oversight and accountability. Our groups was specifically walled off from looking at the specifics of the investigation that the FBI was involved in. We did not wish to do anything that would potentially render a prosecution more difficult.

And so, I can only tell you, sir, that the investigation by the FBI is still ongoing, but I did not participate in that investigation.

Senator MENENDEZ. My time is up, but I don't want to leave this dangling, so I'll just take one more minute here, and then I'll turn to Senator Lugar.

Is there a clearly-defined process under which a person of Protective Services ultimately are told when they can and when they cannot offer grants of immunity, and is there a chain of command that is well-established, as well as documented, in terms of standard operating procedures.

Mr. KENNEDY. Senator, can I get that answer for you for the record? Because my responsibilities, to date, have not involved that. But, I can assure you that, should I be confirmed by this committee, that is an issue that I would find within my jurisdiction to immediately address, because the Secretary does seek to ensure that there is the utmost accountability and control and responsibility for the State Department for the actions that take place under its jurisdiction.

Senator MENENDEZ. We'll look forward to your written answers. Clearly, this is a field you will be dealing with.

Mr. KENNEDY. Yes, sir.

[The information referred to above follows:]

U.S. DEPARTMENT OF STATE,
Washington, DC, October 31, 2007.

HON. ROBERT MENENDEZ,
Chairman, Subcommittee on International Development and Foreign Assistance, Economic Affairs, and International Environmental Protection, Committee on Foreign Relations,
U.S. Senate, Washington, DC.

DEAR MR. CHAIRMAN: I am writing in response to questions you posed to Ambassador Patrick Kennedy at his October 30 confirmation hearing. You asked for information about news accounts that the Department of State has promised employees of Blackwater USA immunity from prosecution in connection with a September 16 incident in Baghdad.

The Department of State is not in a position to immunize individuals from Federal criminal prosecution. The kinds of statements that the press is writing about would provide limited protection that does not preclude prosecution. The Department would not have asked FBI to investigate this case unless we and they thought that they could investigate the case and potentially prosecute individuals if warranted. I have attached a statement issued by the Department of Justice confirming that Blackwater employees have not been given immunity from prosecution and that the FBI's criminal investigation of this matter continues.

Without regard to whether particular statements may be used in a criminal proceeding, cases like the one currently under investigation are complex given that the

applicability of U.S. criminal law to the activities of private security contractors overseas is not always clear and may depend on the facts at issue in any particular case. The administration is currently working with the Congress on legislation to ensure that we have the laws we need to hold private security contractors overseas accountable where appropriate.

Sincerely,

JEFFREY T. BERGNER,
Assistant Secretary Legislative Affairs.

Attachment: As stated.

STATEMENT BY JUSTICE DEPARTMENT SPOKESMAN DEAN BOYD ON THE BLACKWATER INVESTIGATION

"The Justice Department and the FBI cannot discuss the facts of the Blackwater case, which is under active investigation. However, any suggestion that the Blackwater employees in question have been given immunity from federal criminal prosecution is inaccurate. The Justice Department and the FBI continue the criminal investigation of this matter knowing that this investigation involves a number of complex issues. We are unable to comment further at this time."

Senator MENENDEZ. If you are confirmed, and I have real concerns that the immunity claims that I understand that arrests, apparently are called "Garrity Warnings," and "Calkine Warnings" both named for Federal court cases from the 1960s and 1970s that recognize the special circumstances of Government employees in criminal cases involving their jobs.

And it seems to me that we have to, you know, we want to promote the rule of law throughout the world, and it starts with observing it at home, so that, in fact, you can hold that standard to the rest of the world. But, if we have a process that allows immunity grants to be given without the appropriate authorities, including the appropriate law enforcement authorities being advised before that grant is given, then we are giving immunity to people that ultimately may very well, and should be, subject to prosecution. And that is fundamentally wrong.

Mr. KENNEDY. I—

Senator MENENDEZ. Though I know as you go into this, I know that you don't have this job now, but the reason I'm raising these questions now is, you may very well have this job, and this is not going to be, unfortunately, in my concern, an isolated incident and how we proceed in the future is going to be very important.

Mr. KENNEDY. Senator, I absolutely agree. In addition to providing information in writing, I believe that we could arrange for a representative of the Department of Justice, which has control of this investigation at the moment, to call upon you or one of your counsels to review the material that they are in charge of.

Senator MENENDEZ. I appreciate that.

Mr. KENNEDY. And I fully agree that responsibility and accountability and the rule of law are paramount.

Senator MENENDEZ. I appreciate that, I don't want the other nominees to think I don't care about them. I will return to you after Senator Lugar.

Senator Lugar.

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

Just following through on the accountability side of, sort of, past business with your predecessor, what is the latest information regarding passport production numbers? How many new adjudicators have you hired, and what is the current backlog, if there is one?

Mr. KENNEDY. Thank you very much, Senator Lugar.

There is no backlog at the moment. The normal waiting time for a passport has historically been approximately 6 weeks. We believe we are actually under that number. I check the figures every Friday, and on Friday, the number of applications in-process were around 500,000, and we are moving through those with regularity.

We've done some spot-checking, and people are telling us they are receiving their passports in as little as 2 and 3 weeks.

We have been able to accomplish this partially because we've already brought on board some 300 new employees, and we believe we will hit 500 by the end of the calendar year. These are adjudication personnel, because Senator, there's a two-part process for a passport: physical production of the book, and the adjudicator who takes a governmental act to say, "You are who you say you are, and the documents you represent establish that you are an American citizen."

We have capacity to produce over 25 million passports, including a new facility we just opened in Arkansas, which will have the ability to produce 10 million passport books a year. So, we have the physical capacity to print the books. What we were short on, Senator—and it was our failing, absolutely our failing—we did not have enough human adjudicators to do that. We mobilized State Department personnel, retirees, other officers, and we have 300 new people, and are heading for 500.

So, we believe we have addressed this systemically with new production facilities and new personnel, but we will, however, monitor it weekly to make sure we don't see any adverse trends.

Senator LUGAR. Well, I'm sure the American people appreciate that good report. I trust that these employees are sustainable, that is, this is not a so-called surge capacity that may tailor off, but that you're geared up now, both in the production side, the Arkansas plant, for example, plus the human side, adjudicators.

Are you in touch, do you believe, coordinating with the Department of Homeland Defense or others who may—in the course of their affairs, plus some of us—bring up new requirements for various Americans to have passports, or to have other documentation so that, if these early warning signals come along, you're in a position to surge prior to the avalanche hitting you?

Mr. KENNEDY. Absolutely, Senator. The individuals we are hiring now are permanent, full-time employees. We negotiated an arrangement with the Office of Management and Budget that permitted the State Department to retain additional fees that citizens were paying for their passports, and made the appropriate notifications to the Congress. With these additional fees, we were able to add to our physical plant, and add the additional personnel.

Our Assistant Secretary for Consular Affairs is in daily contact with the Department of Homeland Security, and should I be confirmed, I know the Undersecretary at DHS well, and my plan would be to establish full and open communications with him so that if there are any changes that they feel necessary, to make sure that we have secure borders, that the State Department has the time and is well-positioned to respond to those new requirements.

Senator LUGAR. Excellent.

Let me ask, what is the role that the Office of the Coordinator of Reconstruction and Stabilization should play in post-conflict sta-

bilizations and reconstruction, and do you anticipate more budget resources being requested by the Department for this function?

Mr. KENNEDY. Senator, I think you've touched on a very important area. The State Department has, essentially, no surge capacity inherent to it. When we need to surge, we take people from within the Department and shift them from one important mission to what is, at that moment, a higher mission.

We need to establish a reserve corps—not exactly equivalent to the National Guard or the military reserves—but we need that inherent capability.

CRS, the Coordinator for Reconstruction and Stabilization, is now working with other Government agencies, and we are awaiting final passage of authorizing legislation which we welcome. It will formalize this. We have set aside funds in the supplemental that was passed last year that covers fiscal years 2007 and 2008, so those funds are still available, and we will be seeking additional funds to turn this into a permanently staffed “on-call” mechanism, staffed by professionals in fields as diverse as agronomy and veterinary sciences and law enforcement, so that we would be prepared to work with our colleagues at AID and at other agencies, and deploy those personnel to regions in need.

Senator LUGAR. Well, that's good news, also. As you know, many members of this committee are very strongly supportive of this, and feel that this is a requirement for United States diplomacy when, in fact, we may have taken the position in the past, we're not going to do nation-building, but now we're doing a lot of nation-building. And the personnel resources to do this aren't there. So, the surge capacity, or what have you, is required, but I appreciate the progress reports, and your cognizance of this.

