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Fiscal Year 2006 Budget

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Chairman Kolbe, members of the subcommittee: It is an honor to be here today to discuss the President's budget for the U.S. Agency for International Development for fiscal year 2006. Before beginning our presentation, I want to thank the Chairman and the other members of the committee and their staff for the support you have shown for our programs and the help you have provided us to increase our staff resources that is allowing USAID to play the critical role it does in our national security.

A New Era of Development Assistance

The President's *National Security Strategy* (2002) was written at a year's distance from 9/11 and is the first comprehensive response to the events of that day. The morning of that day we were a nation at work and at peace. That afternoon we were a world at war, facing a new era of deadly challenges to our security and way of life.

Our challenges in the new era require new ways of thinking and operating, the document asserted. To meet them, the whole spectrum of our foreign policy establishment had to be engaged and many of its programs redesigned. This included "defense" and "diplomacy," but also "development," the success of whose mission is now viewed as a matter of great urgency and importance. Indeed, "development" today has received a level of commitment not seen since the Kennedy or Truman Administration.

Part of the intention of the *National Security Strategy* was to disabuse anyone of the opinion that "development" was something peripheral to our own nation's well being. The promotion of freedom and development around the world is, of course, an expression of the highest ideals of this country. But it is also more than that. Post-9/11, the success of the cause of freedom and development is absolutely vital to making this a safer as well as a better world. As the President stated in his *Second Inaugural*, the present moment sees our highest ideals and our national security concerns conjoined. The task before us is great. But we are energized both by harsh necessity and our noblest aspirations.

In the last four years, we have been witness to the most extensive government reorganization since the Truman Administration created the National Security Council and the Department of Defense. We have created a new department to guarantee the security of our homeland. We have revamped the nation's intelligence apparatus. We are modernizing, reequipping, and redeploying our armed forces. We are adapting strategies that were designed to meet the dangers of a former era so that they can better meet the tests of a new world of global terrorism. We have engaged our allies to meet the common threat. And we have taken the war to places that provide aid and refuge for our enemies. In short, we find ourselves once again "present at the creation" and are erecting the new foreign policy architecture we need to address the challenges in the era that stands before us.

When I came back to USAID as Administrator, I was called to lead an Agency that came into being a half century earlier in a very different world. I was assuming office at a moment when the nation was trying to redefine its foreign policy in light of the realities of globalization and the end of the Cold War. The Agency was subjected to doubts about its relevancy in the new era. It was dislocated by cuts in both budget and manpower. All of this took its toll on morale within the Agency.

Early on, I called for an Agency-wide assessment to sort out the core missions of the Agency and to better align them with the foreign policy needs of the new era. This exercise in "stocktaking" was undertaken to refocus the Agency, in order to better define and prioritize its tasks. The result was the *FANI (Foreign Aid in the National Interest)* Report and the Agency's *White Paper* (2004), which identified five core missions of the Agency.

It has been one of my chief priorities as Administrator at USAID to strengthen the Agency's response to the key objectives the *White Paper* identified. These tasks have not changed because of 9/11. They have only been made more urgent by the events of that day and more central to this nation's foreign policy. The Fiscal Year (FY) 2006 budget reflects this commitment.

Core Missions of USAID

The five core missions of the Agency follow:

- **Promote transformational development** through far-reaching, fundamental changes conducive to democratic governance and economic growth. The Agency also seeks to build human capacity by supporting essential human services in the fields of health and education. Such endeavors are key to helping countries sustain economic and social progress without continued dependence on foreign aid.
- **Strengthen fragile states** to improve security, enhance stability, and advance reform and to build institutional capacity and modernize infrastructure.
- **Provide humanitarian relief** to meet immediate human needs in countries afflicted by natural disaster, violent conflict, political crisis, or persistent dire poverty.
- **Support geo-political interests** through development work in countries of high strategic importance.
- **Address global issues** and special concerns where progress depends on collective effort and cooperation among countries. These include combating HIV/AIDS and other infectious diseases, forging international trade agreements, and combating criminal activities such as money laundering and trafficking in persons and narcotics.

