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DIFFERENT PERSPECTIVES ON INTERNATIONAL DEVELOPMENT

HEARING

BEFORE THE

SUBCOMMITTEE ON INTERNATIONAL DEVELOPMENT AND FOREIGN ASSISTANCE, ECONOMIC AFFAIRS, INTERNATIONAL ENVIRONMENTAL PROTECTION, AND PEACE CORPS

OF THE

COMMITTEE ON FOREIGN RELATIONS
UNITED STATES SENATE

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DIFFERENT PERSPECTIVES ON INTERNATIONAL DEVELOPMENT

WEDNESDAY, MAY 22, 2013

U.S. SENATE, SUBCOMMITTEE ON INTERNATIONAL DEVELOPMENT AND FOREIGN ASSISTANCE, ECONOMIC AFFAIRS, INTERNATIONAL ENVIRONMENTAL PROTECTION, AND PEACE CORPS, COMMITTEE ON FOREIGN RELATIONS,

Washington, DC.

The subcommittee met, pursuant to notice, at 10:30 a.m., in room SD–419, Dirksen Senate Office Building, Hon. Tim Kaine (chairman of the subcommittee) presiding.

Present: Senators Kaine, Coons, Murphy, and Barrasso.

OPENING STATEMENT OF HON. TIM KAINE, U.S. SENATOR FROM VIRGINIA

Senator KAINE. I am going to call this subcommittee meeting to order. I am joined here by my ranking member, Senator Barrasso, and expect others to attend.

I want to welcome our witnesses. We have got a good panel today to address the important issues: John Murphy, who is the vice president for International Affairs at the U.S. Chamber of Commerce; Bill Lane, who is the copresident of the U.S. Global Leadership Campaign and also the director of the Washington Office for Caterpillar. And he has brought a visual aid. I highly approve. You guys did not get the memo, Todd and John? Finally, Dr. Todd Moss, who is vice president for Programs at the Center for Global Development.

The purpose for this hearing, and it is the first hearing of the International Development Subcommittee in this Congress, is meant to complement full committee hearings that we have had on the President's fiscal year 2014 international affairs budget request. We have heard as full committee both from Secretary Kerry and Administrator Shah about the justification for the budget request from within the administration, what they need, what they plan to do with it, and how we will be able to measure their success. Those were important hearings.

I had the opportunity to introduce Secretary Kerry for his first major foreign policy address as Secretary of State, which occurred at the University of Virginia, the university started by a former Secretary of State, Mr. Jefferson, as we call him in Virginia, "Mr. Jefferson." Secretary Kerry made the compelling case for foreign aid.

Foreign aid is about 1 percent of the Federal budget and Secretary Kerry laid out the good that it has done, but also in a changing world the good that it still can do, including an openness to change and reform. Foreign assistance has traditionally served U.S. national security interests, commercial interests, and also addressed global humanitarian concerns.

During the State of the Union Address in February, President Obama laid out a very ambitious goal about the eradication of extreme poverty within two decades. We have heard Administrator Shah sort of focus on two deliverables in that score, reduction of death of children up to age 5 and elimination of hunger, as the two measurables that we would work on in this area.

Today's hearing is an opportunity to hear now not from within the agency and those talented individuals, but to hear a different perspective, private sector colleagues who have been in the field, but now are kind of looking at it from the outside, and especially looking at it from the private sector: What international development does to advance American economic interests and how those global interests, those American economic interests, can also be yoked to significant global advancement.

Before we hear from Senator Barrasso and the witnesses, I will just set the stage for a couple more minutes. The history of foreign assistance investments in this country generally was justified by national security concerns. The primary trend-setting U.S. investments through the Marshall Plan and thereafter were a way to prevent or slow down Communist influence and secure United States support during a cold-war era.

Post-cold war, there was a need to make a change and the focus of foreign aid shifted to the Middle East, to transition to democracy in Eastern Europe and the Republics of the former Soviet Union, and then more recently to combating illicit drug production and trafficking. Without the strong national security rationale that was immediate and apparent because of the cold war, the foreign aid budgets decreased during the 1990s, and post-9/11 foreign assistance ticked back up because it became a tool in U.S. counterterrorism strategies.

We also have a very significant effort to focus on commercial interests and the humanitarian concerns that occur around the country, around the world. As we are talking about humanitarian concerns, I know all of us in at least some part of our minds are thinking about those in our own Nation that are dealing with the horrible weather and tornado tragedy in Oklahoma. Those humanitarian issues are not just elsewhere; they are here as well, and the United States has always been a leader in responding to them.

There has been a huge shift in development assistance in the last couple of decades and it is a shift that we ought to mention because it affects what we do going forward and how we measure the success of what we do. That shift has been where assistance dollars come from. Basically the story I would say of the last 20 years has been a dramatic increase in private sector resource flows to development assistance. The resource flows from developed to developing countries are currently dominated by private transactions, such as foreign direct investment, portfolio investment, philanthropy, remittances. Collectively these account for now 87 percent of the global total of development assistance.

The donor governments and multilateral development assistance only account for 13 percent of resource flows. This is a complete reversal from decades past, where the governmental assistance used to be about 80 percent and total private development assistance at 20 percent.

Foreign direct investment, just using that, developing countries saw a 293-percent increase from 2000 to 2010 in FDI. If you look at the 30-year period from 1980 to 2010, the statistics are even more stark. The bilateral and multilateral assistance in that 30-year period grew by 280 percent. Now, this is a global dollar number. But foreign direct investment inflows to developing countries grew by nearly 7,000 percent, admittedly from a very low base. But you can see where the momentum is going.

This is happening, the shift of development assistance into the sort of private side of the equation, for a number of reasons. The recent recession transformed the world economy, including a reordering of relative national economies. Emerging economies, particularly China, have begun to be involved in assistance in new ways. Developing countries are seeing more rapid growth, growth of a middle class, strong commodity prices. They have liberalized trade. Mexico is a wonderful example of a country that is trade liberalized and is now a more open economy, making foreign direct investment and trade easier.

Developing countries' share of global GDP is steadily rising. Overseas markets represent 95 percent of the world's consumers and 80 percent of its purchasing power. Now half of U.S. exports go to the developing world, and these markets in all likelihood are growing and will continue to grow at a faster pace than our traditional trading partners.

All of those factors have accounted for this tremendous increase in the private sector foreign direct investment and the increase in development dollars on the private side of the ledger.

The United States has a number of tools that have facilitated this and should continue to: the Export-Import Bank, the Overseas Private Investment Corp., the U.S. Trade and Development Agency, and the Millennium Challenge Corporation. So truly we are in the midst of a dramatic revolution in the way that international development is done. Some of that revolution has been because of smart policy, but some of it has just been because of markets and innovation and the growth of economies, not necessarily intentional policy, but just facts on the ground that changed the way development assistance is done.

So we are here today to have the hearing to talk about these new perspectives on development assistance in light of the presentation of the President's budget, looking forward to what we should focus on. I look forward to hearing from the panel. We have got three great witnesses about a number of issues.

The U.S. Government interest in international development. We continue to need to make that case to our public about every dollar we spend in the budget. International development is no different.

How this public-private partnership model is growing and the importance of nurturing those partnerships, the way the United

States can better leverage private partners, and in a public-private model what that says in terms of accountability and how we should measure the success of our efforts. And always, always, the most important question in any hearing like this: How we can improve. We can talk about things that are working well. We can talk about things that are not working well. But at the end of the day I know my ranking member and I and the members of this committee are always looking for strategies to help us do a better job, and I hope we will hear some creative ideas, both about things that work and things that do not, but how we can do a better job, from our witnesses today.

With that, I would like to turn it over to my ranking member, Senator Barrasso.

OPENING STATEMENT OF HON. JOHN BARRASSO, U.S. SENATOR FROM WYOMING

Senator BARRASSO. Well, thank you so much, Mr. Chairman. I really appreciate your very thoughtful comments. Thank you for your leadership in organizing this hearing. I look forward to working with you during this session of Congress and beyond on this very important topic and issue.

I want to welcome all of our witnesses, thank each and every one of you for being here with us today, and appreciate your sharing your knowledge and your analysis and your perspectives with our subcommittee.

I really do appreciate, Mr. Chairman, your efforts to have our first subcommittee hearing on the examination of the costs and impacts of international development assistance. The American people are very generous, as you have just stated. Individuals, groups, and communities across our country give their time and their precious resources to help others, both people to people here, as we are seeing now with Oklahoma and the tragedy there, but also to people around the world. There is a very long history of people across this Nation generously supporting victims of international disasters, famines, diseases, and wars.

I hear from a lot of people at home in Wyoming about foreign assistance and they want to make sure that—as they ask the questions, they want to know what is the purpose of foreign aid? is it effective? how effective is it? is any being wasted? who is it helping? and what value does it add to the United States? This hearing is going to provide a great opportunity to discuss these questions and find some of the answers.

In fiscal year 2012 the United States spent over $37 billion for international development. That is about a 5.7-percent increase from the previous year. About 147 countries received some form of bilateral assistance from the United States. U.S. foreign assistance is often aimed at promoting democracy and economic development, as well as humanitarian efforts, as you have mentioned, Mr. Chairman.

With the national debt, however, quickly approaching $17 trillion, it is irresponsible for us to just borrow more money to fund initiatives if they are failing to provide results or real value for the taxpayers. The government must be a good steward of U.S. taxpayer funds. Every government branch and agency needs to be carefully evaluated and streamlined to eliminate duplication and wasteful spending. So I believe each program must be carefully analyzed to ensure it is being designed and implemented in the most effective and efficient manner. The time for unaccountable government spending must come to an end.

In October 2012, the USAID's Office of the Inspector General indicated that one of the most significant challenges facing their agency is the ability to demonstrate results through performance management and reporting. All foreign aid programs need to be rigorously evaluated. Most aid programs are not evaluated to determine the actual impact of the assistance. How can we determine whether taxpayer dollars are being used wisely when it is unclear if it has succeeded or failed.

So I believe Congress needs, one, to ensure that programs focus on U.S. priorities. Congress needs to evaluate the effectiveness of all of the programs. We need to support programs that are getting real results. We need to eliminate programs that are not working.

I think these are important issues, so I look forward to hearing the testimony of our witnesses, and I look forward to working with you, Mr. Chairman.

Thank you.

Senator KAINE. Thank you, Senator.

We will now begin with witness testimony. We will just move left to right: Dr. Moss, Mr. Murphy, and Mr. Lane.

STATEMENT OF TODD J. MOSS, PH.D., VICE PRESIDENT FOR PROGRAMS AND SENIOR FELLOW, CENTER FOR GLOBAL DEVELOPMENT, WASHINGTON, DC

Dr. MOSS. Thank you. Thank you, Chairman Kaine, Ranking Member Barrasso, distinguished members of the committee.

U.S. development policy is about more than foreign assistance. While it is important to maintain a robust bilateral aid program, it is probably more vital that we consider when not to use bilateral aid and instead when it might be better to use multilateral channels or when nonaid development tools might be more effective.

U.S. development policy should be critical in promoting U.S. national interests around the world—this includes our security, economic, and humanitarian interests—and in remaining actively engaged around the world. Unfortunately, our aid and development policies have too often underperformed. Yes, there are big successes where aid and development policy have helped achieve U.S. policy aims; for example, U.S. support for reconstruction in Liberia or independence for South Sudan. And clearly well-run aid programs can save lives. PEPFAR is today providing life-saving drugs for some 5 million people. Those people would not be with us were it not for this program.

But there are also very severe limits on what we can do with aid and development policy. We should be very humble about our ability to shape complex systems from the outside. There are also far too many examples of shameful failure. The United States promised $3 billion for Haiti to build back better. Yet, some 3 years later we have got about 400,000 people still living in tents.

Mali as well. I had the tremendous honor to work in the State Department and I worked closely on Mali, so I know how badly our efforts to fight terrorism and promote democracy in that country fell short.

Now, I believe that this disappointing record stems from a structural problem in how the U.S. Government approaches these issues. The current administration has launched several very well-intentioned efforts to try to upgrade: USAID Forward, the first-ever QDDR, and a separate White House Presidential policy directive on global development. USAID Forward is positive in pushing for open data and modern evaluation methods, but overall these are very, very modest steps.

The QDDR, after sapping momentum for aid reform by taking more than 18 months, is probably making matters worse by adding to fragmentation and confusion in the system. The Presidential policy directive is bold and I believe very much in the right direction, but is not really being implemented. So I do not believe that these efforts will fix U.S. development policy.

I also do not believe that these problems can be solved by more money, by stronger anticorruption oversight powers, or by another bureaucratic layer to try to coordinate U.S. agencies. In fact, I think any of these approaches are likely to make our tools and policy even less effective.

Instead, I see three fundamental problems. First, there are just too many Federal agencies involved. Some 24 separate agencies report aid to the OECD. While the British model of a singular Cabinet-level development agency does not fit within the United States political system, having 24 agencies does not work either.

Second, foreign aid has too many often-conflicting objectives. Lael Brainard, now Treasury Under Secretary, found that U.S. foreign assistance had more than 50 different goals. When we have too many priorities, then we have none.