One final question, and that is—what is the status of the Department's embassy construction program at this time? These come along from time to time, but how many new embassies have been replaced, and how many remain to be replaced, or to be built to begin with? And when will the program end? Do you have any flow chart of embassy-building?

Mr. KENNEDY. Senator, let me get you a complete flow chart for the record, but I am pleased to report that, to date, we have completed 53 embassies, there are another 37 which are in the process of design or construction, and we plan 11 more construction awards this year.

[The information referred to above follows:]

DEPARTMENT OF STATE, BUREAU OF OVERSEAS BUILDINGS OPERATIONS—STATUS OF
EMBASSY CONSTRUCTION PROGRAM, NOVEMBER 14, 2007

After the 1998 East African embassy bombings, the Department was faced with an unprecedented challenge of having to replace approximately 195 embassy facilities as a result of security concerns.

Since 2001, the Bureau of Overseas Buildings Operations has:

- Built 53 new facilities with 37 more underway; see attached list.
- Moved nearly 15,000 United States Government employees to safer facilities.
- 11 more construction contract awards are planned for fiscal year 2008.

As of October 2007, OBO manages \$ 5.1 billion in construction projects compared with \$ 0.7 billion at the beginning of fiscal year 2001. The typical project delivery time has been reduced from 4 to 5 years to approximately 2 years. The Department is very appreciative of the Congressional support we have received for the program.

OBO has two New Embassy/Consulate Compound (NEC) construction programs—the Capital Security Construction Program and the Strategic Capital Construction Program. The Capital Security Construction Program is restricted by Congress to projects on a list of 80 (in bands of 20) of the most vulnerable posts. The Strategic Capital Construction Program involves projects not primarily undertaken for security reasons and not on the “Top 80 list” (e.g., a functional requirement or structural deficiencies). However, the Strategic program follows the same discipline and oversight as the Capital Security program.

NEC construction is funded by:

- Congressional appropriations for the Department of State’s Embassy Security, Construction, and Maintenance Account.—
- Capital Security Cost-Sharing Program (levy on other agencies occupying U.S. facilities on a per capita basis).
- Proceeds from the sale of excess property and/or underutilized property holdings.

The Capital Security Cost-Sharing (CSCS) Program was developed in 2001–2002 in accordance with the President’s Management Agenda Initiative on Rightsizing and the 1999 Report of the Overseas Presence Advisory Panel, and was included in the President’s fiscal year 2004 and fiscal year 2005 budgets. Fiscal year 2005 was the first year that the Department and other agencies contributed to the CSCS Program.

The Department, with OMB oversight, manages the Program, which will generate a total of \$17.5 billion over the 14 years from fiscal year 2005 through fiscal year 2018 (beginning with a 5-year phase-in period) to fund approximately 150 NECs in the Capital Security Construction Program. The time to construct these 150 NECs is reduced from 26 to 14 years with CSCS in place (compared to the pace of construction under pre-CSCS budget levels).

OBO Capital Construction Projects

Completed since 2001: Kampala NEC, Doha NEC, Lima USAID (Annex), Bogota USAID/NAS (Annex), Tunis NEC, Dar es Salaam NEC, Dar es Salaam (USAID), Nairobi NEC, Zagreb NEC, Istanbul NEC, Sao Paulo NAB, Abu Dhabi NEC, Kabul ARG CMP, Baghdad IOB (Supplemental), Dili IOB, Sofia NEC, Yerevan NEC, Abidjan NEC, Luanda NEC (Strategic/Asset Mgt), Frankfurt NAB, Abuja NEC, Cape Town NEC, Phnom Penh NEC, Kabul NEC (Strategic/Asset Mgt), Kabul Cafeteria, Tbilisi NEC, Tashkent NEC, Yaounde NEC, Dushanbe NEC (Strategic/Asset Mgt), Conakry NEC, Tirana Annex, Phnom Penh USAID, Kampala USAID, Nairobi USAID, Bamako NEC, Astana NEC, Conakry USAID, Freetown NEC, Belmopan NEC, Lome NEC, Bridgetown NAB, Kingston NEC, Accra NEC, Athens Annex, Bogota Annex, Kathmandu NEC, Kathmandu USAID, Panama City NEC, Managua NEC, Rangoon NEC, Algiers NEC, Managua USAID, Accra USAID.

In Design or Construction: Bamako USAID, Baghdad NEC (Supplemental), Kingston USAID, Port-Au-Prince NEC, Ciudad Juarez NEC, Berlin NEC (Strategic/Asset Mgt), Taipei (Strategic/Asset Mgt) (design), Kigali NEC, Mumbai NEC, Quito NEC, Skopje NEC, Skopje NOX, Beijing NEC, Khartoum NEC, Khartoum NOX, Jerusalem Annex, Djibouti NEC, Libreville NEC, Surabaya NEC, Abuja NOX, Tbilisi NOX, Johannesburg NEC, Suva NEC, Koror NOB (Strategic), Kolonia NOB (Strategic), Guangzhou NEC (design), Brazzaville NEC, Karachi NEC, Addis Ababa NEC, Antananarivo NEC, Jeddah NEC, Manila NOX, Ouagadougou NEC, Riga NEC, Sarajevo NEC, Tijuana NEC, Valletta NEC.

NEC—New Embassy/Consulate Compound

NOX—New Office Annex

USAID—USAID Annex Bldg.

NOB—New Office Bldg.

NAB—Newly Acquired Bldg.

IOB—Interim Office Bldg.

We believe this program will probably run out to as late as 2018, because we were starting from a very, very low base. When I was the Assistant Secretary of State for Administration, we had funds to construct one new embassy a year. And it requires a major effort when you have 160 embassies and approximately 100 consulates, many of them not in the best condition, unsafe, and not prepared to deal with the volumes and the concerns that we have in the modern world, as you referenced earlier.

This construction program has very much benefited from the support of our oversight committees, which have been tremendous in giving us direct appropriations, and also in getting for us, in effect, fees from other Government agencies which occupy our facilities, so it's the support you have given us have enabled us to construct 53 and be working on 37 more.

Senator LUGAR. Thank you, Mr. Chairman.

Senator MENENDEZ. Thank you, Senator.

Let me return to Mr. Kennedy for a second round, here. I heard your answers to Senator Lugar about the passport issue, and am I to understand from your answers that you believe that systemic changes have been now put in place that makes the possibility of reliving the fiasco that we have, unlikely?

Mr. KENNEDY. Senator, I'm glad you added the word "unlikely" at the end of it. If confirmed, this would be my responsibility, but I jokingly and seriously say I can only ever offer a 99 percent guarantee. But, following the surge, I was charged by the Secretary and the Deputy Secretary, and the Under Secretary for Management with assembling a State Department task force, and I have looked into this very, very deeply, and was part of the working group that mobilized the personnel to do it.

I believe with the production capacity that we now have, which is probably 25 million, with the additional personnel that we're hiring, with additional checks we have put into place at various points along the line, and with the ability to potentially bring on more personnel, including remobilized personnel from within the Department, I believe that I can offer you a very solid guarantee, that barring some incredibly unforeseen circumstance, there will not be a repeat of this.

Senator MENENDEZ. And, in that context, then, you would say to me the Department is ready for the next phase of the Western Hemisphere Initiative?

Mr. KENNEDY. We are building to that, yes sir, we are building to that phase right now. We have the production capacity, and we plan to expand the production capacity. Because as the Assistant Secretary for Consular Affairs looks out into the future, they see the demand for passports over the next 5 years rising to as possibly as many as 30 million a year. So, we have brought back out of retirement a senior retired Foreign Service officer whose specialty is management and administration in regard to buildings, and he has now been detailed to the Bureau of Consular Affairs, and is looking to see what additional facility capacity we need to put into place to keep us ahead, well ahead of that growth curve, sir.

Senator MENENDEZ. One last question to you, as you approach this position. For 15 years, 13 in the House, on the House International Relations Committee, and now having had the privilege of sitting on this committee, I have a real issue—I appreciated very much in your opening statement, the comments you made about having a workforce that is as diverse as America is, but I still believe that—this is going back over several administrations now—one of the worst Departments in the Federal Government—particularly as it relates to Latinos in the Foreign Service and senior executive management ranks—is the State Department.