To make progress on these goals, USAID is requesting $4.1 billion for its FY 2006 programs. We anticipate working with the Departments of State and Agriculture on joint programs that total $5 billion in ESF, FSA, SEED, ACI and P.L. 480 accounts. We will also manage a portion of the nearly $2 billion requested for the Global HIV/AIDS Initiative by the Department of State's Global AIDS Coordinator and a portion of the $3 billion for the Millennium Challenge Corporation. USAID is requesting $802.4 million in Operating Expenses (OE), the Capital Investment Fund, the Development Credit administrative funds and the Office of the Inspector General to fund the administrative costs of managing the $8.3 billion in program funds.

We are introducing in the request two strategic reforms to increase the effectiveness of bilateral foreign aid and advance the national security interests of the country. The first is to reward low-income countries that have achieved progress through a demonstrated commitment to reform. As President Bush stated in 2002 in Monterrey, Mexico, "When nations respect their people, open markets, invest in better health and education, every dollar of aid, every dollar of trade revenue and domestic capital is used more effectively…. We must tie greater aid to political and legal and economic reforms."

In this budget we propose tying Development Assistance to countries' own development efforts, allocating the greater share to needy countries that are not yet eligible for the Millennium Challenge Account, but that are demonstrating through sustained good performance that they are striving for the conditions that the President set forth. A performance-based approach will be adopted to allocate a share of the Development Assistance account. This will compare need and performance across regions, based on standard criteria.

We must also recognize that some countries need help to overcome instability and weak governance before they are able to grow and prosper. Many of these societies are vulnerable to crisis or recovering from it. And many are managing fragile political and economic transitions. The second strategy that USAID has launched in this year's budget aims at promoting security, stability, and reform in these countries and building the basic institutional capacity that can carry development forward.

Our approach emphasizes better monitoring, more focused strategies and programs, and greater programmatic flexibility to respond to changing conditions. An important component of this approach is USAID's request that funding be reallocated from the Development Assistance (DA) account to the Transition Initiatives (TI) account to address fragility in key states. This will increase our ability to respond quickly and effectively to the special economic and governance needs in these states. Due to this proposed reallocation, the DA account request for FY 2006 is

slightly decreased over the request in the FY 2005 President's Budget.

To meet the unprecedented challenges of the post-9/11 era, USAID is aggressively pursuing management reform through a number of initiatives. By strengthening our workforce, improving program accountability, and increasing the security of our operatives, we are building the foundation of sound management and organizational excellence. We are also reaching out to new, non-traditional partners, often using the Global Development Alliance model of public-private partnerships.

Program Priorities

Priorities within the major programming initiatives of the Agency follow:

Transformational Development. USAID's priorities for the use of Development Assistance include promoting human rights and democracy as well as stimulating the economic growth that can move countries into the global trading system. We have allocated assistance on a priority basis to needy countries that are manifesting strong commitment to reform and making good development progress.

The FY 2006 request reflects a substantial increase of support for Africa when compared to a FY 2001 baseline. Particular emphasis is placed on expanding access to quality basic education, growth in agricultural productivity, and increasing trade capacity. USAID will help the countries in the U.S.-Central American Free Trade Agreement (CAFTA) with the financial and economic reforms that will allow them to take full advantage of trade liberalization. Funding for South Asia reflects the end of the relief phase for tsunami victims and the move to the recovery and reconstruction of this region. Worldwide, we will continue to work closely with the Millennium Challenge Corporation and will support Millennium Challenge Account (MCA) countries on the threshold of eligibility overcome constraints affecting their particular performances.

Stability, Reform and Recovery. USAID is vigorously pursuing policies that aim at peace and stability in Africa - with a particular focus on the Sudan. We will continue the effort begun in 2004 as a Group of Eight (G8) initiative to end famine and increase agricultural productivity and rural development in Ethiopia, the most populous country in the region, and one of the most famine-prone countries in the world. In Latin America, USAID is laying the foundations for the recovery of Haiti through various economic, social, environmental, and political initiatives. In the Near East, USAID will continue its support of Afghanistan and its encouraging progress toward democracy and economic growth after suffering from generations of war, occupation, and political fanaticism. Some of our efforts are listed in the box below.