Worse, our objectives are entirely divorced from the appropriations process. Instead of setting goals and a strategy and then allocating resources to meet those goals, our system instead is an aggregation of congressional directives and single-issue initiatives. Our strategy is just the sum of those disparate parts. So if our goals are to support girls' education in Pakistan or fight malaria in East Africa or promote electricity in Tanzania, it might be most effective to use AID or it might be better to use the African Development Bank, or perhaps the Global Fund. But our system does not allow for that decision, where you would weigh tradeoffs and consider these different channels, it does not allow those decisions to ever be made.

The third problem is that the interagency process is broken. The interagency that should work out tensions and tradeoffs in U.S. policy is, as anyone who works in the Federal Government can attest, deeply dysfunctional. Every initiative is a fire drill and these require intense direction from a very small and heavily overburdened National Security Council staff. The result is too often delay of key decisions, duplication of effort, and ultimately little accountability. If all agencies are collectively accountable, then no one is accountable.

The broken interagency also means that we often miss huge opportunities to use nonaid tools to meet our foreign policy objectives. Modest tweaks to our immigration policy, for example, could probably be a far more efficient development tool in many cases than aid programs, but we rarely use it as such.

So what might make things better? I will suggest three examples. First, limit, do not expand, the number of agencies involved. Ideally, the budgets and staff of most traditional international aid programs should be moved inside an empowered USAID. DOD, I should note, also is not a development agency, so we should avoid the temptation to ask them to take on more and more civilian tasks.

Second, to the extent we can we should link the budget process to goals and results, perhaps by allowing experimentation with new kinds of development models. We should learn from the Millennium Challenge Corporation's compact model, where objectives and indicators are agreed over a 5-year period. So rather than checking every receipt and micromanaging projects, the compact is judged based on the overall success of meeting the goals.

Congress could also provide space to experiment with new, innovative, pay for performance contracts where U.S. taxpayers would only pick up the tab for bills where actual results were achieved. At the Center for Global Development we call this "cash on delivery."

Third, we should focus on development finance, which is the next wave of development policy and where, frankly, the United States is far behind. Since most poor countries are growing quickly and many are receiving windfall gains from natural resources, demand for traditional grant aid is shrinking. At the same time, the demand is growing rapidly for other types of development finance: debt, equity, venture capital, and other kinds of patient capital that can both leverage private money and be deployed for long-term development.

The good news is that many of these tools already exist. The bad news is that they are spread across multiple agencies, including OPIC, TDA, USAID, Commerce, Labor, Treasury, USDA, USTR, and many more. A simple first step would be to bolster OPIC with multiyear authorization, equity authority, and perhaps a modest grant window. Even better would be to turn OPIC into a full-service U.S. development finance corporation by adding things like TDA's feasibility studies window, the USAID's development credit authority, and select programs from other agencies that promote the private sector. A U.S. Development Finance Corporation could be built at no additional cost to the budget by simply allowing OPIC to retain some of its profits. More importantly, this could provide a platform for coherence of all these U.S. policy tools in support of private sector development.

An approach like the U.S. Development Finance Corporation would not only be more efficient, but is probably necessary if the United States is going to achieve our ambitious goals, such as creating business opportunities in the new emerging and frontier markets or promoting electricity in Africa. For all the reasons I have outlined, our current system simply cannot deliver on those goals.

If the United States remains stuck in the past, it will be left behind.

Thank you.

[The prepared statement of Dr. Moss follows:]

PREPARED STATEMENT OF TODD J. MOSS

Thank you, Chairman Kaine, Ranking Member Barrasso, and distinguished members of the committee. U.S. foreign assistance should be a critical tool for promoting U.S. foreign policy and meeting other national security, economic, political, and humanitarian goals around the world. It should be a prominent and proud component of projecting America's power and projecting a positive image of what America is all about: the generosity and compassion of our people, the spreading of free market values and economic opportunity, the bedrock belief we hold that hard work can provide a better life for the next generation, the inviolable rights of individuals, the aspiration that all people everywhere should live free from tyranny. Foreign assistance should be able to play a role in supporting all of these goals and core American values. To be clear, foreign assistance can't deliver any of these goals. But it can and should be a useful tool to complement our military and diplomatic and business efforts.

Unfortunately, U.S. foreign assistance has too often not lived up to its potential and instead been a perennial underperformer. An underperformer for American taxpayers, an underperformer in supporting U.S. foreign policy objectives, and an underperformer in meeting global development goals. Yes, there are successes: U.S. support for Liberian reconstruction, U.S. support for the global effort that eradicated river blindness in West Africa, and especially the tremendous success of the U.S. fight against HIV/AIDS through PEPFAR, which is providing life-saving drugs for some 5 million people. These are 5 million lives directly saved by U.S. foreign assistance. But there are also too many examples, even where attention was intense and large funds promised, of abject failure. The U.S. effort in Haiti to "build back better," where some $3 billion was promised but 3 years later there are still an estimated 400,000 people living in tents is a national shame. U.S. aid to help fight terrorism and build democracy in Mali also clearly failed. I had the tremendous honor to serve in the Africa Bureau of the State Department in 2007–08 and worked closely on Mali, so I know how badly our efforts there fell short—and it is a failure for which I bear some responsibility.

I believe that this disappointing record of U.S. assistance stems from a structural problem in how the U.S. Government works. Recent efforts under the current administration—a first Quadrennial Diplomacy and Development Review (QDDR), a separate White House Presidential Policy Directive (PPD) on Global Development, and a set of business reforms within USAID known as USAID Forward—are all well intentioned and aimed to help fix the problems that everyone recognizes. But these efforts are not working. USAID Forward is too small-ball, while the PPD is bold and in the right direction but not being implemented. The QDDR, in addition to sapping the administration's energy on development for more than 18 months, is likely making U.S. policy even more confused.

To be clear, I do not believe that the problems of U.S. foreign assistance can be fixed by more money and more staff. The aid budget may very well be too low, but in many places it is too high. The funding levels, which attract so much attention, are not fundamentally germane to the problems of effectiveness. I also do not believe that the answer lies with additional investigative powers to root out corruption or additional bureaucratic layers to coordinate aid agencies. In fact either of these approaches is likely to make the aid system and U.S. policy even less effective.

I see three fundamental problems with U.S. foreign assistance:

First, there are too many Federal agencies with aid programs. Some 24 separate agencies report aid to the OECD's Development Assistance Committee. In the latest year, just 35 percent of total foreign aid goes through USAID. By contrast, the U.K. has a single large aid agency, DFID, that not only is tasked to ensure internal coherence, but also provides a development perspective within the Cabinet to inform foreign policy goals. I don't believe that the British model works in the U.S. political system, but I also know that having 24 agencies involved doesn't work either. The QDDR, which embraces uncritically a whole-of-government approach, is probably making this worse.

Second, foreign aid has too many, often conflicting, objectives. Lael Brainard in the book on foreign aid she published just before becoming U.S. Treasury Under Secretary for International Affairs found that U.S. aid had more than 50 goals.[1] That the U.S. has multiple and often conflicting goals is not surprising—foreign policy is complex and cannot be boiled down to a few simple absolute goals. But when we have too many goals and priorities, then we really have none.

To make matters worse, these objectives are entirely divorced from the appropriations process. Rather than setting goals in a national development strategy and then allocating resources to meet these goals, multiple single issue initiatives are given resources and the strategy becomes the sum of those disparate parts. For example, if we want to support reconstruction in Afghanistan or support budget reform in Kenya, or fight malaria in Mozambique, there is no obvious or clear way to make tradeoffs between these goals or to choose the most efficient mechanism to accomplish them. Sometimes the best way to meet these goals is through the World Bank or the Global Fund rather than USAID. But of course U.S. support to the multilateral development banks is made by the Treasury and congressional responsibility is with your committee and the House Financial Services Committee, while appropriations are handled by the State and Foreign Operations Subcommittees. This leads to a particular disconnect on the House side, with little ability to make clear decisions as to whether bilateral or multilateral aid is more effective for particular goals. So the direct tradeoff between the Bank, the Global Fund and USAID is never made. In short, part of the problem is the sprawling Federal Government and part of the problem is Congress. One way to consider the tradeoffs among the various bilateral and multilateral vehicles would be to formally consider the options against efficiency and alignment with national interests, as the United Kingdom has done with its bilateral and multilateral aid reviews.[2]

Third, the interagency process is broken. The interagency that should work out the tensions and tradeoffs among various objectives is, as anyone who works in the Federal Government can attest, dysfunctional. Every initiative is a fire drill and requires intense NSS staff direction and oversight. But NSS too small and overburdened to really do more than a few priority tasks. The result is too often delay of key decisions, frequent duplication of effort, and little accountability. If there are multiple agencies collectively accountable then in reality no one is accountable. And critically, the broken interagency combined with narrow mandates often means that we miss huge opportunities to use non-aid tools to meet our foreign policy objectives. Immigration policy, for instance, is probably a far better and more efficient development tool than our aid program, but we rarely use it as such.[3]

What steps would make things work better?

First, limit, don't expand, the number of agencies involved. Ideally the budgets and staffs of most international programs should be moved into USAID. If this is too politically difficult, and I suspect it probably is, then agencies should be forced to secund staff and pass through their budgets to USAID for those critical projects. While the whole-of-government mantra suggests the more agencies involved the better, the opposite is true. The fewer number of agencies involved—and the fewer offices of the State Department—the better. Whole-of-government may work in small European governments with a handful of agencies and a small number of people who all know each other and can horse-trade to work out problems. This does not—and I believe cannot—work in the U.S. context because of the sheer size and fragmentation of the Federal Government.

Second, link the budget process to goals and results—and allow experimentation with new models. This would imply Congress granting greater flexibility to the agencies to determine allocations and specific projects, but also could provide a mechanism for holding those agencies accountable by adding measurable indicators. This approach could draw heavily on the MCC's compact model where objectives and indicators are agreed over a 5-year period. Rather than checking every receipt and micromanaging the projects, the compact is judged based on the overall success of the portfolio in meeting the stated objectives. Congress could even provide USAID and other agencies space to experiment with innovative pay-for-performance contracts where U.S. taxpayers would only be picking up the bills for actual achievements. We at the Center for Global Development call this Cash-on-Delivery and see it as an opportunity to make aid—and tax dollars—about outcomes, not inputs or even outputs, while also building local management capacity and innovation and reducing transaction costs.[4]

Third, development finance is an obvious target for efficiency gains. Some consolidation of agencies with overlapping activities is highly desirable, and the lowest-hanging fruit are the various Federal activities to promote private sector development. At a time when most low-income countries are growing quickly and receiving windfall gains from resource discoveries, demand for traditional grant aid will be diminishing. U.S. development policy must be careful not to remain stuck in the past. What countries want, and where the United States is really best placed to help, is with other types of development finance: debt, equity, venture, and other kinds of patient capital that can leverage private capital and be deployed for long-term development.

The good news is that many of the tools already exist. The bad news is that they are spread across multiple Federal agencies, including the Overseas Private Investment Corporation (OPIC), the Trade and Development Agency (TDA), USAID, Commerce, Labor, Treasury, USDA, USTR, and more. And, like traditional aid, only rarely do they work well together. In the 2012 State of the Union, President Obama noted the absurdity that there are 12 different agencies that deal with exports and pledged to “merge, consolidate, and reorganize the Federal Government in a way that best serves the goal of a more competitive America.” What applies to export promotion also applies to development finance.

To be clear, I do not support the merger of OPIC into the Commerce Department—indeed that would be a tremendous mistake because the purposes of those agencies are very different. But I do believe a consolidation among the development finance tools would be highly beneficial. A first simple step would be to bolster OPIC into a full-service U.S. Development Finance Corporation.[5] This would imply granting OPIC additional authorities such as multiyear authorization, equity authority, and a modest grant window. It could also bring in complementary tools we already have in other agencies, such as TDA’s feasibility study window, USAID’s Development Credit Authority (DCA), and international programs of agencies like the Small Business Administration.

A U.S. Development Finance Corporation could be built using existing staff and resources and at no additional cost to the U.S. budget by allowing OPIC to simply retain its profits. More importantly, a bilateral development finance corporation could provide a platform for coherence of U.S. policy tools in support of the private sector, allow the U.S. to better compete in new markets, and limit the repeated scrambling within the interagency. An approach like the USDFC would not only be more desirable from an efficiency standpoint, but is likely necessary if the U.S. is going to achieve ambitious goals, such as building market opportunities in the next wave of frontier markets or promoting electrification in Africa. For all the reasons outlined above, our current system simply cannot deliver those goals.

The United States must remain engaged with the world, especially in the fastest growing markets and emerging regions of the globe. U.S. foreign assistance and our other development policy tools must be modernized if we are to succeed, and not be left behind by others who are showing more flexibility and more innovation. Thank you for the opportunity to testify today.

End Notes

[1] Brainard, Lael. 2006. “Security by Other Means: Foreign Assistance, Global Poverty and American Leadership.” Brookings Institution Press, Washington, DC. Brainard’s “Spaghetti Bowl” of U.S. foreign assistance legislation, objectives, and organizations is attached as Annex A.

[2] A version of an American multilateral aid review that I completed is attached as Annex B.