And every time we broach this issue, you know, we talk a lot about recruitment, and recruitment is great, I actually got into law several provisions to give the Department the money for recruitment. The problem is that recruitment, in and of itself, doesn't solve the problem. When you want to get weeded out from the Department, you're told by panels that you either cannot communicate effectively, or cannot write effectively. And I understand both skills, but I think they're subjective at the end of the day.

And so, I hope that in your new position that you'll work toward—and I understand there is a timeframe here that, up until a new administration, but you may very well be there after that new administration—I hope that you will work with us to try to truly diversify the Foreign Service and the senior executive management, because in a country that increasingly has a large number of Americans of Hispanic descent, it does not represent that at the Department. Something I'd like to see you work with us on.

Mr. KENNEDY. Senator, I fully agree. If I look at the numbers, the numbers are wrong. We have to improve them. You're right, we have to do the right kind of recruitment, you have to spread your net widely, you have to also offer training once you do have people in the service.

If confirmed, one of the things that I have in the back of my mind, which I might bring to the front, very quickly, is I don't think that we cast a wide enough net, we have 17 diplomats and residents arrayed around the country, numbers of them at Hispanic and Historically Black Universities, but I don't think that we have fully tapped our potential for recruiting—major colleges and universities employ their alumni, who are spread all over the country, to be their best recruiters.

I think that the State Department should seriously consider, and this was something that I'm very interested in doing, tapping the network of retired Foreign Service officers who live in every State in the union, and using them as, in effect, deputized recruiters to go to every college and every university, and not just certain ones to make sure that we are taking every option and every opportunity to get the diversity and get the people we need.

Senator MENENDEZ. Well, thank you. I appreciate your answer, it's very forthright. I look forward to working with you.

Mr. Mulvaney, let me ask you, with reference—you and I have had some discussions about the position that you'll have, and it's a very important one at a critical time, in my view, for USAID—I heard your opening statement and I appreciated some of the things that you included in there. How do you think that reduced resources have affected USAID's ability to carry out its mission?

And, while you're dealing with that reality, I would hope that if you are confirmed in this position that you will be engaged with members of the committee and members of the Congress, who are concerned about the future of USAID, about its mission, about being the premier entity that has been at the forefront of development assistance in the world on behalf of the United States and putting that side of America's face out there throughout the world.

And, including the AID mission in the budget process that's so critical—could I hear your views on that? It's a lot, but I've talked

to you about it before, I'd like to hear your view on the record, if I may.

Mr. MULVANEY. Let me start out by addressing the three issues you mentioned, and I'll try to go through each one of them that I internalized.

First, how has declined resources impacted the ability of the agency to implement its development programs and its mission? I would say that the agency has been running on scarce OE for a number of years. And this situation has created a number of challenges on the ground.

One can look at the growth in programmatic funds that the agency has had to implement, and it's been dramatic since 2001. When I first started in 2001, I think the figures were around \$7 or \$8 billion, and we're almost at a doubling of that, \$13 billion in terms of what the agency actually implements, all spigots, all programs around the world, in over 150 countries. Its regular OE budget has more or less remained the same, its staffing levels have, more or less, remained the same. It has desperately tried to backfill attrition as people retire, so it's been a struggle to maintain the quality of our development programs.

But, I think the agency is committed to doing more with less, to trying to be more efficient. That's not to say that, perhaps in the future, more resources couldn't be used to help revitalize the agency, and I think the senior leadership is committed to that goal.

In second point, you talked about morale at the agency, and how it has suffered in recent years. And the importance of maintaining it as the premier development agency—I'm aware of this issue, and it is serious. What I can add to improve it is an approach. While serving the President, and being a part of an administration team I would essentially play a strong role in listening to the career Foreign Service officer, and the career civil service, becoming an advocate for the equities of the agency, within an overall administration framework.

I would make it clear to the staff that I'm present to facilitate their work, and my sense of public service is not only to the American taxpayer, but my sense of public service is also to the rank and file of the agency.

Your last point was on the budget process—and I assume that the motivation of your question relates to making sure that the long-term development objective is front and center in the DFA framework as things go forward.

My sense of the agency is that, in the senior leadership of the agency, and the Director of Foreign Assistance, his office—her office, now—is that they understand that, the rollout of the DFA framework did not go well. Congress was upset about a number of actions that were taken. A number of external stakeholders, NGOs, and think-tanks were also not happy, and I think the senior leadership is committed to making changes to that process after hearing Congressional concerns.

To the extent I play a role in that process, I will carry your concerns to them, and try to help the agency think about it. My portfolio is different, though, from the actual programmatic decisions.

Senator MENENDEZ. Senator Lugar.

Senator LUGAR. Mr. Chairman, let me just follow along your question. You've just responded, Mr. Mulvaney, that there has been considerable consternation about, as you say, the roll-out of the Director of Foreign Assistance and that creation. And the morale problems, at least that some have reported to us, seem to come from personnel at USAID who have been affected in this roll-out situation.

When we have hearings on the Millennium Challenge Program, many members refer to the old days. The old days were USAID, we had appropriations annually for a list of countries. Things happened, money went out, and sometimes there were oversight situations in which all that was accomplished was now precisely what had been hoped for, or there were malfeasance in countries—all sorts of difficulties.

Now comes along Millennium Challenge and 15 criteria for receiving funds, including what some have said is a rather laborious process of democracy-building within the potential recipient, people making decisions as to how the money ought to be spent, whether for infrastructure of roads, or water supply for the people or whatever, which sometimes takes time. So, as a result, criticism has come that not much money is being spent. That a lot of time is going by, some feel the terms of members the House and the Senate may go by before something occurs there, oversight is rather difficult.

Now, if that is difficult for us to contemplate, it must be very difficult for the career employees who are involved in this process, as different criteria, different expectations occur—how would you estimate the success of this process, of working through the Millennium Challenge criteria and programs which, at the end of the day many people do contend is probably a good idea for countries to take responsibility for decisionmaking, take responsibility to fight corruption, so that even after we've deemed that a road should be built, in fact, if it isn't built and the money is out in a Swiss bank that, for some reason nothing occurs—I just ask you, as a professional in this, trying as you say, to listen to, not to salve the wounds of the process, but in this coming year, really, try to meld together all of this—what do you have in mind? Do you have any action points that you can share with us?

Mr. MULVANEY. Senator, thank you very much for the question, I understand your concern.

The portfolio, I would assume, is actually more in the back room of the foreign assistance process, it's not the front-line policy process. So, a lot of the decisions, ideas, and points that you make wouldn't actually relate to the position I would fulfill, but I will share a couple of thoughts with you, in the spirit of trying to answer your question.

My own view of the MCC, and I think it's shared by other folks, is that it was not a replacement of traditional core accounts of U.S. foreign assistance, particularly those accounts administered by USAID. The intention of the MCC was to be an incremental spigot of ODA that would have a number of characteristics that would incorporate lessons learned in development, which is an imperfect process, as we all know.

Some of those characteristics were that the MCC would be non-earmarked money. It wouldn't be tied aid, and it would be flexible, in the sense of being able to work with developing countries, allowing for the principle of local ownership to be incorporated into compacts.

The existence of the MCC has, I think, impacted agency morale. The agency views the MCC a bit enviously, to be frank. They would like to have some of those same flexibilities. But, one thing I would point out is that, AID is the backbone of the U.S. foreign assistance architecture. There's no substitute for it. We need it and it can't go away. The MCC, to my knowledge, as a staffer in the process, helping the institutions in the House and Senate contemplate how that would fit in a niche of U.S. foreign assistance policy—the intent of that institution was that it would only operate in a limited number of countries—20, 25, some of the better performers—but AID operates in over 150 countries. It has a direct, higher presence in 75 or 80.

Let me stop there, and see if I answered your question, sir.

Senator LUGAR. Well, that's very helpful, and obviously, this is, sort of, an essay-type exam in which you could go on through several chapters. But, I think that's thoughtful. The backroom, essentially, the difference between the numbers—25 as opposed to 160—sort of the backbone stability give, I think, a good outline of sort of where you're headed, and some counts you might give.

Let me just ask one more question, and that is, we talked to Mr. Kennedy about the building of embassies, and the question often arises—should the new U.S. embassies include the USAID missions in the embassies? Obviously, historically, several of the missions have not been in embassies. Some have argued that's good, some have argued that's not so good. What is your general judgment, and for that matter, if you can't make a general judgment, what are the facts, in terms of embassy planning that you will have to deal with as you counsel USAID officials?