Ten Major Achievements - USAID in Afghanistan

1. Coverage of health services exceeds some 4.8 million people. In USAID-sponsored provinces, 63% of the population has access to health services. Over 2,000 Community Health Workers have been trained and are active in health facilities. 4.26 million children have been vaccinated against preventable childhood illnesses.
2. Civic education, political party training and observer support provided in run-up to recent elections. 1.3 million Afghans were reached through voter education activities; registered 41% of all women; monitored over 1,673 polling centers - a third of all centers - on Election Day; supported 10,000 observers.
3. $101.7 million was collected through Customs Operations in 2004.
4. Over 320 kilometers of canals de-silted and 233 irrigation structures repaired, improving irrigation for 310,000 hectares of farmland.
5. Primary education provided to nearly 170,000 over-aged students, over half of them girls. Some 6,778 teachers have been trained to lead accelerated learning classes that allow students to complete two grades per year.
6. To date, 42 million textbooks have been provided. 27 million of the textbooks are in both Dari and Pashto. The textbooks are for Grades 1 through 12 in all secular subjects.
7. Radio-based teacher training (RTT) reaches 95% of the country in daily broadcasts in Dari and Pashto, reaching approximately 54,000 teachers. Of these, 9,582 teachers - 35% women - have enrolled in the RTT course.
8. National Women's Dormitory in Kabul rehabilitated. Enables over 1000 girls from rural areas to attend the medical school, the Afghan Education University, the Polytechnic Institute and Kabul University.
9. Thirty-two independent FM radio stations, including three Arman FM commercial stations, have been established.

10. The USAID-sponsored sections of the Kabul-Kandahar Highway are complete and operational, with 389 km of roadway paved, 7 bridges totally reconstructed and 39 bridges repaired.

Geo-strategic priorities. USAID's Economic Support Fund (ESF) for U.S. foreign policy goals places special emphasis on Iraq, Afghanistan, Pakistan and Sudan, as well as other front-line states in the War on Terror in the Asia, Near East and Africa regions. The Agency's Iraq programs will be funded from the ESF and other appropriations. USAID will also target resources to the Muslim World Initiative to support countries' own efforts at social transformation. Some of our efforts in Iraq are listed in the box below.

Ten Major Achievements - USAID in Iraq

1. Prevented humanitarian emergency - delivered 575,000 metric tons of wheat, reforming public distribution system.
2. Created local and city governments in more than 600 communities.
3. Restarted schools - rehabilitated 2,500 schools; provided textbooks to 8.7 million students, supplies to 3.3 million; trained 33,000 teachers.
4. Vaccinated 3 million children under 5 and over 700,000 pregnant mothers. Rehabilitated more than 60 primary health care clinics.
5. Providing safe water - expanding Baghdad water purification plant and rehabilitating 27 water and sewage plants.
6. Re-opened deep water port - dredged Umm Qasr, repaired equipment. Today it handles 140,000 tons of cargo a month.
7. Restoring electric service - repaired eight major power plants with CPA, adding 2,100 megawatts by summer 2004.
8. Helped CPA launch new currency and re-establish Central Bank.
9. Reviving the Marshlands - reflooding revives ancient way of life. Established date palm nurseries and crop demonstrations, restocking native fishes (4-5 million fingerlings) and developed strategic plan of integrated marshland management.
10. Establishing Good Governance - budgeting, accounting systems add transparency, accountability to ministries.

Humanitarian response. Americans do not respond to humanitarian emergencies as an abstract duty. As the reaction to the recent Tsunami disaster indicates, the response of Americans tends to be immediate, spontaneous, and generous. We do not calculate what are deeply felt moral imperatives. These commitments are long-standing. They have not changed in the course of American history nor will they be shortchanged today. What has changed is the historic context in which we act.

Last year we celebrated the 50 year anniversary of Food For Peace (FFP). It is estimated that almost 3.4 billion people at risk of hunger and malnutrition have directly benefited from receiving this assistance. To effectively meet the food challenges of the future, the program will have to adapt to circumstances that did not exist at the founding moment of Food for Peace. Since the end of the Cold War, the world has seen a proliferation of civil conflict and regional wars. Humanitarian assistance increasingly takes place within the context of fragile states, which present some of the more intractable and urgent national security problems that the country faces.

The current U.S. food aid budget, managed by the U.S. Agency for International Development, is spent primarily in the United States to purchase U.S. commodities and ship them to people in food related crises around the world. This has, in the past, been an extremely effective tool for fighting hunger in a multitude of situations. However, every effort must be made to increase efficiency and maximize our budgets. The Administration has asked Congress to approve a plan to use $300 million of the $1.2 billion food aid budget for cash to allow the program to be more timely and effective in purchasing commodities when a crisis occurs. The flexibility of having both cash and U.S. commodities available to respond to food crises and potential famine is critical.