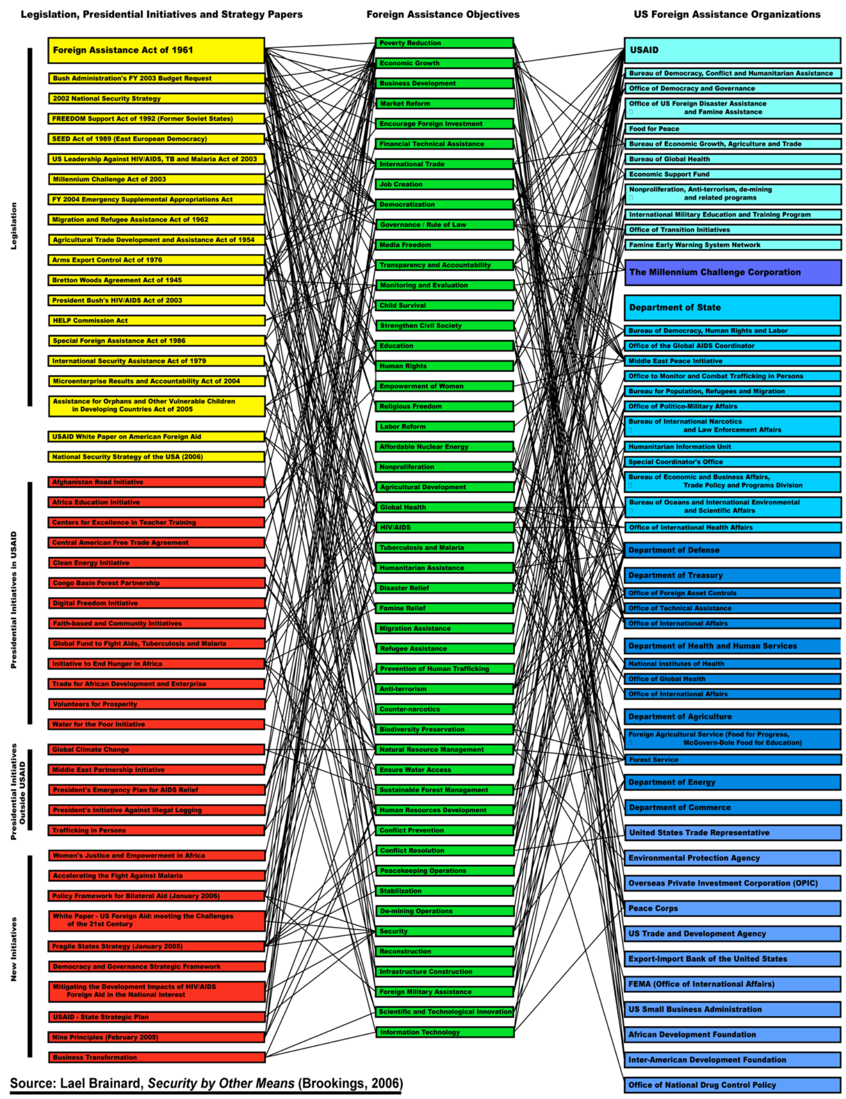
[3] Clemens, Michael and Kaci Farrell. 2011. “Beyond Aid: Migration as a Tool for Disaster Recovery.” Center for Global Development, Washington, DC.

[4] Birdsall, Nancy and William Savedoff. 2010. “Cash on Delivery: A New Approach to Foreign Aid. Center for Global.”

[5] Forthcoming paper, “U.S. Development Finance Corporation: Strengthening OPIC to Promote Private Sector Development in Emerging Markets,” by Benjamin Leo, Todd Moss, and Beth Schwanke. Center for Global Development, Washington, DC.

ANNEX A

US Foreign Assistance Legislation, Objectives and Organizations



Source: Lael Brainard, *Security by Other Means* (Brookings, 2006)

ANNEX B

Measuring Value for Money in U.S. Contributions to Multilateral Organizations
An American Version of the British Multilateral Aid Review

Todd Moss and Stephanie Majerowicz
July 27, 2011

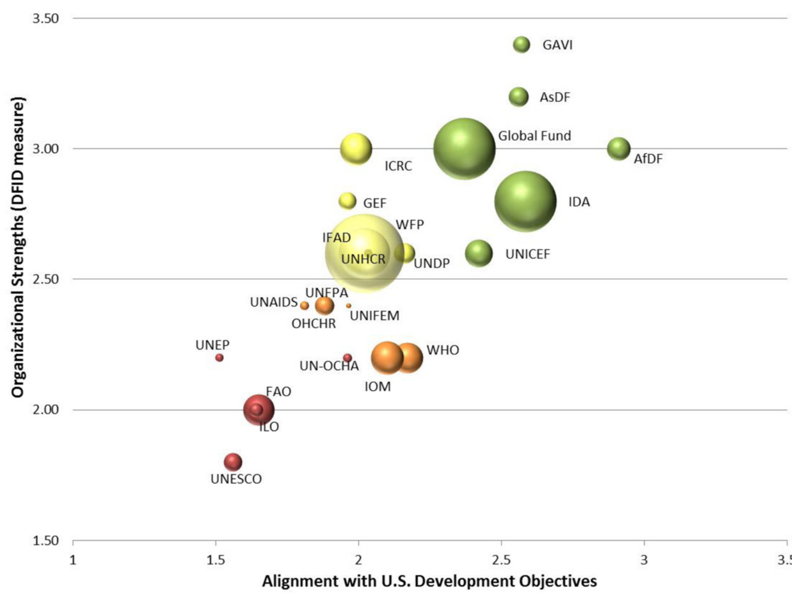


Figure 1

Notes: Bubble sizes represent relative U.S. contributions to each organization in 2009; color-coding represents the quartiles of an overall index multiplying scores on both dimensions.

Background: A U.S. version of the UK's Multilateral Aid Review

In March 2011 the United Kingdom's Department for International Development (DFID) released the results of a review of 43 multilateral institutions that receive UK funding. Summarized in Figure 2 below, the Multilateral Aid Review (MAR) assesses each institution in terms of the "value for money" to British taxpayers, based on indices measuring contribution to UK objectives and organizational strengths.[1] Each index draws on a combination of qualitative evidence and expert opinion polling.

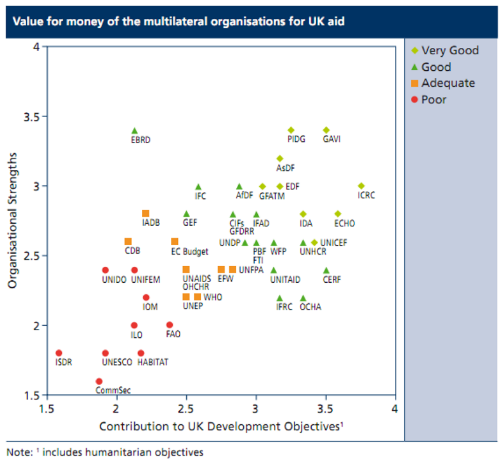


Figure 2

Real-World Impact of the MAR: Importantly, the results impact UK spending allocations. Partly based on the MAR, the UK government has announced funding increases to top performers (IDA, UNICEF, GAVI) while those at the very bottom (UN-HABITAT, ILO, UNIDO, UNISDR) are being zeroed out.[2]

Methodology for the U.S. MAR: Since no similar exercise exists for the United States, CGD replicated a MAR-like exercise for the 26 multilateral agencies that receive U.S. government funds (minimum $5 million, FY2009). Following the DFID model, we rank each multilateral agency on "alignment with U.S. development objectives" and "organizational strengths."

- *Alignment with U.S. objectives.* As a proxy for U.S. development objectives we use the four goals articulated by the 2010 Presidential Policy Directive on Global Development: (1) Foster sustainable, broad-based economic growth; (2) Focus on governance and public-sector capacity

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[1] DFID, "Multilateral Aid Review," March 2011, p. 3.
http://www.dfid.gov.uk/Documents/publications1/mar/multilateral_aid_review.pdf
[2] FAO, UNESCO, the Commonwealth Secretariat, and the IOM were put on a probationary watch list. See DFID, "Taking Forward the Findings of the UK Multilateral Aid Review," March 2011.
http://www.dfid.gov.uk/Documents/publications1/mar/Taking-forward.pdf

building: (3) Invest in innovative policies and research into new vaccines, interventions and technologies; and (4) Focus on post-conflict and fragile states, including humanitarian post-crisis response. Following the British model (which combined DFID staff judgments with expert views from outside development think tanks), we based this index on a poll of CGD senior staff. The 13 respondents, including specialists with expertise in a broad range of U.S. foreign policy and development issues, scored each organization on their contributions to each of the four objectives from 1 ("very weak") to 4 ("very strong"). A simple average of the four scores for each of organization was calculated as the measure of "alignment with U.S. development objectives."[3]

- *Organizational Strengths*. Two measures of organizational strength were used:
    - UK scores from the MAR. Because this indicator is not U.S. specific, in Figure 1 we apply the DFID measure of organizational strength, compiled from assessments by DFID staff along five criteria.
    - QuODA Scores from CGD. The Quality of Official Development Assistance (QuODA) index assesses aid quality using 30 quantitative indicators in four dimensions.[4] In Figure 3, we use an average QuODA score, however this only allows a measure for 12 institutions.

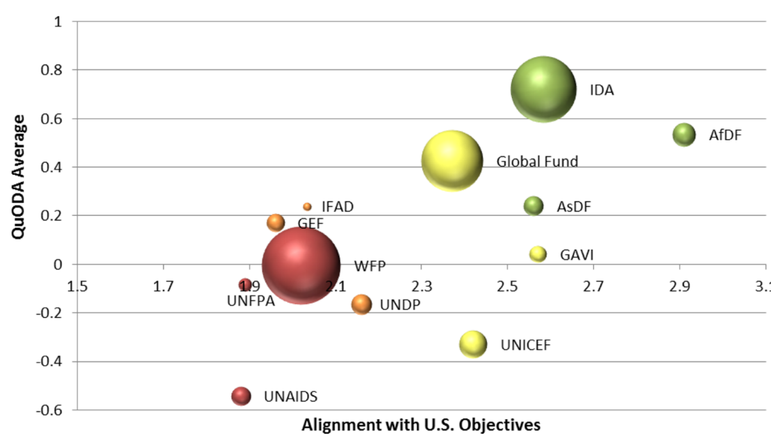

Figure 3

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[3] The poll included an option of "don't know" and average scores include only scores of those who responded to at least three out of the four components for any given organization. Likewise, only organizations with a minimum level of responses were included, which led to the exclusion of the CIFs, the Central Emergency Relief Fund, and the IFRC.
[4] Nancy Birdsall and Homi Kharas, "Quality of Official Development Assistance," 2010. http://cgdev.org/quoda.

Senator KAINE. Thank you, Dr. Moss.
Mr. Murphy, welcome.

STATEMENT OF JOHN MURPHY, VICE PRESIDENT OF INTERNATIONAL AFFAIRS, UNITED STATES CHAMBER OF COMMERCE, WASHINGTON, DC

Mr. MURPHY. Thank you, Mr. Chairman, Senator Barrasso. I am pleased to speak today about the importance of funding a robust international affairs budget from the perspective of the U.S. business community. No priority facing our Nation today is more important than putting Americans back to work. As a nation, the biggest policy challenge we face is to create the 20 million jobs needed in this decade to replace the jobs lost in the recent recession and to meet the needs of a growing work force.

World trade must play a central role in reaching this job creation goal. After all, outside our borders are markets that represent 80 percent of the world's purchasing power, 92 percent of its economic growth, and 95 percent of its consumers.

Many Americans are already seizing these opportunities. One in three manufacturing jobs depends on exports. One in three acres on farms is planted for exports. And nearly 300,000 small- and medium-size businesses export today, accounting for more than a third of all U.S. merchandise exports.

Now, in this context the international affairs budget plays a vital enabling role for U.S. companies to tap foreign markets to create jobs and prosperity at home. The indispensable role this investment makes in national security and advancing our humanitarian values is something you both alluded to.

The business case for the international affairs budget is straightforward. It supports and protects U.S. diplomats who are on the front lines of American commercial diplomacy and export promotion efforts. It provides technical advice so developing countries can adopt more open and accountable political, legal, and economic systems and become better markets for U.S. companies in the bargain. This is more important than ever before because developing countries last year purchased more than half of all U.S. exports for the first time.

However, U.S. companies risk falling behind if the Federal Government fails to maintain a significant diplomatic and economic presence overseas or to provide American businesses with the essential tools to level the playing field. Competition is fierce in fast-growing markets in Southeast Asia, Latin America, Africa, and firms based in other parts of the world are actively working to boost their own market share, and this competition is only becoming more intense.

Some studies estimate that China's Government-supported economic development programs in Latin America, Asia, and Africa grew twenty-five-fold in the 5-year period from 2002 to 2007. In its first official report on foreign aid policy, the Chinese Government indicated that its budgeted foreign aid grew by nearly 30 percent per year between 2004 and 2009. While the United States and most developed countries have been moving away from tied aid, China's development assistance is often contingent on requirements to purchase products or services from Chinese companies. For example, the Chinese Government has offered loans to African governments on the condition that they buy telecommunications equipment only from Chinese companies.

In this challenging environment, unilateral disarmament is not the answer. So we need the international affairs budget. Let me give some examples. We see this with the Export-Import Bank—Ex-Im—which provides vital financial guarantees to help American businesses export. Last year Ex-Im supported export sales that sustained nearly 255,000 American jobs at 3,400 companies. Ex-Im is especially important to small- and medium-sized businesses, which account for more than 85 percent of its transactions.