Mr. MULVANEY. Senator, thank you for the question, it's an important one. I will be assuming this position in a continuum of decisions that have gone on before me. It was Secretary Powell and Deputy Secretary Armitage that made the initial decisions about having new embassy compounds constructed, and having co-location between the State Department and USAID. There is no doubt that these co-locations into new embassy compounds that are going to be affecting the delivery model of USAID, because in many countries around the world, they have had separate missions, and now they are going to be co-located.

I think the agency and the State Department are committed to a good faith effort, though. To the extent that there is co-location, and perhaps a consolidation of administrative services that serve both State and AID, there must there must be an importance placed on the objectives of efficiency, cost savings, and respect for each organization's different but complimentary mission. And, if those aren't achieved, that there's an objective of security for all U.S. Government personnel serving in these compounds.

I will be assuming this post and working as a team member with my colleague here who is at the table, if I'm confirmed. So, I hope I answered your question, sir.

Senator LUGAR. Yes, thank you very much.

Mr. Chairman.

Senator MENENDEZ. Thank you, Senator. I have one final round of questions, and I don't want you to think that Senator Lugar and I actually choreographed this tag-team, but when he raises something that is of interest that I had, I want to raise it, follow-on.

In his questions to you, Mr. Mulvaney, about the Millennium Challenge Account, if I understand correctly, you actually led the final negotiations of a staff agreement with the executive branch, establishing the President's new development assistance initiative, known to us now as the Millennium Challenge Corporation, when you served as an advisor to then-Congressman Colby.

Now, one of the—ironically, one of the programs that's cut into the sovereignty—not just about money—but the sovereignty of AID, is the Millennium Challenge Account and, in fact, an overwhelming majority of countries that have received MCC monies have seen their own USAID funds slashed.

Now, I really, my ears perked up when you said—in response to Senator Lugar—this is not meant to be a replacement, and certainly those of us who supported the MCC believed it to be additive, not as a replacement. So, I'm glad to hear that that's your framework of mind, as well.

But, can we have a better coordination between AID and MCC? It just seems to me that we're missing out on some opportunities here, I'd like to hear your insights on that.

Mr. MULVANEY. A couple of thoughts—and again, this is beyond my portfolio that I would be confirmed for, so these are all my own personal views. Interagency coordination in foreign assistance has been a very difficult process and challenge from the Congressional viewpoint—and I haven't been in the executive branch—but in the design of the MCC, one of the things that Congress created was an Interagency Board that would provide oversight over those foreign assistance programs, and that includes Department of Treasury, State, USAID, and USTR.

And that board structure was intended to enhance interagency coordination, AID being on the board, particularly, would give it the opportunity to interact with the MCC at a very high level, so that there would be coordination.

Can there be better coordination? I think we always can see better coordination as a possibility.

You raised a point about bilateral funding levels of, say, the agency, where MCC countries have compacts. I would say this point was one that was left open as to what would be the interface of USAID in that particular country, if it would change, if it would be modified to the extent that the agency would pivot and focus on potentially non-MCC-type programs. It was an open question, largely because the administration did not have a clear blueprint on how it was going to implement the MCC. So, it was an area that was destined for further Congressional oversight and interaction.

Senator MENENDEZ. Well, that's a good cause for me and the subcommittee to do some of that. I appreciate that insight, because we have, I believe that those of us that supported MCC believe that, in fact, what has happened is that it has become a replacement versus additive, in its totality of its nature.

And the coordination, have a USAID sit on the board, that's one thing. But, when we have missions in-country, that are then also having an MCC compact, that's the type of coordination I'd like to see us more succeed.

Mr. Heath, I didn't want you to think you were out there all by yourself. At the—I know you were saying, “Wow, I'm going to get away with it.” [Laughter.]

But, I was impressed with your answers privately, I just want to go one or two things with you publicly.

The United States is the single-largest country contributor the IMF, with cumulative contributions of over \$55 billion to the quota of the organization, so this is a very significant position.

I'd like to hear from you, what do you believe are the top three priorities of the Office of the U.S. Executive Director in the year ahead, since that, as the alternate you will may—you will be called upon to cast your vote or advocate policies there, I'd like to hear what you believe are the three top priorities we should be pursuing?

Mr. HEATH. Thank you, Senator. The priorities for the Executive Director's office certainly touch on all of the disparate issues now that are coming at the IMF.

For my own view, I would believe the first priority is on exchange rate surveillance. I strongly support the Executive Board's decision to incorporate exchange rate surveillance activities in its Article 4 consultations, the decision of June 2007, and it is vital to implement this decision in a firm manner.

This issue of exchange rate surveillance is an old one, in fact, for the IMF, something they've grappled with for about a generation, and I think the time is certainly overdue for firm action in this area.

Second one, I would say, was the reform of the IMF governance. We are witnessing in the current turbulence in credit markets, the emergence of emerging market countries as a stabilizing force, and as a group accounting for more than half of global growth, it's only appropriate, in fact, vital, that these emerging market countries assume leadership and responsible positions in the global community of finance, and certainly having representative positions in the IMF would reinforce that.

Finally, a third priority would be the integration of capital markets and financial markets analysis into the surveillance, Article 4 surveillance, and indeed, the full range of work done by the IMF. Again, we have seen, the latest turbulence in the market, a need for more profound or deeper examination of capital markets, of their functionings and how they affect players around the world.

Ironically, this latest crisis emanated from the most sophisticated economy in the world, that is, the United States economy, when others are looking for low-income countries to generate crises, it comes from an unexpected quarter. And so, it underscores the importance of integrating much more serious and profound analysis and examination of capital and financial markets into the work of the IMF.

And, if confirmed, those would be the areas I would be keenest on.

Senator MENENDEZ. When you speak about reform of governance, can you give me a sense of what you mean by that?

Mr. HEATH. The emerging market countries certainly should have a larger voice and a larger vote. One of the analyses that impressed me was a simple one of comparing the voting power of China, Brazil, and India with Italy, the Netherlands, and Belgium. I found that the former countries had 19 percent less voting power than the latter countries, even though the former countries have GDP four times that of the latter group of countries.

We are expecting emerging market countries to be responsible players in the International Monetary System, it's important that they have the vote and responsibility to support the institutions that now are residing with other high-income countries.

Senator MENENDEZ. Two other questions—do you believe the IMF has a role in promoting and facilitating economic development?

Mr. HEATH. Yes, I do. And, as we enjoyed in a conversation last week, the importance of fundamental policies, macro-economic policies as preconditions for growth is important to that kind of growth, within the United States and in low-income neighborhoods in the United States, as well as around the globe.

The primary responsibility of the IMF, of course, is macro-stability, and encouraging growth through that kind of stability, as well as through sound debt management and strengthened macro-economic institutions.

So, I believe its role is distinct from that of the World Bank and the recent commission by Pedro Moran, underscores the need for collaboration, but a distinct role where the World Bank has, really, the tools for a long-term development finance, whereas the IMF, while it has loan facilities for short-term needs and balance of payments needs, really has the expertise and mandate to encourage macro-stability in those countries as a fundamental for growth.

Senator MENENDEZ. Finally, debt relief has been at the forefront of the development debate for many years. The IMF has participated, starting in 1996 in the heavily indebted poor country initiative.

Now, there are some who believe that this has not had the success that they think it should have. What do you believe are the success and failures of that program, and how do we make sure that debt relief promotes economic growth and poverty reduction?

Mr. HEATH. The most recent round of debt relief involving the multilateral debt relief initiative, which, I think was from 2005, joined the earlier initiative of the heavily indebted poor countries, the HIPC initiative, and are strongly supported by the administration. The debt workouts that—and policy changes, I think—that accompany the forgiveness of debt strikes me as someone who's not intimate with the details not being in the position nonetheless, as the weak part of the program, and would require much more attention, I think, than they've been receiving.

It's important, not only that countries work, be free of debt, but operate in such a way that they don't return to an indebted situation. So, it requires building institutions, the technical assistance necessary to create stability and the economic power, the depth of financial markets to avoid returning to that situation.

Senator MENENDEZ. In other words it's not just the relief, it's the structure of the relief?

Mr. HEATH. Yes, sir.

Senator MENENDEZ. Thank you.

Senator Lugar?

Senator LUGAR. Thank you, Mr. Chairman.

Mr. Heath, you've raised, I think, some very sophisticated points that, undoubtedly you've already made in consultation with your colleagues at the IMF, or will shortly.