- Food is often available close to the area of need and could fill a critical gap before commodities arrive from the U.S, oftentimes many months later.
- Transportation costs alone now absorb more than 40% of our food budget. These costs are projected to rise even further because of strains placed on maritime shipping from China and the need to accommodate its

export boom. With lower transportation costs, the U.S. could afford to buy more food and reach more of the vulnerable population more quickly.
- It is conservatively estimated that this shift in funds, in acute situations, might save upwards of 50,000 lives.

We live in a world of instantaneous media. It is also a world where enormous responsibility falls to the U.S. to use its global reach and capacity to address needs and challenges. The Administration's proposal provides the flexibility that will help our food programs to meet them.

Supporting Key Administration Initiatives. The Agency will also pursue its on-going commitments such as education initiatives in Africa and Latin America, the Trade for African Development and Enterprise initiative, Global Climate Change, Illegal Logging, the Initiative to End Hunger in Africa, and Water for the Poor. These initiatives support mainstream USAID goals and work in complementary ways with its programming in states undergoing transformational development, as well as our strategies in fragile and strategic states. These are implemented in a variety of ways, including training and technical assistance, contributions to global funds, bilateral assistance, policy analysis, and direct delivery of services. The initiatives are listed in the box below.

Presidential Initiatives	Administration Initiatives
African Education Initiative	
Anti-Trafficking in Persons	Broader Middle East and North Africa Initiative
Centers for Excellence in Teacher Training	Initiative to End Hunger in Africa
Digital Freedom Initiative	Middle East Partnership Initiative
Emergency Plan for AIDS Relief	Trade Capacity Building
Global Climate Change Initiatives	Trade for African Development and Enterprise
Initiative Against Illegal Logging	Water for the Poor Initiative
Volunteers for Prosperity	

Combating HIV/AIDS. The HIV/AIDS pandemic is more than a health emergency. It is a social and economic crisis that is threatening to erase decades of development progress. The pandemic has tended to hit in the most productive age groups and in developing counties that are least able to respond. Under the leadership of the State Department's Global AIDS Coordinator, USAID will continue working to prevent HIV transmission through a balanced "ABC" approach to behavior change that stresses Abstinence, Be faithful, and the use of Condoms. The President's Emergency Plan has recognized that to implement an effective "ABC" prevention strategy, our approach must be tailored to the culture and circumstances of the place we are working. In addition to prevention, USAID will expand access to anti-retroviral treatment, reduce mother-to-child transmission, increase the number of individuals reached by community and home-based care, and providing essential services to children impacted by HIV/AIDS.

Management Reforms and Initiatives

To meet the complex development challenges in the age of terrorism, USAID needs modern business systems; organizational discipline; and the right number of qualified, well-trained people to manage its programs. It must also draw upon the talents of a whole range of partners, both traditional and non-traditional.

USAID's FY 2006 management priorities are to strengthen and right-size the workforce, improve program accountability, and increase security.

Staffing. USAID's capabilities have been weakened by a direct-hire workforce that was drastically downsized during the 1990s and a large workforce contingent reaching retirement age. The Agency needs to increase flexibility and develop a surge capacity to respond to critical new demands if existent programs elsewhere are not to be adversely affected. To address the critical human resources needs, USAID has made the Development Readiness Initiative (DRI), which builds on the State Department's Diplomatic Readiness Initiative, a priority. This is the third year of DRI implementation, the goal of which is to strengthen the USAID workforce and rebuild the Agency's diplomatic, managerial, and development efforts. The FY 2005 funding request will help USAID meet OPM's mandate to get the "right people in the right jobs with the right skills at the right time" by increasing its direct-hire workforce.

In addition to increasing overall numbers, DRI will strengthen the Agency's capacity to respond to crises and emerging priorities, cover staffing gaps, fill critical vacancies, and provide appropriate training. DRI will maintain the Agency's quality and flexibility of human resources and ensure that staff maximizes the professional skills needed to

grow with job requirements. Our commitment to DRI will make the Agency more agile and better able to respond to changing foreign policy concerns.

To supplement the Agency's DRI, the FY 2005 Foreign Operations legislation provided USAID with a Non-Career Foreign Service Officer hiring authority. This authority allows USAID to use program funds to hire up to 175 individuals, with a requirement to proportionately decrease non -USDH staff. With this authority, the Agency will increase its USDH workforce by up to 350 by FY 2006 while realizing savings to its program accounts as a result of a decrease in the overhead costs it pays contractors and USG agencies for the services of USAID non-direct hire employees.