Now, without Ex-Im U.S. companies would be unable to sell their goods abroad in many circumstances. Other countries provide their own exporters with an estimated $1 trillion in export finance through their own official export credit agencies, often on terms more generous than Ex-Im can provide. So without Ex-Im American companies would be left at a sharp disadvantage relative to the size of their economies. European governments provide three times as much official trade finance to their exporters as Ex-Im does, and China and India provide four times as much. Further, far from being a subsidy for corporations, Ex-Im charges fees for its services that generated more than a billion dollars net in revenue for the U.S. Treasury last year alone.

Similarly, OPIC, the Overseas Private Investment Corporation, provides U.S. investors with financing, guarantees, and political risk insurance when private sector financing is unavailable. Often this is in support of key foreign policy objectives. Now, partnering with the private sector is a hallmark of OPIC's work and historically every dollar of OPIC support has leveraged about $2.70 in private sector investment.

Like Ex-Im, companies that use OPIC's services pay interest, fees, and premiums for those services, and this allows OPIC to operate on a self-sustaining basis at no cost to the U.S. taxpayer. Last year OPIC earned a net profit of $272 million.

Now, a third example is the U.S. Trade and Development Agency. USTDA works to increase U.S. exports by connecting American companies with targeted development projects in emerging companies. Last year it identified $2.2 billion in U.S. exports to emerging markets that were directly attributable to its programs. From Thai training grants to strategically timed reverse trade missions, USTDA helps U.S. firms compete on an international playing field that is often skewed against them.

Programs supported by USAID, the MCC, and other multilateral development banks offer many other examples, which I will leave aside given the short time. Just consider quickly the following examples of collaboration between U.S. companies large and small and programs supported by the U.S. international affairs budget. In 2011 Wal-Mart partnered with USAID on a regional agreement in Central America named Tierra Fertil, "Fertile Soil," to support farmers in that region, and the initiative helped farmers diversify their crops and improve their quality, all while meeting real market needs.

Miss Jenny's Pickles, a small North Carolina business and proud U.S. Chamber member, is run by entrepreneurs Jenny Fulton and Ashlee Furr. In 2011 they began exporting their pickles to China thanks to export finance provided by Ex-Im and their products are now available in more than 800 stores across the United States in addition to China, and they are now eyeing Canada and Germany as potential export markets.

In conclusion, U.S. companies and the workers they employ need the support of these agencies, which are funded by the U.S. international affairs budget. They need them to be competitive. This partnership requires sustained sufficient funding. The international affairs budget strengthens our economy by shoring up these export markets, promoting development and good governance, and reaffirming U.S. leadership. At stake is America's standing in the world, our ability to exert positive influence, our reputation and our brand, and our best hopes of reducing unemployment.

The U.S. Chamber looks forward to working with members of the subcommittee on this and other issues.

Thank you very much.

[The prepared statement of Mr. Murphy follows:]

PREPARED STATEMENT OF JOHN MURPHY

Thank you Chairman Kaine, Senator Barrasso, and distinguished members of the subcommittee. My name is John Murphy, and I am Vice President for International Affairs at the U.S. Chamber of Commerce. The U.S. Chamber of Commerce is the world's largest business federation, representing the interests of more than 3 million businesses of all sizes, sectors, and regions, as well as State and local chambers and industry associations. I am pleased to speak today about the importance of funding a robust International Affairs Budget from the perspective of the U.S. business community.

No priority facing our Nation is more important than putting Americans back to work. More than 7 percent of the U.S. workforce is unemployed—a figure that soars to nearly 15 percent when those who have stopped looking for jobs and the millions of part-time workers who want to work full time are included. As a nation, the biggest policy challenge we face is to create the 20 million jobs needed in this decade to replace the jobs lost in the recent recession and to meet the needs of America's growing workforce.

World trade must play a central role in reaching this job-creation goal. After all, outside our borders are markets that represent 80 percent of the world's purchasing power, 92 percent of its economic growth, and 95 percent of its consumers. The resulting opportunities are immense, and many Americans are already seizing them: One in three manufacturing jobs depends on exports, and one in three acres on American farms is planted for hungry consumers overseas. Nearly 300,000 small and medium-sized businesses export, accounting for more than one-third of all merchandise exports.

In this context, the International Affairs Budget plays a vital enabling role for U.S. companies to tap foreign markets and create jobs and prosperity at home. Although it represents a little more than 1 percent of all federal spending, the International Affairs Budget is critical to creating jobs, saving lives, and protecting our national security.

As former Defense Secretary Robert Gates has stated, "America's civilian institutions of diplomacy and development have been chronically undermanned and underfunded for far too long . . . relative to the responsibilities and challenges our Nation has around the world." America must utilize all of the tools and resources it has to strengthen U.S. national interests and ensure our global competitiveness.

THE BUSINESS CASE

The business case for the International Affairs Budget is straightforward. It supports and protects U.S. diplomats, who are on the front lines of American commercial diplomacy and export promotion efforts. Programs funded by the International Affairs Budget directly promote sustainable economic reforms in developing countries that ultimately benefit American companies and workers.

U.S. foreign assistance programs provide technical advice and build stronger political, legal, and economic policy regimes in developing countries that help these nations become reliable trading partners. This is more clearly the case than ever before, as developing countries last year purchased more than half of all U.S. exports for the first time in years.

In this vein, the U.S. Agency for International Development (USAID) supports programs that help countries improve their business regulatory environments and embrace international commerce. These programs can move developing countries away from rigid government-controlled economies toward competition and market orientation, which in turn creates new opportunities for American companies and workers. Similarly, the Millennium Challenge Corporation (MCC) provides grants to countries for economic reforms but only if they demonstrate a commitment to democratic governance and economic freedom.

The International Affairs Budget has also provided modest investments over the years in the multilateral development banks (MDBs), including the World Bank, the African Development Bank, the Asian Development Bank, the Inter-American Development Bank, and the European Bank for Reconstruction and Development. In addition to an array of educational and health programs, the MDBs support programs that strengthen governance institutions and build infrastructure that facilitates U.S. investment and exports.

Over the years, the World Bank and the regional banks have funded successful programs to get children into school; build infrastructure to allow entrepreneurs and farmers to transport their goods to market; strengthen judiciaries; support private sector job creation; and combat measles, diarrhea, malaria, and other preventable illnesses. These efforts helped developing countries add two decades to life expectancy, cut the mortality rate of children under age 5 by 50 percent, and reduce by half the proportion of people living in poverty.

American businesses understand these institutions' vital role in fostering prosperity in developing nations. MDB loans and expertise help developing countries become reliable trading partners and open up their markets for U.S. goods. These loans come with conditions, such as strengthening transparency, promoting good governance, and improving the investment climate.

The U.S. investment in the MDBs has a huge multiplier effect. For instance, the United States has invested $2 billion in the World Bank's capital base since its creation in 1944. The U.S. funding has leveraged contributions from other donors, allowing the World Bank to provide nearly $500 billion in financing and invaluable expertise to developing countries.

BOOSTING TRADE AND INVESTMENT

Other agencies supported by the International Affairs Budget also play a direct role in supporting economic growth and job creation at home. For example, the Export-Import Bank of the United States (Ex-Im) provides vital financial guarantees to help American businesses export. Last year, Ex-Im supported export sales that sustained nearly 255,000 American jobs at 3,400 companies.

Ex-Im is especially important to small and medium-sized businesses, which account for more than 85 percent of Ex-Im's transactions. Tens of thousands of smaller companies that supply goods and services to large exporters also benefit from Ex-Im's activities. It's worth noting that Ex-Im has tripled the amount of exports to sub-Saharan Africa it supports since 2009.

Without Ex-Im, many U.S. companies would be unable to sell their goods abroad. Because other countries provide their own exporters with an estimated $1 trillion in export finance through their own official export credit agencies—often on terms more generous than Ex-Im can provide—American companies would be left at a sharp disadvantage without Ex-Im. Relative to the size of their economies, European governments provide three times as much official trade finance to their exporters as Ex-Im does. China and India provide four times as much.

Further, American taxpayers can cheer the fact that Ex-Im regularly helps reduce the Federal deficit by hundreds of millions of dollars. Far from being a subsidy for corporations, Ex-Im charges fees for its services that generated more than $1 billion in revenue for the U.S. Treasury last year alone. This is a significant, yet often overlooked, attribute of Ex-Im.

Finally, Ex-Im loans expose the U.S. taxpayer to little risk because they are backed by the collateral of the goods being exported. Borrowers have defaulted on less than 2 percent of all loans backed by Ex-Im over the past eight decades, a default rate lower than commercial banks.

The Overseas Private Investment Corporation (OPIC), the U.S. Government's development finance institution, is also a critical agency. It mobilizes American private capital to address major development challenges in emerging markets, often in support of key foreign policy objectives. It helps U.S. businesses of all sizes take advantage of lucrative growth markets, and it turns a profit year after year.

OPIC provides U.S. investors with financing, guarantees, and political risk insurance when private sector funding is unavailable. OPIC's activities are perhaps most notable in Africa: OPIC in 2012 committed $907 million to projects in sub-Saharan Africa, helping to create jobs, raise living standards, and stimulate economic growth opportunities in the U.S. and abroad.

Partnering with the private sector is the hallmark of OPIC's work. Historically, every dollar of OPIC support has leveraged about $2.70 in private sector investment. Since 1971, OPIC has supported more than $200 billion of investment which, in turn, has generated about $75 billion in U.S. exports and supported more than 275,000 American jobs.

OPIC services are not free. Companies that use these services pay interest, fees, and premiums for the services, in addition to repayment of principal amounts on loans. This allows OPIC, like Ex-Im, to operate on a self-sustaining basis at no cost to the U.S. taxpayer. Last year, OPIC earned a net profit of $272 million, and the agency has helped reduce the Federal budget deficit for 35 consecutive years.

OPIC's authorization has been extended 10 times via a succession of appropriations bills and continuing resolutions. For a period of time in 2008, that authorization lapsed completely, and the agency was unable to process any transactions. This has made the investment community wary. The Chamber urges Congress to provide OPIC with permanent authorization. Doing so will provide assurance to the business community of OPIC's long-term involvement in their projects, most of which carry tenors of 10 years or more.

Another important agency supported by the International Affairs Budget is the U.S. Trade and Development Agency (USTDA). USTDA works to increase U.S. exports and help companies expand overseas by connecting American companies with targeted development projects in emerging economies. Last year, USTDA identified $2.2 billion in U.S. exports to emerging markets that were directly attributable to its programs. For every $1 programmed by USTDA, the Agency identified over $63 in exports of U.S.-produced goods and services.

USTDA's programs directly support U.S. businesses facing competition from companies subsidized by foreign governments. From tied training grants to strategically timed reverse trade missions, USTDA helps U.S. firms compete on an international playing field that is often skewed against them.

USTDA responds directly to the needs expressed by the U.S. business community. To better position U.S. firms in the international arena and invest in projects that will most likely provide the highest return, USTDA has reprogrammed its funds toward priority sectors including energy, transportation, and information and communications technology. Over 90 percent of contracts awarded by USTDA are performed by small businesses. Once U.S. small businesses are introduced to overseas export opportunities, many go on to succeed in securing new contracts in foreign countries.

PUBLIC—PRIVATE COLLABORATION

Consider the following examples of collaboration between the private sector and programs supported by the U.S. International Affairs Budget:

- PepsiCo, USAID, and the United Nations World Food Programme in 2011 partnered to improve yields, production, and the availability of healthy food in East Africa. The program—dubbed Enterprise EthioPEA—uses chickpea production to address famine and malnourishment in the Horn of Africa and stimulate economic development in Ethiopia.
- In 2011, Wal-Mart partnered with USAID on a regional agreement named Tierra Fértil (Fertile Soil) to support farmers in Costa Rica, Nicaragua, Honduras, Guatemala, and El Salvador. The initiative helped farmers diversify their crops and improve their quality—all while meeting real market needs.
- Working with the Inter-American Development Bank (IDB), The Coca-Cola Company has rolled out a program to improve access to clean water in partnership with American entrepreneur Dean Kamen (President of DEKA R&D and inventor of the Segway scooter) and the NGO Africare. This collaboration focused on Kamen's new water purification system, but the partnership with the IDB is vital to bringing this technology to communities in need in rural parts of Latin America (and Africa through Africare).
- Miss Jenny's Pickles, a small North Carolina business run by entrepreneurs Jenny Fulton and Ashlee Furr, in 2011 began exporting their pickles to China with export finance provided by Ex-Im. Their products are now available in more than 800 stores across the United States, and Miss Jenny's Pickles is now eyeing Canada, Hong Kong, and Germany as potential export markets.

A COMPETITIVE WORLD

The global economy provides many avenues to create American jobs and spur economic growth if the United States builds the necessary foundation to ensure American companies can be competitive. For American businesses and workers to seize these opportunities, we must use the full range of available tools to achieve success in these demanding environments.

U.S. companies risk falling behind if the Federal Government fails to maintain a significant diplomatic/economic presence overseas or provide American businesses with tools that can help level the playing field. Competition is fierce in fast-growing markets such as those in Southeast Asia, Latin America, and sub-Saharan Africa, and firms based in other regions are actively working to get their own market share.