But, I just want to reiterate some, and gain further comment from you, because I don't think it's well understood in this country, quite apart from, on the board of the IMF, the extraordinary change is that you exemplified in the contrast of three countries, and their contribution to world economy, as opposed to three that are underrepresented, and the disproportion is staggering and growing.

Now, without offering investment advice, either one of us, the fact is that so-called emerging funds, mutual funds, as opposed even to international mutual funds, as opposed to, say, something based on the Dow Jones of our basic countries, have extraordinarily different returns, not only in this year, but, say for the past 5 years.

And so many investors who note this arithmetically are aware of it, but on the other hand they don't ponder, why is this so? How can this be sustained, this separation that is growing very large with the Dow Jones being our companies, as opposed to some that are represented clearly by emerging markets. But, it used to be part of the clientele of the IMF.

Now, this leads many questions, why haven't IMF—is that part of world history ???passe??? And, obviously you would respond, as you have, if not so, then you have experts there, an extraordinary talent pool of people delving into current problems in the world that still include debts of many countries—a situation in which, even as we describe, the rich becoming much richer, the poor really may be at the bottom of the heap.

And some of these countries are afflicted by problems of HIV/AIDS and malaria and tuberculosis, problems of agricultural failure that come up in this committee, or some of our other committees, in other words, huge, huge problems that don't necessarily affect the IMF, but they do in the sense of debt or interrelationships, those budgets, those countries with others.

I'm just curious, as you take a look at your responsibilities, the advice you will get from our country—how receptive is the current leadership of the IMF? Or others who have responsibilities, or are sitting around the table? May not be officers, but nevertheless, certainly large shareholders, to these kind of changes? Do you feel that there is a fairly universal recognition of what we're talking about today, in terms of the changes that sovereign funds bring, for example, as opposed to the kind of capital the IMF or the World Bank or others used to dispense?

Mr. HEATH. Well, thank you Senator Lugar for that question. It gets to the heart of everything, I suppose. And I would like to actually return and—after, if confirmed, in such a job, I could give a better assessment of the receptivity of leadership there, or in other

countries to change, but certainly for some of the reasons you mentioned, it strikes me as, there is a high level of receptivity. I do think that the surprise of the current credit market turmoil that—as I mentioned before—coming from a most sophisticated of markets, and not the least sophisticated, is something that catches the attention of people around the world.

In the emerging markets stock performance that you mentioned, now I see talk of bubbles in Chinese housing and other asset markets. So, it's prudent for people to pay attention, not only on the extraordinary up side, but what dangers are inherent in that kind of rapid growth.

Generally, these support the notion of caution about imbalances around the world, financial imbalances, and an orderly unwinding of these imbalances. The new leadership at the IMF, Monsieur Strauss Caan begins in a couple of days, has indicated a receptivity to a number of reform proposals, not only in the governance of the IMF, but looking beyond that to the role.

And that's going to be the real test for the IMF is, does it really step up to a new type of leadership that the world, in some sense, wants in dealing with vulnerabilities and crises and avoiding them, or is it going to be passive and more or less a think tank with a lot of expertise that offers advice, but no urgency about implementation? I think that's the key of the emerging market issue—are the players invested enough in the organization, so not only can they discuss policy, but make deals that stick.

Senator LUGAR. This intrigues me, just to ask this question. For example, some have pointed out that one of the reasons why the emerging market banking systems are doing so well comparatively during this system, is that perhaps they were not so "sophisticated." We can drive these subprime loans, package them in all sorts of attractive packages, flog them off around the world to other sophisticated bankers, who now have them in their portfolio, as the triggers are going off, and explosions occurring unexpected, here and there and, in other words, many of the so-called emerging markets were not receptive of this, maybe were not considered so sophisticated, thus do not have all of these time bombs sitting around in their safes every day, wondering what will happen to the rest of their economies.

Could the IMF, in an ideal situation, be a counselor to banking systems throughout the world? Maybe they wouldn't have spotted our sophisticated subprime loans, and the packages, and all of the fallout, but maybe some might have been bright enough to do so. That is, to understand, as you say, these imbalances in the world. Imbalances that are further exacerbated when this type of thing with the subprime business in the United States causes explosions all over the world, not just with regard to our own economy.

And, I'm wondering if this is a potential role for the sophisticated people who were sitting around the table, maybe dealing with other problems in the world at a different point, but now realizing that these imbalances themselves could throw things awry and create great suffering, as huge recessions occurred in various parts of the world, simultaneously, trade dried up, credit situations, ditto—that is the kind of thing, I think, that worries many of us, I'm sure you

as a professional in this situation. What do you see as the possibilities here of a role for the IMF?

Mr. HEATH. Yes, Senator, I think you've explained very well the possibility here for a high-level coordinating function for work already being done, perhaps by the Bank of International Settlements or other bodies, but there certainly has, is no parallel to the IMF's credibility in this area. And, I would be interested in pursuing that, or helping to define that emerging role for the IMF.

It's bound to be significant in, not only highlighting concerns as they've done, but as I say, actually making efforts to reach agreements on activity, actions that should be taken by member states.

Senator LUGAR. I appreciate that.

Mr. Chairman, as a point of personal privilege, I would compliment you on pointing out the responsiveness of the daughters of Mr. Mulvaney when he was testifying, which was exemplary.

I would like to also add, that the sons of Mr. Heath, when they were introduced, stood proud and straight and they looked like candidates for public service if I ever saw them. [Laughter.]

Mr. HEATH. Senator Lugar, their grandfather is a graduate of Purdue University and takes an active interest in the next generation of Purdue University students.

Senator LUGAR. Great Hoosier roots, I knew it. That's great.

Senator MENENDEZ. If you had said that at the beginning, you would have saved yourself all of the questions that were—

[Laughter.]

Senator MENENDEZ. Thank you, Senator Lugar.

Well, we appreciate, this is refreshing to hear some rather straightforward answers to questions. The administration would be well-served to send more people like you up here to give us straightforward answers to some questions.

With that, I understand that it is Chairman Biden's desire to move these nominations quickly. However, the record will remain open until 6 p.m. this evening, so that committee members may submit additional questions to the nominees, I myself have a few, but in the fairness of time, here, we'll submit it for the record. We ask the nominees to respond expeditiously to these questions.

If no one has any additional comments, the hearing is adjourned. [Whereupon, at 3:54 p.m., the hearing was adjourned.]

ADDITIONAL MATERIAL SUBMITTED FOR THE RECORD

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

Mr. Chairman, the Senate Foreign Relations Committee meets today to consider the President's nominees for three important positions—Mr. Sean R. Mulvaney to be the Assistant Administrator for Management of the U.S. Agency for International Development (USAID), Mr. Daniel D. Heath to be the Alternate Executive Director of the International Monetary Fund, and Patrick Kennedy to be Under Secretary of State for Management.

Sean Mulvaney has been nominated to be the Assistant Administrator for Management at the United States Agency for International Development (USAID).

Endemic global poverty remains one of the biggest challenges we face in the world today. It is in America's national interest to help developing countries to achieve stable and effective economic, political, and social institutions in order to reduce poverty and ease the strain of human despair. Foreign assistance is central to our

efforts to address the fundamental challenge posed by poverty in our world, and USAID will continue to play the lead role in this effort for the United States.

USAID faces a number of internal challenges over the course of the next several years, including long-needed foreign assistance reform and the continuing need to make the agency's financial management and administration as transparent and efficient as possible. Recruiting and sustaining USAID professional staff will be a key priority and one that requires closer attention. Contracting oversight will also require close examination, particularly in light of recent developments in Iraq and elsewhere. The role of the Assistant Administrator for Management of USAID is integral in addressing these issues.

Mr. Mulvaney has a strong management and administrative background, with degrees from Washington University in St. Louis and the Thunderbird School of Global Management. Notably, from 2005 to 2007, Mr. Mulvaney handled budget, appropriations, and U.S. trade policy as an Assistant to the Speaker for Policy in the U.S. House of Representatives. As adviser to House Foreign Operations Appropriations Subcommittee Chair, Congressman Jim Kolbe, Mr. Mulvaney helped in the development and negotiation of a number of important appropriations bills and programs including the Millennium Challenge Corporation.

Mr. Mulvaney will need to ensure the integrity of the agency's administrative and management operations in a rapidly changing and highly complex international environment.

We are also here to consider the nomination of Mr. Daniel Heath to be U.S. Alternate Executive Director of the International Monetary Fund (IMF).

Today, we live in a globally interconnected society underpinned by a global economy. The IMF plays an important role in the stability and prosperity of that economy.