This competition will only become more intense. Some studies estimate that China's Government-supported economic development programs in Latin America, Asia, and Africa grew twenty-five-fold in the 5-year period from 2002 to 2007. Indeed, in its first official report on foreign aid policy, the Chinese Government indicated that its budgeted foreign aid grew by nearly 30 percent per year between 2004 and 2009.

While the United States and most industrial countries have been moving away from tied aid, China's development assistance is often tied to requirements to purchase products or services from Chinese companies. For example, the Chinese Government has offered loans to African governments on the condition that they buy telecommunications equipment only from Chinese companies.

In this challenging environment, unilateral disarmament is not the answer. U.S. companies and the workers they employ need the partnership of the agencies funded by the U.S. International Affairs Budget to be competitive. That partnership requires sufficient and sustained funding of these agencies.

Representing just over 1 percent of Federal spending, the International Affairs Budget is an investment that will strengthen our economy by shoring up vital export markets, promoting economic development and good governance, and reaffirming U.S. leadership. At stake is the standing of the United States as the world's leading power, our ability to exert positive influence around the world, our reputation and brand overseas, and our best hopes for escaping high unemployment. The U.S. Chamber of Commerce looks forward to working with the members of the subcommittee on this and other issues.

Senator KAINE. Thank you, Mr. Murphy.

Mr. Lane.

STATEMENT OF WILLIAM LANE, INTERNATIONAL GOVERNMENTAL AFFAIRS DIRECTOR, CATERPILLAR, AND CO–PRESIDENT, U.S. GLOBAL LEADERSHIP CAMPAIGN, WASHINGTON, DC

Mr. LANE. Thank you, Chairman Kaine, Senator Barrasso. I am extremely happy to be here today. I am Bill Lane, Caterpillar's director for government and corporate affairs. I am appearing today—but I am also appearing today in my capacity as copresident of the U.S. Global Leadership Coalition, an organization that brings together Republicans and Democrats, business and NGO leaders, veterans and retired military brass, and faith-based volunteers from across the country. What units our strange bedfellow coalition is the conviction that development and diplomacy programs are vital to America's economy, our national security, and our values.

I am proud to have worked for Caterpillar for the past 38 years. As one of America's most successful exporters, Caterpillar has long realized that our prosperity is directly linked to economic currents and trends that are occurring outside of our borders. Today trade supports more than 38 million jobs in the United States and the emerging markets of the developing world are growing at a much faster rate than in the developed world. Already, they are the destination of more than half of U.S. exports and, as I said before, growing at a much faster pace than what we are seeing in the traditional markets.

But success in this requires engagement, persistence, commitment, and at times support from the U.S. Government. I recall 30 years ago American business often said we believe in trade, not aid, in effect saying U.S. Government programs should focus on reducing trade barriers rather than fostering development. That may have been a great sound bite, but it did not fully reflect the reality of international commerce. While we believe in the importance of free trade more now than ever before, we also know that countries that have been devastated by AIDS or malaria do not grow, nor do countries that lack transparency or the rule of law.

While we must always make sure that U.S. Government resources are spent wisely, the reality of international commerce is that trade and aid are often mutually supportive. The State Department, USAID, the MCC, OPIC, just to name a few, are funded by just 1 percent of the U.S. budget. At Caterpillar we have found that this teamwork approach—working with the government—bears results. Teamwork has been demonstrated through private-public partnerships where one can leverage government funds with the creativity, innovation, and core business resources of the private sector.

For example, last year Coca-Cola, the largest employer in Africa, committed millions of dollars on the continent as part of a new partnership with USAID and the Peace Corps to expand sustainable access to clean water. I must say, as part of my work on the HELP Commission, of all the brands I saw in this part of the world, the Peace Corps has one of the strongest brands I have seen anywhere and it really does reflect well on our values and our priorities.

At Caterpillar we are working closely with the global communities to build infrastructure and the International Youth Foundation to train young people in the developing world.

For me, the best example that illustrates the importance of the international budget is Colombia. In the late 1990s Colombia was on the verge of being a narcoterrorist state. With the leadership of President Clinton and Speaker Hastert, the United States and Colombia began a multifaceted partnership called Plan Colombia. It was a sustained program that included security and development assistance to tackle narcotics-funded insurgency.

The bottom line is it worked. Thanks to the substantial improvements in the equipping, training, and professionalism of the Colombian security forces, the drug lords and the associated guerrilla groups effectively lost control of the countryside. At the same time, United States development assistance helped Colombians build infrastructure, provide education and medical care, and put in place judges and police who respected the rule of law and human rights. USAID assisted rural farmers in developing alternative crops to the coca plant, which has helped lead to a sharp decline in the smuggling of Colombian narcotics into the United States.

During this same time, United States trade with Colombia tripled, reaching over $14 billion in 2011. The United States is now Colombia's largest trading partner and the free trade agreement that went into force last year is expected to add billions more in annual commerce between our two countries.

For the folks living in Peoria, IL, Plan Colombia and the reforms embraced by the free trade agreement meant that Caterpillar now has a destination that consistently ranks as one of its top 10 export markets. Perhaps more remarkably, Americans also have proof that in Washington Republicans and Democrats can work together over a sustained period of time and get results.

Mr. Chairman, at Caterpillar we like to say that the road to development literally begins with the road. It should go without saying that we know how to produce equipment needed to build those roads. But it is the development and diplomacy programs funded by 1 percent of the U.S. budget that in the broadest sense provides the foundation that allows development to take place.

Like you, we are concerned about getting the most results from each Federal dollar spent. We also know how important it is that U.S. global leadership and competitiveness be enhanced and not undermined. Yet international affairs programs have been cut by nearly 20 percent over the past 3 years. This is not in America's best interests. So on behalf of the hundreds of companies that are members of the U.S. Global Leadership Coalition, we strongly encourage the Senate to oppose further cuts and to invest in a strong and effective international affairs budget.

Thank you.

[The prepared statement of Mr. Lane follows:]

PREPARED STATEMENT WILLIAM LANE

Chairman Kaine, Ranking Member Barrasso, and members of the subcommittee, thank you for the opportunity to discuss the International Affairs Budget. I am appearing today in my capacity as copresident of the U.S. Global Leadership Coalition (USGLC), an organization that brings together Republicans and Democrats, national security and foreign policy experts, and business, faith-based and community leaders all across the country. What unites this "coalition of strange bedfellows"—including a "Who's Who" of America's leading corporations—is the conviction that the diplomacy and development programs funded in the International Affairs Budget are vitally important for America's economic future, national security, and global influence.

As director of Caterpillar's Washington, DC, office, I am cognizant of the difficult budget choices the Congress has to make, especially in this onerous fiscal environment. Every government agency deserves scrutiny of its costs and effectiveness. Yet, from a business person's perspective, the International Affairs Budget—which represents a little more than 1 percent of the overall Federal spending—represents a smart investment in American global leadership that fuels economic growth and job creation at home.

EXPORTS, AMERICAN JOBS, AND EMERGING MARKETS

For major manufacturers like Caterpillar, it has been clear for some time that America's prosperity is tightly bound to economic currents and trends emerging beyond our borders. Overseas markets represent 95 percent of the world's consumers and 80 percent of its purchasing power. Trade already supports one in three manufacturing jobs, and one-third of American agriculture is destined for consumers overseas.

Overall, trade supports more than 38 million jobs in the United States, and export-related jobs pay, on average, 15 percent more than the average wage. Studies indicate that every 10-percent increase in exports is associated with a 7-percent increase in employment.

Half of those exports today are to the developing world, and those markets will grow at a far faster pace than many of our more traditional trading partners. In sub-Saharan Africa, 17 countries have maintained rates of economic growth of 5 percent to 7 percent per year for the last decade and African economies are expected to nearly double in size to $2.6 trillion by 2020. According to Standard & Poors Latin America's economies grew by more than 3 percent last year—better than the U.S. and Europe—with countries like Peru and Chile growing in the 5–7 percent range.[1] These markets represent tremendous opportunities for American companies and businesses.

THE ROLE OF U.S. GOVERNMENT DEVELOPMENT AND DIPLOMACY

But we can't do it alone. Businesses succeed in overseas markets in conditions where there are stable governments, transparency, predictability, adequate financial infrastructure, free market economic policies that allow for competition, and rule of law. Those conditions are often lacking in many of today's emerging nations and require a coordinated approach that includes the development programs, diplomatic efforts, and trade promotion activities of the U.S. Government.

In the past some have called for a shift toward "trade, not aid"—arguing that U.S. Government programs should focus on promoting commerce rather than fostering development. Based on my experience in this area, which includes service on the 2007 HELP Commission, the real answer is "trade and aid," each of which are mutually supporting.

In these countries the road to development—and the investment, commerce, and trade that follow—may begin (literally) with a road. Here I am referring to the basic infrastructure that must be improved and, in some cases, created from scratch using machinery and expertise often supplied by companies like Caterpillar. In fact, more than half of Caterpillar's exports now go to non-OECD countries, primarily in the developing world.

In all, effective development programs funded in the U.S. International Affairs Budget spur economic reform, advance the rule of law, improve governance, and raise standards of living—building more peaceful, prosperous societies that desire—and can afford—American products and services.

For example, the Millennium Challenge Corporation (MCC) provides economic assistance to developing nations based on a competitive selection process in which the countries must show a strong commitment to ruling justly, investing in their citizens, and economic freedom. The U.S. Agency for International Development (USAID) supports programs that help countries improve their business regulatory environments and open their economies to foreign competition.

The International Affairs Budget also supports the multilateral development banks (MDBs), including the World Bank, the African Development Bank, the Asian Development Bank, the Inter-American Development Bank, and the European Bank for Reconstruction and Development. MDB loans come with conditions, such as strengthening transparency, promoting good governance, and improving the investment climate, that open developing markets to U.S. goods and transform them into more reliable trading partners.

COLOMBIA CASE STUDY

The story of Colombia, which has endured a narcotics-funded insurgency for decades, provides an excellent example of "smart power" in action to advance American interests and prosperity.

In 1999 the U.S. and Colombia began a multifaceted partnership called "Plan Colombia" involving security, developmental, and governance assistance.

Back then, the country was engulfed in drug-related violence and lawlessness. In fact, about 11,000 Colombian towns had no government presence at all. Since then, substantial improvements in the equipping, training, and professionalism of the Colombian security forces led to a dramatic decrease in violence and the drug lords and their associated guerrilla groups effectively lost control of the countryside they had dominated for so long.

At the same time, U.S. governance and development assistance helped Colombians build infrastructure, medical care, education, and competent judges and police who respected the rule of law and human rights. USAID assisted rural farmers in developing alternative crops to the coca plant, and with the help of the Colombian Government, we have seen a sharp decline in the smuggling of Colombian narcotics into the United States.

Since Plan Colombia began the country's GDP has averaged close to 4.5 percent growth and now ranks as the 4th-largest economy in Latin America. U.S. trade with Colombia has tripled since 2000, reaching over $14 billion in 2011. The U.S. is now Colombia's largest trading partner and our exports include machinery, oil, agricultural products, organic chemicals, and plastics. The free trade agreement that went into force last year is expected to add billions more to annual commerce between our two countries.

Colombia is one of the top 10 export markets for Caterpillar, and their booming mining industry presents the potential for still further growth. The more trucks and tractors we sell overseas, the more jobs are created in places like Peoria where those vehicles are manufactured.

These kinds of results are not limited to Colombia. In Vietnam, a trade-acceleration program funded by the USAID led to the revision or enactment of more than 100 laws and regulations over the course of a decade. The USAID program cost roughly $1 million, and since 2001 U.S. exports to Vietnam increased more than 700 percent.

PUBLIC-PRIVATE PARTNERSHIPS

In spite of all the progress made in recent years, American good will, innovation, and resources are still needed to address the world's most pressing humanitarian and developmental problems. Consider that millions of children die prematurely every year from preventable diseases, tens of millions of children are not attending school, and more than a billion people are without clean water or basic sanitation. These afflictions are holding back entire regions of the world—the regions with the most quickly growing populations—from being secure, productive participants in the global economy.

As Bill Gates has said, "Investing in the world's poorest people is the smartest way our government spends money."

One of the more promising developments in recent years has been the increasing use of private-public partnerships to provide foreign assistance in more effective and creative ways.

In 1969, 70 percent of financial flows to developing countries came in the form of official development assistance and the remaining 30 percent from private sources. Today, those ratios have more than reversed, with over 80 percent of financial flows coming from private sources.

The U.S. Government uses these partnerships to get the maximum impact of scarce public funds by leveraging the creativity, innovation, and core business resources of the private sector to promote economic growth and opportunity.

For example, last year Coca-Cola—the largest employer in Africa—has committed several million dollars on the continent as part of a new partnership with USAID and the Peace Corps to expand sustainable access to clean water.[2]

In Central America Wal-Mart has partnered with USAID to help farmers in Costa Rica, Nicaragua, Honduras, Guatemala, and El Salvador in diversifying their crops to meet real market needs.

In these and many other cases, a modest investment of public funds in partnership with the private sector can substantially improve standards of living in the developing world, all of which leads to more promising trade and investment for American companies doing business in these countries.

CONCLUSION

In a ferociously competitive international business climate, the U.S. Government's International Affairs Budget is one of the most cost-effective instruments we have to provide a vital link between America's businesses and workers and some of the fastest-growing overseas markets. In this environment the U.S. cannot unilaterally disarm, leaving our business at a distinct competitive disadvantage.

Programs such as the Overseas Private Investment Corporation, the Export-Import Bank, and the U.S. Trade & Development Agency—all funded by the International Affairs Budget—are essential to maintaining a level playing field for our companies doing business around the world, boosting U.S. exports overseas and creating more American jobs at home.

These efforts and other forms of international engagement require adequately funded and staffed U.S. embassies, targeted and accountable governance, development, and security assistance programs, and effective export credit and trade promotion agencies—capabilities threatened by deep cuts to the International Affairs Budget. Yet, these programs have in fact been cut nearly 20 percent in the past 3 years.

Too much is at stake to diminish U.S. global leadership and competitiveness in a world that is only growing more interconnected and interdependent—as well as more turbulent—virtually every day.

On behalf of the hundreds of companies that are members of the U.S. Global Leadership Campaign, we strongly encourage the members of the subcommittee to support the investments contained in the International Affairs Budget—for a more secure and prosperous America, for a safer and better world.

End Notes

[1] http://www.standardandpoors.com/ratings/articles/en/us/?articleType=HTML&assetID=1245350590911.

[2] http://www.peacecorps.gov/resources/media/press/2129/.

Senator KAINE. Thank you to all the witnesses.

We will begin two rounds of questions, 7 minutes, and I will just begin with one picking up on Mr. Lane's—actually, a combination question. Dr. Moss, you talked about the fragmented nature of the number of agencies within the Federal space that work on the international development area. In looking at that testimony and the chart that you provided, it was the kind of thing that makes you think, boy, this is a complicated system.

Mr. Lane, you talk about Colombia and the obvious success in Colombia, and that was a sort of a full-government approach from the United States. It involved military, it involved other security agencies like DEA, it involved trade, it involved Congress taking steps with respect to the free trade agreement, USAID. A lot of different parts of the U.S. Government played a role in this comprehensive plan and it has been a success story.

So we all agree that the budget is important, needs to be spent the right way. We do not want to be overly fragmented. How do we wrestle with this question of better organization to get more bang for the buck without sacrificing the kind of comprehensive approach that in Colombia's case has seemed to have been successful?

Dr. MOSS. When we think about our relations with partners in difficult states overseas, we are going to have complex interests. We are never going to have a single interest. Agencies that we can bring to bear have different objectives. DOD and State, very often they are complementary, what they are looking at, but their objectives are very often different. The same with USAID.

To just give you one example, DOD is obviously going to be interested most in security and looking at very short-term security concerns. USAID, perhaps they are going to take a longer term development perspective. Maybe they are thinking about long-term transformation, of trying to build a capable partner over 10 or 20 years. The State Department is trying to ensure that we have solid partnerships with as many friends around the world at the same time. So AID might want to focus our resources in places where they think they can be transformative over the long term, so they would want to perhaps close missions that are too small or are not working, whereas State would see our AID missions as part of our international diplomacy, part of making friends around the world. Their preference would be to spread it around the world. And DOD, of course, wants to go where the action is.

So you have the triple D's of defense, diplomacy, and development. Sometimes they come together, but very often they do not. Perhaps in the case of Colombia these things came together and they worked quite well, but those are more often than not the exception rather than the rule. So I think we should build the system in a way that can manage those tensions and make those tradeoffs, rather than assuming we are all one big happy family, we all have the same objectives, and we are all moving in the same direction. Those were the exceptions.

Senator KAINE. Mr. Lane.

Mr. LANE. Yes, Mr. Chairman. Back in 2006 to 2008 I was on the HELP Commission, which looked at the effectiveness of foreign aid. I have to say we all came back with various conclusions, but some were very revealing. One was where we have a unified mission it really works. In Colombia, when you went and visited the U.S. Embassy in Bogota there was a focus. It was a very complex mission, but I have to tell you people knew what the objective was and everyone was working well together and working well with the Colombian Government.

You move over to Egypt, it was the exact opposite. It seemed to be a very bifurcated operation. You go to Honduras, where the focus was on infrastructure, ag development, here, too, results that were quantifiable and positive. So it really varied quite a bit.

As far as the reorganization that Dr. Moss talks about, there has to be some consolidation that takes place. What is realistic and what is not, given the purview of the State Department, is subject to debate. But where foreign assistance works, it works. In Africa, taking on the plague of AIDS, you went to small towns in northern Uganda which were coming back to life and it was because of the PEPFAR program. At the time, and this was in 2007, I found that President George Bush was more popular in northern Uganda than he was in Texas, and I think that is probably still true.

Senator KAINE. Good example.

Mr. Murphy, I want to drill down on something. You testified about the degree to which other nations provide more export assistance than we do. Was the stat that European nations generally about triple and India and China about four times the kinds of export assistance to their private sector? If you would elaborate on that a little bit?

Mr. MURPHY. Sure. I was referring in that case particularly to trade finance. Just about every country around the world has an official export credit agency. In fact, China has three or four of them. It has been very notable that there has been a huge increase in the resources that countries are making available to finance exports. The OECD has estimated there is $1 trillion of this trade finance sloshing around the global economy today. In the case of China, one estimate is that it provide four times as much as our little Ex-Im Bank is providing, and India similarly.

So what we find is that there are many circumstances where U.S. exporters are going head to head with competitors from other countries. Those other countries, they have secured the finance that they need to make the deal, often on very generous terms. And if the U.S. company does not have that same kind of backing, they are going to lose the bid.

There are other circumstances as well. I know a small medical device manufacturer in Maryland that has been making inroads in the Chinese market. They would be unable to make sales there if they did not have export finance from Ex-Im, from the official U.S. export credit agency. They would not qualify without that. So it is a fundamental reality that American companies often need this kind of support.

Senator KAINE. Hearing your testimony, the notion that we are bringing down trade barriers, which is generally something I strongly support, that is important. But if the financial assistance provided is wildly different among nations, that is a different kind of a trade barrier that takes a leveling playing field and makes it unlevel again.

Mr. MURPHY. Yes. I would just add that securing that level playing field is an important goal of this administration, as I understand it. There have been negotiations conducted in the OECD, for instance, on large aircraft, and those agreements have resulted in aircraft manufacturers in the United States and in Europe being obliged to pay much higher fees, such that the financing terms are now really on a par with commercial financing.

So that effort is ongoing. But we also see that, just sticking with aircraft for a moment, China is developing a huge domestic civil aircraft industry, and there is no sign that they are going to be committing in the near term to follow those same kinds of disciplines to keep the financing at a commercial level.

Senator KAINE. Senator Barrasso.

Senator BARRASSO. Thank you, Mr. Chairman.

Dr. Moss, you touched in your testimony the idea of U.S. Government implementing kind of a pay for performance contract in order for the U.S. taxpayer to only pick up the bill for actual achievements. You are hearing that discussion now with health care in the United States in terms of doctors taking care of patients. I wonder if you could just explain a little bit how this approach would work to foreign aid. I think you call it "cash on delivery."

Dr. MOSS. Yes, thank you. The traditional way that we measured projects was on inputs: How much money did we spend, how many things did we deliver? The next level was, which is still a leap in many areas, is let us measure outputs. We spent $10 million for school construction. Did those schools actually get built? How many teachers actually got trained? That would be a big leap forward if we were going to say, look, we will pay only for the number of teachers trained, only for the number of kilometers of road actually built, and we will come after and do that.

Our system does not handle that all that well because it is contingent finance. It might be multiyear. So certainly we should be thinking about flexibility to allow our budget system to handle these contingent financial obligations.

But the golden chalice here is not to go to outputs, but to go one step further to outcomes. Outcomes are the real results that we are looking at. What the cash on delivery model does is pays for outcomes. What do I mean by that? Let us say we want to support girls' education in Pakistan. What we would pay is not for—we would not say how much money are we going to spend on education. We would not even say how many schools are we going to build; teachers we are going to train. We are actually going to pay for educated girls in Pakistan, by perhaps through how many children have taken an additional test and what are those test results published.

Because what that would do is not only would we only be paying for what we hope to achieve, but there is no way sitting in Washington we are going to figure out how do we actually get girls educated in Pakistan. We would put the onus of that onto the authorities there to figure out: Is it building schools? Is it training teachers? Is it something else? Usually it is something else that we do not recognize, and cash on delivery puts that there and also is— in terms of taxpayer value, it guarantees you are only paying for things that you actually get.

The trick is going to be trying to make this fit within the U.S. budget system.

Senator BARRASSO. You had mentioned so many conflicting and competing policy objectives that sometimes you are not able to achieve any of them. It is clear that we have to streamline, focus our top priorities. When I think about assistance, what objectives should be left to others to handle? where should we work on our core competencies? Someone mentioned Tanzanian electricity. I had a chance to be there with Melinda Gates and see what the Gates Foundation is doing there in terms of agriculture work, in terms of disease prevention and treatment, early detection.

How do you see that playing out?

Dr. MOSS. I think it makes sense that there needs to be a lead agency on a particular issue. In the case of electricity in Tanzania, it is obvious that a lot of agencies would think that they could take the lead. Even DOD might think that they could do that well. But really OPIC is the logical agency. OPIC has the expertise and, more importantly, they have the business model that can crowd in private finance.

You do not want to do electricity in Tanzania with grant financing. You want it to be commercially viable. But you need that public policy nudge. OPIC would be the logical lead. But given that OPIC is a small agency, the State Department—this would not make my former colleagues happy—the State Department is very expansive and imperial in a sense within the interagency, everybody wants to take the lead. I am sure USAID thinks they could take the lead there, too.

But I do think in projects that should be largely commercial and business-driven, an agency like OPIC makes the most sense and we need to be able to give them the tools to achieve that.

Senator BARRASSO. Mr. Murphy, could I ask you about unlawful takings. We hear in our office from U.S. businesses concerned about property of businesses being expropriated by foreign governments. Do you believe U.S. assistance should continue to be provided to countries that do this sort of unlawful taking of U.S. business assets and properties?

Mr. MURPHY. I think there are a number of elements of U.S. foreign policy that can and should be brought into play to support U.S. companies when they are faced with expropriation. It is a matter of public statute, for instance, that the Generalized System of Preferences, and the preferential access to the U.S. market it provides, should not be given to a country that expropriates without compensation. I think in the area of foreign aid as well that is something that should be taken very much into consideration.

Senator BARRASSO. Mr. Lane, you talked about what we needed to do in terms of foreign aid. From your past experience, not just from Caterpillar but the commissions on which you served, and you talked about economic development, for national security, as well as consistent with our values. Then you mentioned the free trade agreement with Colombia. I had a chance to visit with President Santos in Cartagena in January 2011 and at that time he was saying: The United States has made this incredible investment to turn what could have been a narcostate around and they are saying, but we were delaying the free trade agreement for extended periods of time. And at what point do—sometimes we have invested wisely and then, through either a political position that we take or a military position, kind of undermine what another branch of our government is trying to do and accomplish with a country.

I just wondered if you could comment.

Mr. LANE. As a businessman, this is a source of frustration, because what we often find in any kind of negotiations of trade agreements or the implementation thereof, we often fall prey to the notion that the perfect is the enemy of the good, and at some point, you have just got to take a good deal. But often we wait and wait. In business we never wait and wait. Once it is a good deal, we take it and we start getting results.

It should not take longer to expand the Panama Canal than pass a free trade agreement with Panama, and that is nearly what happened. And by the way, for a couple of years we found that our exports to Panama—expanding the Panama Canal was a big deal for Caterpillar. Anything that moves that kind of dirt really gets our attention—we were at times exporting more to Panama with 3 million people than to Korea, which is one of the 10 largest economies.

So we wanted a sense of urgency. I think that is what we all need to do at some point. It is always seductive to hold out for the perfect, but at some point let us take a good deal and move on. It took way too long to get a lot of those FTAs through. I hope when we move forward with the agreements with Europe and the TPP and others we get to a point where we can actually get something to where it starts benefiting the U.S. economy and the global economy.

If I could just end with one observation, in my entire career at Caterpillar exports have been important. We have always taken export markets seriously. But the places where we used to export were developed countries, it was Europe, it was Japan, Canada, Australia, and oil-producing countries. Today exports are more important to Caterpillar than ever before. Well over half of what we produce we export. But over half of our exports now go to non-OECD countries: Colombia, Chile, Peru, South Africa. These are important markets that are driving employment in the United States, driving employment in Illinois. It is absolutely critical that we recognize at some point that, while it is not a perfect process, when we engage in countries and we help them develop it pays dividends down the road, and at times big dividends.

Senator BARRASSO. You know, Mr. Chairman, if you get a chance to look at the book “The Path Between the Seas: The Building of the Panama Canal,” it was the first time a President of the United States left the United States during his Presidency, and it was Teddy Roosevelt and he was there operating a steam shovel in this big picture. I do not know if it was a Caterpillar.

Mr. LANE. If I could do a commercial, it is a Bucyrus steam shovel, and we just acquired that fine company about 2 years ago and it is just an outstanding organization. We thought we made big products until we bought Bucyrus. The steam shovels they produce make some of the largest trucks in the world look small.

Senator BARRASSO. Thank you, Mr. Chairman.

Senator KAINE. Thank you, Senator Barrasso.