The mission of the IMF is to promote economic growth, international financial cooperation, and economic order. The organization will face a number of challenging issues over the next several years, including internal institutional and structural reform, the possibility of deteriorating finances, a new IMF Managing Director, and a rapidly growing developing world. The organization will need a strong, steady U.S. presence in order to navigate these difficult challenges.

The United States is the IMF's largest contributor, with substantial influence on the body's decisionmaking. As the primary U.S. representative at the IMF, the office of the U.S. Executive Director has a very influential and important role to play in the stability and growth of the global economy. The Alternate Director must have a comprehensive knowledge and understanding of international economic and financial issues, represent U.S. interests abroad, and be able to collaborate and cooperate with each of the other 184 IMF member countries—as well as America's own Treasury Department and other U.S. Government officers and agencies.

Mr. Heath will bring a strong record of government, academic, and business experience to this important position. Heath has served on the National Economic Council at the White House as Associate Director for nearly 6 years. He also served at the Office of Management and Budget for over a decade as a Senior Economist. Heath has also served as the Director of Economics at Oxford Analytica, an influential international consulting firm.

Finally, the committee will consider the nomination of Patrick Kennedy to be the Under Secretary of State for Management.

This is a vital position to effective and efficient operations at the State Department. With State Department officials posting in embassies and consulates spanning the globe and several thousand employees in Washington, DC, the Under Secretary for Management must be highly experienced in administration and committed to these challenging tasks.

Contracting oversight will be an immediate task that Ambassador Kennedy will have to address. Our reliance on contractors has led to deep problems, with foreign policy implications, particularly in Iraq.

Ambassador Kennedy is not new to this job, having served as acting Under Secretary for Management from 1996 to 1997. Since that time, he has served in several top management positions, including as Director of Management Policy at the State Department, as Acting Chief of Staff at the Office of the Director of National Intelligence, and as Chief of Staff of the Transition Office in Baghdad.

The committee looks forward to hearing the testimony of Mr. Mulvaney, Mr. Heath, and Mr. Kennedy. I believe that each of the nominees is qualified and deserves speedy consideration by the committee. I wish all three of these professionals continued success and look forward to working with them at this critical time in our country's history.

Thank you.

RESPONSES OF PATRICK F. KENNEDY TO QUESTIONS SUBMITTED
BY SENATOR RUSSELL D. FEINGOLD

Question. Secretary Gates has recently stated that, at the moment, State Department security contractor methods and the United States military's effort to protect the Iraqi population are at odds. Do you agree with this assessment and, if so, what will you do to address this serious problem?

Answer. The utilization of security contractors is essential to the Department of State's ongoing diplomatic and reconstruction efforts in Iraq. Without security contractors, the Department would simply not be able to interact with our counterparts in the Iraqi Government and population in furtherance of our critical mission and obligations to our Iraqi partners. That being said, the Deputy Secretaries of State and Defense have agreed to implement all of the recommendations in the Report of the Secretary of State's Panel on Protective Security Services in Iraq which involve both Departments. This follows on Secretary Rice's previous decision to implement all of the panel's recommendations which were solely State Department responsibilities. A number of these steps were intended specifically to better coordinate our security measures with MNF-I operations.

Additionally, the Deputy Secretaries established a working group with three teams to implement those recommendations and recommend any further necessary steps. Meetings have already begun on ways to increase coordination and oversight. The deputy secretaries and secretaries will continue to be actively involved on this issue.

Question. Has the Department of State conducted a legal analysis of whether the excessive use of force, if committed by private security contractors, could be prosecuted under the War Crimes Act? If so, please provide that analysis. If a private security contractor in Iraq acted with reckless disregard of civilian life and that conduct resulted in the death of a civilian who was not participating in hostilities, would this be a violation of Common Article 3 of the Geneva Conventions covered by the War Crimes Act?

Answer. Private security contractors hired by the Department of State in Iraq are civilians. They are not civilians accompanying the U.S. armed forces, nor are they participating in armed conflict. Their primary mission is to protect diplomats from harm, not to engage in combat operations. Indeed, the individuals they are protecting are generally civilians, not military officials. The ordinary duties of these security contractors therefore are generally governed by any relevant agreements between the United States and the host country related to their activities and by applicable U.S. and host country rules governing law enforcement-type activities (as the Secret Service presumably would be when protecting the President overseas), rather than by the laws of armed conflict, including the Geneva Conventions and their Common Article 3. If one of the Department's private security contractors committed a serious crime, the Department of State would refer the matter to the Department of Justice which would evaluate, among other provisions, whether the contractor had violated the War Crimes Act.

The Department of State has not conducted a formal legal analysis of whether the excessive use of force, if committed by private security contractors hired by the Department, could be prosecuted under the War Crimes Act.

Question. U.S. military commanders have complained that contractors have fired unaimed shots to clear their way in Baghdad. One of the changes you suggested to the rules for the use of force is that all shots must be aimed shots. Do unaimed shots in urban areas violate the Geneva Conventions?

Answer. A basic principle of the law of international armed conflict is that combatants are to distinguish between combatants and noncombatants and between military objectives and civilian objects when carrying out an attack. Whether unaimed shots by a combatant in urban areas violate this principle depends on the specific facts and circumstances prevailing at the time.

In making the specific recommendation, the review panel had been comparing Department of State policies and procedures with those of the Department of Defense. The panel found that the State Department's written guidelines for when to use force were robust and more detailed than those of the Department of Defense. However, the panel found that DOD's rules on how to use force were more clearly written, and thus recommended that DOD's language be added.

Question. To date, both the State Department and the Defense Department have relied on a self-reporting system to ensure oversight of contractors' actions. U.S. officials have stated that they do not think that all incidents are reported. Self-reports from two of the three State Department security contractors, DynCorp and

Blackwater, both average around one shooting a week. Has the Department conducted an analysis of whether these shootings were justified? If so, please provide any reports that the Department prepared. What percentage of those incidents involved unaimed shots or aimed shots conducted without sufficient prior warning?

Answer. Personal Security Specialist (PSS) contractors working under the WPPS contract are required to immediately report operational incidents of weapons discharges, attacks, serious injury, or death. Contractors are also required to report incidents of a negative nature, including incidents that would reflect negatively on the United States, the State Department, RSO, or the contractor. Each post has a Chief of Mission approved post specific Mission Firearms Policy that includes reporting requirements for weapons discharges. The RSO, Contracting Officer, and the program office receive such notifications simultaneously.

Significant incidents involving security contractor personnel are reviewed by the RSO and by relevant management and oversight offices within the Department to ensure that specific use-of-force incidents are consistent with Department policies. Incidents of security personnel misconduct are addressed through procedures in accordance with our contractual arrangements.

The addition of a State Department special agent to every movement will improve leadership and oversight, and not require us to rely on self-reporting by the contractor.

The WPPS base contract and guard contracts require all security personnel to follow the Mission Firearms Policy of the post to which they are assigned. Any use of force by security personnel in the course of operations must comply with this policy.

Embassy Mission Firearms Policies are defensive in nature, while at the same time taking into account specific circumstances surrounding our security operations in an active war or high-threat zone. The Mission Firearms Policy is founded upon the Department of State's respect for the paramount value of all human life, and our commitment to take all reasonable steps to prevent the need to use deadly force. Accordingly, the touchstone of the policy is necessity; deadly force can only be used in situations where there is no safe alternative to using such force, and without which the security personnel and the individuals they are charged with protecting would face imminent and grave danger.

In Iraq, nine personnel have been removed from the Worldwide Personal Protective Services (WPPS) program for shootings not in accordance with the rules of engagement in the Mission Firearms Policy. Based on a program office review, two individuals that had been removed from the WPPS program after a 2005 incident were declared eligible to return to WPPS, although they have not returned to date. One incident, which occurred on December 24, 2006, in Iraq, is under review by the Justice Department. The September 16, 2007, incident in Iraq is currently under investigation.

One individual, employed in Iraq by Triple Canopy Inc. under the Baghdad Embassy Security Force contract, was removed due to the discharge of a weapon. The incident occurred on November 7, 2005, and involved a third country national guard who, during an indirect fire attack, discharged his weapon at a vehicle from which the guard believed an RPG had been fired. There were no injuries as a result of this incident.

DOS is currently conducting a comprehensive review of all use-of-force incidents in Iraq. As this process is ongoing, the Department will provide you with an update once that review is complete.