Senator Murphy.

Senator MURPHY. Thank you very much, Mr. Chairman, Ranking Member. Thank you for holding this hearing.

I am sorry to the panel that I was delayed in getting here. But I trust it has been a good discussion.

I wanted to maybe raise a general point and open it up to all three panelists. Having not heard your testimony, I am not exactly sure who to direct this to. As the Arab Spring turns into the Arab summer and fall and winter, and as we continue our withdrawal from Afghanistan and transition our role in Iraq, we are going to be in a position in which we are providing more and more economic aid and political support to very new democratic governments and, frankly, very imperfect democratic governments. Though we have been doing this for a long time, Pakistan probably the best example, we are likely going to be doing it more and more.

My Pakistani-American friends complain all the time that we are sending too much of our aid through that government and that if we really want to make a difference in Pakistan we should be putting the money directly into NGOs that are going to be able to spend that money more efficiently on the ground. It has always struck me that, if you want to simplify it, two reasons for the aid we give. One is to directly support the people of the country. Second is to bolster a government that we have an interest in continuing to operate in that nation.

So I guess I sort of pose this question because, whether it is in Pakistan or Afghanistan or Iraq or Libya or perhaps a year or two from now Syria, we are going to be constantly confronted with this decision about how we balance putting perhaps efficient money on the ground directly through service providers versus putting money through governments which may have large elements of corruption in them, but are vital to our national security interests, thus giving us a reason to support them.

Maybe I will run down the line and get your impressions. I am sure the answer will probably be a bit that we have to borrow from both columns, but I would love your thoughts.

Mr. LANE. Senator, allow me to address this from a strategic, not tactical perspective, because I think Dr. Moss is probably the best one from a tactical. Two months ago I was with former Secretary of Defense Gates and he made an observation that really stuck with me. He said: You know, when you think of the great revolutions, the American Revolution, the French Revolution, the Russian Revolution, the Chinese, with the exception of the American Revolution, the first 10 years went badly. We had a Whiskey Rebellion and that was about it. Everywhere else you had enormous excesses.

We are going to have to show patience with what is going on in the Middle East. That means we are going to have to stay engaged. We are going to have to constantly readjust our policies. But more than anything else, we have to have a sense of consistency and patience in order to get results. Whether we do this, whether we provide assistance directly or through NGOs or what have you, there are better experts on that. But more than anything else, we have to make sure that we do not get ourselves in a position where it is our way or no way. We have got to stay engaged to make sure that that part of the world starts benefiting from the benefits of the global economy and democracy.

Mr. MURPHY. Just a brief comment, but I think your point about working with the private sector and nongovernmental organizations makes a lot of sense. But it is my understanding that in the case of U.S. development assistance actually less than 7 percent is actually given to foreign governments per se. So I think that when I have had our interactions from the U.S. Chamber with USAID and when our member companies have had collaborative programs in different countries, I think that leadership at AID has gotten the message, and I think there is increasingly less and less of a reliance on simply transferring funds to foreign governments.

Senator MURPHY. Dr. Moss.

Dr. MOSS. This gets to the point about what are we actually trying to achieve. If you are trying to have an immediate humanitarian response and the government does not have capacity and you do not have confidence, you obviously have to use contractors or NGOs. But if the point, as it will be in most of the Arab Spring countries, is that we are trying to help build a capable state, going around the state actually undermines our long-term objective.

Actually, I do not think—it is a false choice to say we either have to go through NGOs or we have to cut blank checks to governments. Cutting blank checks to governments, that is not going to happen, nor should it happen. But there are some pretty innovative mechanisms, including what USAID has been doing in Afghanistan, which is probably the toughest environment to operate in, which is to have projects that are technically—they are called on budget. They are technically part of the ministry, but the money does not actually just go to the ministry and then we hope for the best. What you actually do is you reimburse on a basis of what they actually achieve.

So this is where I think what I mentioned earlier, that these innovative pay for performance contracts can balance the need for taxpayer—getting taxpayer value, while also trying to achieve the results we are trying to get, which is things like service delivery, but also building the capacity of our partner states. It does not help for the United States to come in and build a gold standard health care system, but when we leave there is nothing left behind. So we have to do that slow, hard work with partner governments that we are trying to bolster and we have to find mechanisms to link those to results. Otherwise we are going to be chasing our tails.

Senator MURPHY. In my remaining minute here let me make a non sequitur to a different issue. I was a member of the Foreign Affairs Committee in the House before I came here and in the only foreign operations budget that we debated there an amendment was attached that passed our committee that said simply this: "The United States could not provide any foreign aid to any nation that voted against the United States at the United Nations more than 50 percent of the time." That passed the Foreign Affairs Committee against my objection and many others.

I just want to ask a simple question: Do any of you think that that would be a good United States policy, to condition aid upon the particular country voting with the United States more than 50 percent of the time at the United Nations?

Mr. LANE. I think in this space you want as much flexibility as possible. And whenever you put constraints on that flexibility I think it hurts U.S. influence and our ability to get results. So I would always be very mindful of a proclamation that takes the United States out of the game.

Senator MURPHY. Mr. Moss.

Dr. MOSS. I would just add, if our sole objective was to win U.N. votes, then that makes perfect sense. But that is way down on the list of U.S. national security interests. It is irritating, but it is certainly not our sole objective.

Senator MURPHY. Thank you.

Thank you, Mr. Chairman.

Senator KAINE. Thank you, Senator Murphy.

We will have a second round of questions and do it as a 5-minute round.

The whole issue of metrics and accountability in measuring the success of your investment, Senator Barrasso raised that in his opening question. That is something that we should seek across every line item in the Federal budget and we need to seek it here. But it strikes me that as the model is changing so heavily, where less than 20 percent of the expenditures are governmental expenditures and 80 percent private, the question of coming up with the right metrics is a little bit challenging, or at least it is a different kind of a challenge than existed before.

Talk a little bit about metrics and accountability in this new reality, where the bulk of the dollars are coming from the private side?

Dr. MOSS. The way that a lot of metrics, they have been added on on top of all of the other, all of the other oversight, if we think about what we are trying to achieve, we think about how little leverage we actually have through our aid and development program, and that lots of other things are going on. We are trying to just impact events at the margins. These are going to be high-risk ventures. None of us here would want to risk our jobs on the success of Project X in rural Afghanistan, because that is going to be largely out of your hands.

It is also that we are trying to achieve difficult things, always under short time constraints, with lots of unknowns. So what do we want in that situation? We want people to have the flexibility to experiment, innovate, try to figure out what is working and what is not working, stop doing what is not working and plus up what is working.

But our system—this is what a former USAID administrator calls the counter-bureaucracy. The system has made it that everyone is so scared of having a bad project that they are very, very risk averse. So it is the specter of the auditor general hanging over every project that means that we are not getting creative projects and, frankly, if things start going badly, the incentives are not to cut things off, but to try to sweep things under the rug a little bit.

So what I think the answer is to be very, very clear on what the objectives of the project or effort will be, try to come up with some metrics that you think would indicate success or failure, and then we need to step back a little bit and judge it based on those metrics. I think of it more like venture capital. No venture capitalist would run a fund where their board was nitpicking every single project, because they would expect 80, 90 percent of those to fail. But what you want are those 10-percent winners that are going to really hit. That is how we need to think about our development assistance, as venture capital, and we want to judge that portfolio.

That is why I mentioned the MCC compacts, which have indicators, there is a 5-year period, and there are going to be some failures, but a couple of big successes are going to make the entire system work better, and that is the kind of approach that I think we should try to give to our development agencies.

Senator KAINE. Mr. Lane.

Mr. LANE. If I could, because this is a great question. When we were looking at the assistance programs around the world, initially when your minders take you out in the field they want to show you the best project they have ever seen. So you do that for a while and you say: Show us the worst. Show us the biggest waste of American tax dollars you have ever participated in. And there is always this pregnant pause and then they go: We will show you a U.N. project. It always worked out that way.

But what I think you have right now, I think Raj Shah, Administrator of USAID, has done a terrific job trying to bring in a matrix and get a results-oriented programs. But I have found that the best programs are where you do not measure success based on any one matrix; you do it based on the overall success of the country or the program.

If you were to look at Plan Colombia on a day-to-day basis or a month-to-month basis, there would be lots of frustrations. But you look at it from a 10-year perspective, it may have been the greatest turnaround story of our generation, and you know when it has occurred. People start talking about the program, like we need another Plan Colombia or another Marshall Plan or what have you. During the Marshall Plan there were a lot of problems with the Marshall Plan, which no one recalls any more.

MCC I think really has been a breakthrough policy. It is not being funded to the degree that it was envisioned initially, but when you see that the countries have a stake and they get to set the priorities and they are accountable, you are starting to see sort of a template, whether it is microfinance, whether it is ag development programs, whether it is infrastructure, whether it is better, more transparency in corporate governance. There seems to be a desire all over the world for essentially the same things.

So I think it is a plus. I think it is something we can really build upon. But I would be cautious about having any one measure that is going to define success or failure. It is whether you are moving the ball down the field, not at what point do you score a field goal.

Senator KAINE. Thank you.

Senator Barrasso.

Senator BARRASSO. Just following up on that, Mr. Chairman, because I agree with you in terms of the metrics and the accountability. As you just said, Mr. Lane, it has to do with the overall success of the country. You used the word "accountability"; accountable to whom? Is there a point where—I think, Mr. Moss, you wrote about this at one point. Is there a point where too much money raised from either other countries, others in the international community that want to be helpful, that too much aid detracts from accountability, say to the citizens of the country itself? If you could comment a little bit about that.

Dr. MOSS. Yes. Thank you for that question. Look, whenever anybody faces a windfall gain it changes the dynamics of everything. I went in with some neighbors on the $600 million lottery last week. We did not win. I think I could handle the pressures of winning the lottery, but I know that that would change all of my relationships. My son is here with me today. He is going to look at me differently. I think these relatives and old friends come out of the woodwork.

The pressures become enormous when you have money fall out of the sky for you. That is true for aid if you have an external donor that is supporting the majority of your funds or if you have some offshore natural resource gain and you are all of a sudden getting these dividends. You did not do anything to deserve that. You are just getting these windfall gains. That undermines, in the case of the lottery winner, it undermines your incentives to work like a normal participant in society. That works for countries as well.

What countries should be doing is building a vibrant local economy and having a fair and broad-based tax system. When you get a windfall gain from the outside, that undermines that system. So absolutely, having too much money sloshing around in the system, especially in weak states that do not have systems to spend money well, can make things much, much worse. I think we need to be very, very cautious about that.

Senator BARRASSO. Thanks.

Do either of you want to add anything?

[No response.]

Senator BARRASSO. Thank you, Mr. Chairman.

Senator KAINE. Two additional questions that I wanted to follow up on. Dr. Moss, in your opening testimony you really focused toward the end about the need to ramp up our efforts in development finance. You indicated that we are sort of falling behind. I would like you to elaborate a little bit on that. What are other nations doing in the development finance area? You talked about some of the assets that we have, but what could we do more and why is development finance now such a critical component of a successful development program?

Dr. MOSS. Thank you. Development finance is the future of development policy right now. We are still going to need traditional grants, but that is not where things are moving. China certainly has very large resources and they can bring all kinds of assets to bear. OPIC's competitors, one example, many of them can participate in projects through equity. OPIC is barred from participating in equity. They have to use a debt instrument. That puts them in a subordinate position. It makes it very difficult for some of the other partners to work with them. It is just a minor difference but in practical terms it can make a big deal.

Multiyear authorization. If the agency is always looking for—it has got one more year of lifeline, that makes it a little bit more risk averse. It makes it viewed as a less reliable partner to outsiders. If it had multiyear or, dare I say, permanent authorization, then that would make it a better partner on the outside and it would give it some more confidence to take some greater risks.

The reason I think that the time is right here is that, trying to reorganize the Federal Government, massive lift. The kinds of proposals that we are talking about with creating a U.S. Development Finance Corporation is basically just bolstering OPIC. OPIC is most of the way there and you could just take programs that are sprinkled across the interagency, put them under OPIC, and get a lot more bang for your buck, and I do not think that you would instigate all of the antibodies that you always get when you start talking about restructuring.

Senator KAINE. Other thoughts on the development finance side?

[No response.]

Senator KAINE. The second question is, from any of you, probably the most significant policy change that is part of the President's development budget, foreign aid budget, is the food aid policy change. In the status quo, food aid, largely U.S.-produced and U.S.-flag shipped food aid. The proposal is to mandate that at least 55 percent of food aid be sort of in that structure, but more of a focus on local food production. As I heard Dr. Shah describe it, sort of for two purposes: One, the development of an indigenous agricultural sector is one of the best guards against hunger; and second, you deal with some of the other—you get food to the ultimate recipients quicker.

Your thoughts on that policy proposal?

Dr. MOSS. I am a huge supporter of it. I think it could go further, but it is a good first step, and this is both from an efficiency standpoint and from value for the taxpayer. The program is designed to reduce hunger and try to prevent hunger in the future. That is clearly the way to go.

Senator KAINE. Additional thoughts, Mr. Murphy?

Mr. MURPHY. I would just add that, my real background is in trade policy and in Geneva at the World Trade Organization, where there are efforts under way in connection with having some kind of package of deliverables for a ministerial conference at the end of the year, the long-running agriculture negotiations are still a part of that. It is clear that it is a priority of many countries around the world to have some kind of limitations on food aid, because—and I cite that—this is a recognition that comes from countries that we need approaches that are more similar to what the President is approaching when it comes to delivering food aid. Otherwise the disruption in local markets could be significant. There is a broad, close to a consensus among WTO members on that.

Senator KAINE. Mr. Lane, any additional comment?

Mr. LANE. The only nuance I would add is—and this would be a subject for probably another hearing—but the restrictions, the MARAD restrictions dealing with Ex-Im Bank and all sorts of transportation, diminishes the value of the bank. It causes bureaucratic slow-ups and much higher costs, and it really does undercut the effectiveness or our ability to use the Ex-Im Bank in a lot of projects.

So at some point modernizing the way in which some of these agencies work, whether it deals with content requirements or using

U.S. shipbottoms, is something that could be really reformed and allow the agencies to be much more effective.

Senator KAINE. Great. Thank you.

Senator Coons has joined us. We had a 7-minute opening round and we will just let you roll.

Senator Coons.

Senator COONS. Thank you, Senator Kaine. Is this your maiden hearing here?

Senator KAINE. It is.

Senator COONS. I would like to congratulate Senator Kaine, who has joined us on the Foreign Relations Committee and who I very much look forward to working closely with on the issues before this subcommittee. I chair the Subcommittee on Africa and have in the last Congress and this Congress, and am particularly focused on how we can be more successful at our development goals, our security goals, and our diplomacy and values goals in Africa. I think, if I understand correctly, you have already had a vigorous conversation about some duplication and overreach in our assistance agencies, some challenges in terms of focus and efficiency, and the potentially very constructive role of the private sector in achieving these goals.

I was with, if I am not mistaken, Scott Eisner of the U.S. Chamber announcing the U.S.-South Africa Business Council just a few months ago and see very real potential for better alignment, better innovation, better strengthening of our complementary goals in development and in economic growth in Africa in particular.

Mr. Murphy, if I might just start with you. Would you share a little bit on how in the context of the continent of Africa the U.S. Government and the public sector side could do a better job of streamlining and focusing in order to promote an effective and meaningful partnership with the private sector, to make sure that we are taking advantage of the huge opportunities on the continent? Of course, Mr. Lane, Dr. Moss, I would encourage you to comment on that as well.

I recently came out with a report on the at least 10 agencies that have some hand in this: Ex-Im, OPIC, USTDA, and a raft of others. Any particular things you would urge us to do on this?

Mr. MURPHY. Well, Senator, first I just want to say thank you for your leadership, particularly with regard to Africa there. I know that my colleagues who are focused on that program have greatly appreciated that.

Clearly, the case that can be made here for a more strategic approach to U.S. foreign policy objectives and commercial objectives in Africa, to wed that together, is a powerful one. So you mentioned your efforts in this space and legislation that you have had a hand in that the Chamber has supported. What is needed is the kind of concerted approach that the United States had in the case of Colombia, and we had a very positive conversation about this.

What worked in Colombia was that an approach was established that was bipartisan, that was ongoing over many years, and that received adequate resources from across a variety of U.S. Government agencies, and on top of that as well a very important ingredient is that the Colombians, they owned the strategy. It evolved over time. It shifted away gradually from military toward—in that case—toward a more economic development front, and now of course we have just celebrated the first anniversary of the free trade agreement and U.S. exports were up 20 percent last year. So we are starting to see other kinds of benefits.

I think we in the private sector would really hold that up as kind of a model, that if there can be the staying power of a concerted strategy that cuts across different agencies, that engages the private sector, that makes trade and commercial engagement a key driver, and that receives adequate resources, those would be the top of our list.

Senator COONS. Well, thank you. You certainly raised an important underlying theme: A strategy that receives adequate resources and is sustained.

If I might, Mr. Lane, as you move to this topic, USGLC has done a wonderful job, I think, at building and sustaining bipartisan support—at a time when there is not bipartisan support for much of anything here—for what is at times difficult to fight for. The 150 Accounts are often the target of political rhetoric.

Help me understand what has made that successful for Caterpillar, for USGLC, and why that is important?

Mr. LANE. The U.S. Global Leadership Coalition is really sort of a unique operation. I have never been involved in something where NGOs and businesses work so well together, where actually Republicans and Democrats have sort of walled off the political rancor and moved forward in a way that has been positive.

I like to say, given my experience in Washington and at Caterpillar, that at the time I do not think I appreciated this, but on reflection—and I say this as a moderate Republican, if there is any left—I now believe Bill Clinton was America's greatest free trade President and George Bush 43 did more to help poor people around the world, especially in Africa, and neither one of them got one vote for those signature accomplishments.

It is our objective, "our" objective, in this case the business community: How can we make sure people get rewarded for doing the right thing? That is a daunting challenge. But in the realm of foreign assistance I think we are all doing a good job working well together in this space, and I really appreciate the leadership that you all are showing on this account.

As far as your question, in Africa one of the most memorable visuals I had was going into Kampala, and there was a sign produced, obviously, by someone in the U.S. Government and it had the logos of all the different agencies that were doing work. It was State Department and it was Commerce and USAID, none of which were memorable. The only two brands that really stand out, where people outside the United States really get it, one is the American flag and the other one is the Peace Corps. Wherever we would travel, those were the two strongest brands. Everything else was just sort of background noise.

I would urge to the degree we can do it—and I realize there are all sorts of institutional roadblocks—but to the degree we can bring things together and have greater focus, whether it is getting the signature organizations working together or under one roof, it would really help with the effectiveness of delivering results.

Senator COONS. I think that is a good observation.

If I might, Dr. Moss, just to your point, I think in your written testimony, that U.S. aid—and this is mostly in sub-Saharan Africa—has saved roughly 5 million lives. One of the signature accomplishments of the Bush administration was the launch of PEPFAR.

We are today at a point where there are some obvious potential ways that we could be more efficient, more streamlined, and thus help more people, at a time when we are under persistent budget pressure. One of the development models that I think holds some real promise is the Millennium Challenge Corporation in terms of it having clear standards and clear accountability. In a recent meeting with the President of Liberia, she was clearly intimately familiar with what had to be done in order to achieve a compact, and I think it is a salutary thing to have clear and measurable standards and procedures and outcome.

What has been most successful and what has been least successful about the MCC? It was not listed by Mr. Lane as one of the best known, most memorable changes in development policy.

Mr. LANE. We talked about it earlier.

Senator COONS. But I do think it has—there was initially—there was a lot of wasted time and effort in terms of fighting over prioritization and culture. I view it in the few countries I have been able to visit MCC projects and in my conversations with folks at MCC, it has begun to harmonize and be complementary to the other preexisting development structures.

How is it working out and is it worth sustaining in its current form or growing?

Dr. MOSS. I am overall a very big fan of the MCC. I do not think it was an accident that they decided to set up the MCC as a separate agency. They were trying to start fresh and not be bound by some of the problems that occur in the existing system that I mentioned earlier.

But I think the lesson of MCC is not the one that we all expected initially. I think it was initially sold as the innovation was going to be that eligibility for compacts would be based on clear third-party criteria. If you are over the hurdle you are in, if you are not over the hurdle you are out. That is useful. There have been some fights over that.

But the real innovation for MCC and where I think you can take the MCC model to other agencies and other contexts is this 5-year compact, where you have an actual partnership with the partner government on the ground, you have a set of agreed metrics, the compact is judged over a multiyear period based on those metrics. That is the kind of model that can work even in countries that would never meet MCC eligibility criteria.

So I think that we can learn a lot from that. I also think that the MCC has pushed the evaluation agenda. Administrator Shah has done pretty well within USAID to get an evaluation policy within AID. But using a rigorous independent evaluation is the way that you can actually figure out, did these results—how were they achieved, what lessons could we learn and apply going forward. The MCC has also really led the way there.

So I think it has really been a tremendous success, but not necessarily in the ways that we always think.

Senator COONS. Thank you, Dr. Moss.

If I might just—sort of one last question about how our values agenda lines up with our development, diplomacy, security agenda, and the role of the private sector. I often say that we are in a race in Africa with a number of competitors. China is the most visible, but certainly Russia and Brazil and India and others are very actively engaged in the continent, see its potential.

And yet, when an American potential development partner comes in, they are often accountable for compliance with the Foreign Corrupt Practices Act and transparency standards, or accountable to their shareholders or the American press for environmental impact of a proposed development project. So in certain cases they simply choose not to. There was one in Uganda recently that I was familiar with where an American oil development company chose not to continue with their project, in part because there were some very difficult tradeoffs with environmental standards. They stepped back and there was I believe a Chinese company right behind them willing to take it on.

In instances where we decline to provide funding for a compact because of noncompliance with human rights standards or freedom of the press or democracy, following the constitution in terms of succession, there are other sources of funding which stand immediately next to us and provide an alternative.

How can American companies successfully compete in an environment where at times their competitors are not bound by comparable standards in terms of transparency and promoting multiparty democracy and respect for human rights? And how can our work through State, AID, MCC, and others reinforce that constructively?

[Pause.]

Senator COONS. I see no immediate volunteers.

Dr. MOSS. I actually think the FCPA is a good example where a lot of the initial concerns about competitiveness are—it has flipped. What the United States has done through the FCPA is actually raised the global standard and in a way has helped to protect companies from getting themselves in trouble. I think that if we base our rules and regulations on transparency, respect for human rights, on our values, and we implement those, we can help to raise the bar across the marketplace.

If there is a company from another country that is willing to come in and pay bribes and asset strip to get it done, that is not going to succeed in the long term. I do not believe that—I think the point is we should take the long view here and not be mercantilist about individual political deals. We should not sell out our values in order to get a particular deal, because in the long run if we are right the world will move toward standards, just like we have seen on anticorruption.

I do not believe that companies that undermine the rule of law to get contracts now will succeed over the long term. Those will come back to bite them. That is part of the reason that we went with the FCPA in the first place. So I think we should stick to our guns.

Mr. LANE. Senator, the issue has been around for a long time. Caterpillar in 1974 was one of the first companies to have a world-wide code of conduct. It was right after the Gulf Oil—I am really dating myself now—scandals in the early seventies.

It is amazing. It occurred, that type of activity, occurred all over the world, and it still occurs in some parts of the world. But during the same time period, by playing by the rules, it is amazing, you still become a successful organization. Where a country really gets explosive growth is where they get enough things right where they start attracting foreign investment in a big way. When that happens, that is where you see the transformation really take place.

Earlier we were talking about the promise of the MCC, and I really think there is a lot of promise there. But if you could start getting a lot of the little things—little things are big things, really—right, at some point the combustion takes place and you start attracting foreign investment.

Where we did the biggest deep dive in the HELP Commission was in Honduras, and the north-south highway, you had the Port of Cortes improvement. You had the ag development programs where we were trying to encourage people to grow something other than corn and rice and start growing sweet potatoes and cucumbers and what have you. It started raising incomes two, three times for farmers that had two or three hectares, and it really makes a difference, and at some point the foreign investment kicks in. And when it kicks in in a big way, you really do see enormous growth, and the first thing that you have when you have enormous growth is a need for more infrastructure, and the best way to get more infrastructure is to buy Caterpillar products. So let me end with a commercial.

Senator COONS. I will note you are the only witness today who brought an actual physical embodiment of the underlying product, and you managed to work that in.

Mr. LANE. The reason why I brought that, just so you know, and we spent a lot of time talking about Colombia, but this is a D–11 bulldozer, the biggest bulldozers in the world. They are produced in East Peoria, IL. In Colombia, with the coal mines in Colombia, there are more D–11 bulldozers there than anywhere else in the world. So it is amazing how this international commerce really does lift all ships, even some that are bulldozers that are very heavy.

Senator COONS. One more question if I might, just in closing. I will reference back to Dr. Moss' point. Of course I think we should stick to our guns. Of course I think—but I think we need all of the taxpayer dollars that we are spending across a dozen agencies and with our partners in the private sector we need to be pushing in the same direction, and we need to be welcoming and encouraging those voices, those institutions, and those groups within developing countries, particularly in Africa, which is my primary focus, that also have that value, that also have that priority of improving worker protection, improving environmental protection, improving transparency, because on that playing field I think we will always win.

But in the absence of it, one thing that distinguishes the current environment from 10 or 20 years ago is the number of other potential sources of foreign investment that are not asking those questions and are not advancing those interests. That is, I think, something that we need to be really focused on and attentive to as we try and all pull in the same direction.

Thank you so much for your testimony today.

Thank you for the chance to ask questions.

Senator KAINE. I want to thank my colleagues for participating. To the witnesses, you have given us a lot to think about. You have made the case very strongly that the U.S. foreign development programs and budget are important. The notion that you mentioned, Bill, a bit ago, that in the past you might talk about trade not aid, and yet aid done right promotes trade, lays the groundwork for trade, builds the road on which then trade occurs, that testimony comes through loud and clear.

You have also given us some examples of things that have worked and why, and things that are not working as well as they can and how we can improve them. This is an important topic for America's continuous global leadership. We appreciate all your testimony and look forward to doing more work together.

With that, just as we are about to now vote on the floor, the hearing is adjourned.

[Whereupon, at 12 p.m., the hearing was adjourned.]