Question. I understand that the reports provided by the contractors are reviewed by State Department management. In the past, what has kept contractors from reporting that all of the shootings were justified if in fact some were not justified?

Answer. Personal Security Specialist (PSS) contractors working under the WPPS contract are required to immediately report operational incidents of weapons discharges, attacks, serious injury, or death. Contractors are also required to report incidents of a negative nature, including incidents that would reflect negatively on the United States, the State Department, RSO, or the contractor. Each post has a Chief of Mission approved post-specific Mission Firearms Policy that includes reporting requirements for weapons discharges. The RSO, contracting officer, and the program office receive such notifications simultaneously.

Significant incidents involving security contractor personnel are reviewed by the RSO and by relevant management and oversight offices within the Department to ensure that specific use-of-force incidents are consistent with Department policies. Incidents of security personnel misconduct are addressed through procedures in accordance with our contractual arrangements.

The addition of a State Department special agent to every movement will ensure that any shooting is reported.

Question. In your view, if there is no independent oversight of the activities of private security contractors in the field, will their behavior change?

Answer. The Secretary's decision to implement the coordination and oversight recommendations, such as the addition of DS agents to motorcades, vehicle cameras, and the establishment of the Embassy Joint Incident Review Board, will ensure the highest level of accountability for the Department's protective security contractors.

The Department of State and Department of Defense have already initiated a series of meetings to increase coordination and to enhance current contractor methods as appropriate. Moreover, the Embassy in Baghdad and the Iraqi Prime Minister's office have established a joint Government of Iraq and United States Government Commission of Inquiry to examine issues of security and safety related to United States Government-affiliated protective security operations and to make joint policy recommendations.

Question. Pursuant to your recommendations to the Secretary, will the RSO staff accompanying the security details have command control over the security details?

Answer. Pursuant to the Secretary's mandate following the September 16 incident, a diplomatic security special agent is currently serving as the agent in charge (AIC) of all protective security details (PSD) for Chief of Mission personnel and has command control over the security detail.

Question. If so, will this include command over the contractor helicopters that overfly some of these convoys?

Answer. RSO air assets are currently under command control of the Regional Security Office's (RSO) Tactical Operations Center (TOC). If assistance from air assets is required, the AIC will request support from the TOC.

The diplomatic security special agent in charge of the TOC will then authorize air support.

Question. What are the rules for the use of force for contractors operating those helicopters?

Answer. The rules for the use of force outlined in the RSO Baghdad Mission Firearms policy apply to all personnel under Chief of Mission authority, to include RSO air assets.

Question. You did not recommend that State Department security personnel accompany the advance teams that clear the route ahead of the motorcade, correct? If so, that means at least half of the movements of private security details will not be accompanied, correct?

Answer. Pursuant to the Secretary's mandate following the September 16 incident, a diplomatic security special agent is currently serving as the agent in charge of all protective security details for Chief of Mission personnel and has command control over the security detail. This includes the advance teams, principal's motorcade, and the tactical support teams (TST). As a result, all movement phases of protective security details are being accompanied by DS agents.

Question. Of the over 300 incident reports since January 2005, how many were filed by advance teams?

Answer. DOS is currently conducting a comprehensive review of all use-of-force incidents in Iraq. As this process is ongoing, the Department will provide you with an update once that review is complete.

Question. Is it correct that, during the September 16 incident, the Blackwater advance team members were among those that fired their weapons?

Answer. At this time, the Department of State cannot comment on any aspect of the ongoing Department of Justice investigation and review of the facts surrounding the events of the September 16 incident.

In addition, my mandate to study the operations of security contractors in Iraq did not include investigating the September 16 incident.

Question. Will the Department continue to rely on the self-reports of advance teams since those teams will not be accompanied by DSS personnel?

Answer. Pursuant to the Secretary's mandate, a diplomatic security special agent is currently serving as the agent in charge of all protective security details for Chief of Mission personnel and has command control over the security detail. This includes the advance teams, principal's motorcade, and the tactical support teams. As

a result, all movement phases of protective security details are being accompanied by DOS agents.

Question. What about subcontractors at any level who provide security for State Department contractors?

Answer. At this time, the application of oversight policies to State Department and Defense Department subcontractors is under review by the joint Department of State and Department of Defense working groups.

Question. Will the recommendation to have DSS employees accompany all motorcades apply to USAID security details and details for other civilian personnel under Chief of Mission authority?

Answer. All personnel, including USAID and civilian personnel, under Chief of Mission authority are required by Mission policy to travel with a regional security office protective security detail.

Question. Does it apply to State Department subcontractors at all levels? If not, how many subcontractors will not be covered by this requirement?

Answer. At this time, the application of this policy to State Department subcontractors is not being considered. DS does not have the manpower or resource requirements to establish and sustain such a requirement.

Question. How many employees are there in Iraq under Chief of Mission authority?

Answer. As of October 26, 2007, there are 1,183 authorized U.S. positions and 196 locally employed staff in Iraq.

Question. how many security details do they require on a daily basis?

Answer. There are 49 total protective security details (PSDs) currently operating in Iraq: Baghdad—34 PSDs; Basrah/Tallil—5 PSDs; Al-Hillah—5 PSDs; and Kirkuk/Erbil—5 PSDs. PSD missions are configured based upon such factors as the venue, threat environment, and may include the deployment of an advance team, principal's motorcade, tactical support team, and explosive detection dog (EDD K-9) teams.

Question. I commend you for recommending that the Embassy Joint Incident Review team include employees of Federal agencies other than the Department of State. This makes sense given the fact that as protectees of contractors, State Department employees have a conflict of interest when they investigate their wrongdoing. Indeed, the Associated Press reported that one of the witnesses at the Nisoor shooting said that State Department personnel "tried to intimidate him into changing his story" and that his account was consistent with other accounts that the initial State Department investigation appeared to be an attempt to "vindicate the Blackwater guards." Has the State Department investigated these allegations? If so, what conclusions did the Department reach?

Answer. At this time, the Department of State cannot comment on any aspect of the ongoing Department of Justice investigation and review of the facts surrounding the events of the September 16 incident. In addition, my mandate to study the operations of security contractors in Iraq did not include investigating the September 16 incident.

Question. Has the State Department permitted private security contractors to remove employees who have allegedly used excessive force from Iraq?

Answer. In Iraq, nine personnel have been terminated from the WPPS program and one individual from the BESF contract, for shootings not in accordance with the rules of engagement in the Mission Firearms Policy. In each case, the personnel left post, as the contractual basis and purpose for their remaining in Iraq had ended. Incidents of security personnel misconduct, to include their termination and removal from post, are addressed through procedures in accordance with our contractual arrangements.

Question. There has been press indicating that State Department employees investigating the September 16 incident may have conducted their investigation in a manner that may make it harder to prosecute contractors involved in that incident and/or offered those contractors immunity. Did any State Department employees offer any Blackwater employees immunity? Did they coordinate with the Department of Justice before doing so? Do State Department employees have authority to offer immunity to individuals alleged to have engaged in wrongdoing?

Answer. The Department of State is not in a position to immunize individuals from Federal criminal prosecution. The kinds of statements about which the press

has written would provide limited protection that does not preclude prosecution. The Department of State would not have asked FBI to investigate this case unless we and they thought that they could investigate the case and potentially prosecute individuals if warranted. The Department of Justice has issued a public statement confirming that Blackwater employees have not been given immunity from prosecution and that the FBI's criminal investigation of this matter continues.

Question. Your panel recommended the use of "go teams" to investigate any shooting incident and to promptly offer "appropriate condolences and compensation." This could create a conflict of interest. Why shouldn't these functions be delegated to separate entities?

Answer. The report's recommendation is for the "go team" to work with counterparts designated by the Government of Iraq to identify potential individuals affected by an incident and to initiate the "appropriate condolences and compensation" process. This process would not be in conflict with the other investigative responsibilities of the "Go Teams." The payment of such compensation is not indicative of fault and is in accordance with traditional Iraqi norms and cultural expectations. The Department's program is modeled on the Department of Defense's claims and condolence payment program currently administered in Iraq.

Question. Please describe the training in evidence collection and crime scene protocols that State Department personnel charged with overseeing private security contractors receive.

Answer. Diplomatic Security Service (DSS) special agents receive crime scene preservation/management and evidence collection training. This training is provided at the Federal Law Enforcement Training Center (FLETC), during DSS Basic Special Agent Course (BSAC) training and again in the DSS Basic Regional Security Officer (BRSO) training prior to deployment abroad. The training is broken down into the following subject areas:

FLETC

- Fingerprint Lecture
- Rolled Fingerprint Lab
- Video Techniques Lecture
- Video Techniques Lab
- Basic Physical Evidence Collection Lecture
- Basic Physical Evidence Collection Lab
- Digital Photography Lecture
- Photography Lab

BSAC

- Evidence Database Lecture

BRSO

- Crime Scene Management

The evidence collection and crime scene management training is part of the FLETC, DSS basic agent, and basic RSO training courses. Although this training provides an excellent overview of the crime scene and evidence collection fields of study, it is not a substitute for the expertise that forensic scientists and/or crime scene technicians utilize in processing crime scenes. Additionally, it should be noted that the current security situation in Iraq can make it problematic to properly secure a crime scene in accordance with established practice in the United States.

Question. Would you agree that any Iraqi families who lost loved ones as a result of the wrongful use of force are entitled to know that the perpetrator was tried for any wrongdoing, not just monetary compensation?

Answer. The Department of State strongly supports efforts to provide greater legal accountability for unlawful acts its security contractors may commit abroad. The applicability of U.S. criminal law to the activities of private security contractors overseas is not always clear and may depend on the facts at issue in any particular case. The administration is currently working with the Congress on legislation to clarify any ambiguities and expand the coverage of U.S. criminal laws so that we have the laws we need to hold private contractors overseas accountable where appropriate.

Question. Does the Department support elimination of the immunity created by CPA Order 17?

Answer. CPA Order 17 (Revised) currently gives private security contractors for diplomatic missions, including for U.S. missions, immunity from Iraqi legal process with respect to acts performed pursuant to the terms and conditions of their con-

tracts. The U.S. military operating in Iraq, and U.S. Government contractors working on reconstruction, humanitarian, and development projects also receive immunity under this order.

One of the principal recommendations of the Secretary of State's panel on personal protective services in Iraq was that the U.S. Government (State and Defense) determine how to commence discussions with the Government of Iraq on a new regulatory framework for private security contractors. The panel found that CPA Order 17 and Memorandum 17, which provide this framework, need to be updated or replaced.

We are already engaging with the Government of Iraq on this issue. The U.S.-Iraqi Joint Commission, co-chaired by the U.S. Deputy Chief of Mission and the Iraqi Minister of Defense, is examining issues of safety and security related to U.S. Government-affiliated personal security detail operations in Iraq. Its work includes examination of the impact of CPA Order 17 on such operations. More broadly, as the United States and Iraq engage in discussions on their long-term strategic relationship, we expect to address how to update or replace many of CPA Order 17's provisions, including its provisions on jurisdictional immunities. We have seen reports that the Maliki government has a legislative proposal to reformulate the Iraqi regulatory framework for private security contractors, but have not yet reviewed a draft.

Question. Are any steps under consideration to bring greater control and coordination over the operations of private security contractors in Iraq other than those on the WPPS contract and those on DOD contracts—including many who are providing security to contractors and NGOs on DOS (including USAID) contracts? Is there any reason to believe there is any lesser need to control and coordinate their operations than those of the WPPS contractors?

Answer. As advised in the response to your first question, the Department of State and Department of Defense have already initiated a series of meetings to increase coordination and to enhance current contractor methods as appropriate. This process will also include a review of those policies and a determination on their appropriate applicability to State Department subcontractors.

Question. Are any similar steps being taken in Afghanistan for WPPS contractor operations there? If so, what is the status of implementation? If not, why are these good ideas for Iraq but not Afghanistan?

Answer. The Secretary's decision to implement coordination and oversight recommendations, such as the addition of DOS agents to motorcades, vehicle cameras, and the establishment of the Embassy Joint Incident Review Board, is currently focused on ongoing WPPS contractor operations in Iraq. Enhancements in Iraq will be evaluated and considered for deployment to WPPS contractors operating in Afghanistan and other countries as appropriate.

RESPONSES OF SEAN R. MULVANEY TO QUESTIONS SUBMITTED
BY SENATOR RICHARD G. LUGAR

Question. Is the USAID operating expense budget roughly the same now as it was in 2001? If no, please clarify.

Answer. Yes. The fiscal year 2001 (inflation adjusted to 2005 dollars) OE level as compared to the fiscal year 2007 enacted level for the OE fund is:

- Fiscal year 2001 OE = \$589,000,000.
- Fiscal year 2007 OE Appropriation = \$626,832,000.

The difference between 2001 and 2007 OE dollars = \$37,832,000. This is approximately a 6 percent increase over 2001 dollars and is attributed to annual payroll adjustments.

Amounts do not include Office of Inspector General or the Capital Investment Fund.

Question. Is it correct that USAID program funds were about \$7–8 billion in 2001 and are about \$13 billion now? What does the \$13 billion figure include? Specifically, does it include some PEPFAR programs and MCC Threshold programs?

Answer. Yes, it is correct. In fiscal year 2001, USAID managed approximately \$7.362 billion of program funds. In fiscal year 2007, USAID estimates that it managed approximately \$12.772 billion of program funds.

The \$12.772 billion figure includes PEPFAR funds of approximately \$1.3 billion and MCC programs. These figures are based on total dollars obligated.

RESPONSES OF SEAN R. MULVANEY TO QUESTIONS SUBMITTED
BY SENATOR ROBERT MENENDEZ

Question. It is critical that USAID is able to recruit and retain the highest-caliber personnel if it is to carry out its mission and fulfill its development objectives. As you know, attrition rates at the agency are extremely high. Please describe what steps you would take to ensure that the agency is able to recruit top-level staff. Please also discuss what steps are needed to provide opportunities for rising junior officers, improve morale, and increase junior officer and overall staff retention rates.

Answer. Over the past few years, attrition for the Foreign Service and Civil Service has been around 7 percent per year, with over 82 percent of Foreign Service attrition and 33 percent of Civil Service attrition due to retirement. These levels are commensurate with other similar U.S. Government agencies.

USAID has traditionally attracted very high quality candidates. Over the past many years, however, agency budgets have seriously constrained hiring Foreign Service officers above attrition, as well as Civil Service hiring in critical areas such as procurement, even as the size and scope of our programs have increased dramatically. If confirmed, I am committed to helping USAID reverse this trend by targeting resources to meet the Foreign Service and Civil Service recruitment needs of the agency.

USAID values all of its employees and has strived to provide professional growth opportunities for its entire staff to avoid any increase in attrition. We greatly appreciate the flexibility Congress granted USAID to more rapidly assign our junior officers overseas and we intend to continue to use it to the fullest extent possible. Training is understood to be of utmost importance. In fiscal year 2007, USAID doubled the training budget for staff development focusing efforts on technical and leadership skill enhancement. I am committed to sustaining our focus on increased training for staff, including additional foreign language training.

Question. At USAID field missions, administrative staff complains that the State Department and USAID have very different needs and that consolidation programs fail to address these differences.

- What administrative requirements of USAID are not shared by State?
- How do these differences make consolidation difficult for USAID?
- Will consolidation efforts impede USAID activities in any way?

Answer. USAID and State negotiated 15 administrative support functions (warehouse management, expendable supplies, leasing, motor pool, property maintenance, customs and shipping, reproduction services, administrative procurement, mail, messenger and pouch services, Foreign Service National (FSN) payroll and FSN initiatives, cashiering, recruitment, the Eligible Family Member program, and language training) that would be subject to consolidation, and further agreed that functions that are unique to supporting USAID operations would not be subject to consolidation. USAID does not share hiring and classification authority for all staffing actions, and will continue to perform its non-ICASS equivalent HR functions. USAID technical and program management, legal advisory support, procurement, grant-making and financial management activities that support programmatic USAID functions and staff are not subject to consolidation with State.

Integration of Information Technology (IT) systems and services to support the consolidation initiative is a significant challenge. State and USAID have made considerable progress in developing and deploying an IT solution to enable the use of shared IT applications to support the consolidated administrative support services. The IT solution has provided the enabling environment to eliminate redundancies through the use of standardized applications. Uniform use of these applications in the coming year will be a significant accomplishment of the consolidation initiative.

Consolidation of overlapping services is a sound objective. Nonetheless, the consolidation of these 15 administrative services will require ICASS in many instances to change its service standards to meet USAID's business requirements as the implementing United States Government agency for foreign assistance. Providing the necessary administrative support to USAID's activities while ensuring cost effectiveness, efficiency, and quality of services will be a continuing challenge for ICASS.