USAID is currently undertaking a detailed workforce analysis that will identify the critical skill gaps that the Agency must address. USAID will use both the DRI and the Non-Career Foreign Service Officer authority to address these critical gaps, and to begin to homogenize its workforce by reducing the large number of less efficient and effective hiring mechanisms it currently uses.

DCHA Bureau Restructuring. To better integrate work on crisis, transition, and recovery, the Bureau for Democracy, Conflict and Humanitarian Assistance (DCHA) is undergoing reorganization and restructuring. The DCHA bureau will represent the Agency and assume responsibility for interfacing with other USG and Agencies - particularly the Departments of State and Defense. It will represent the Agency in its dealings with the new State Department Coordinator for Reconstruction and Stabilization (S/CRS), which will lead the USG response to national security emergencies and crises and will work closely with relevant USAID bureaus to more effectively lead the Agency's response to such events. USAID is also taking steps to develop a more robust crisis response capability. This includes recruiting, training and deploying a new cadre of Crisis, Stabilization and Governance Officers.

Partnerships. USAID is actively engaged in identifying and forging agreements with non -traditional partners, including faith-based organizations. We are proud of our initiatives in this regard.

The Global Development Alliance (GDA) is the centerpiece of our public-private alliances which brings significant new resources, ideas, technologies, and partners together to address development problems in the countries where we are represented. Through FY 2004, USAID funded over 290 public-private alliances, with over $1 billion in USAID resources leveraging over $3 billion in alliance partner contributions. A new obligating instrument - the collaborative agreement - was created by USAID and became operational in FY 2005. This provides an alternative to traditional grants and contracts for our non-traditional partners. In support of the U.S. global health and prosperity agenda, USAID has recruited highly skilled American professionals to international voluntary service from nearly 200 US non-profit organizations and companies. Three-quarters of these entities are new to USAID. Of these, 30 are counted among the GDA figures noted above. About 20 of the entities are faith-based organizations.

Branding. The USAID "branding" campaign is designed to ensure that the American people are recognized for the billions of dollars spent on foreign assistance. A new standard "identity" clearly communicates that our aid is *from the American people*, which will be translated in each country into local languages. The "brand" will be used consistently on everything from publications to project plaques, food bags to folders, business cards to banners.

Business Transformation. To address significant management challenges and improve our accountability to the American taxpayers, the Agency will continue to modernize its business systems and support joint State-USAID goals for information technology management. Joint procurement and financial management systems will serve both organizations' needs and improve program accountability as will our efforts to better integrate budgeting and performance information.

Ten Major Achievements - Business Transformation
FY 2001 - 2004

1. Received two consecutive annual clean audit opinions on Agency financial statements that demonstrate transparent and accountable financial practices.
2. Implemented an annual Agency-wide survey to assess quality of management services and identify opportunities for improvement, achieving over 25% increase in employee satisfaction over fours years.
3. Launched comprehensive Human Capital Strategy and Development Readiness Initiative to identify and close critical skill gaps, revitalize the workforce and enhance Agency performance.
4. Deploying a new financial management system and new procurement software overseas to enhance decision-making and enable fast and accountable transactions.
5. Allocated additional funds to countries with the most need and the highest commitment through

strategic budgeting. Re-allocated $30 million to higher performing, higher need programs after an internal country and program performance assessment.

6. Enhancing knowledge management systems and methods to capture and share development expertise and new ideas. There are 130,000 documents in our institutional memory bank.
7. Expanded USAID employee training tools enabling Agency employees to complete nearly 2,000 Web-based courses to enhance job performance. Trained nearly 1,000 employees on Executive and Senior Leadership to enhance career development opportunities.
8. Better aligning staff with foreign policy priorities and program spending levels.
9. Reduced the average hiring cycle time from closure of job announcement to job offer below the OPM standard of 45 days. In addition, the process is more predictable and systematic.
10. Published a regulation to allow faith-based organizations to compete on an equal footing with other organizations for USAID funds.

Security. USAID continues its commitment to protect USAID employees and facilities against global terrorism and the national security information we process against espionage. The Agency will increase physical security measures, such as building upgrades, emergency communications systems, and armored vehicles. Personnel security, such as background investigations and security clearances, will be upgraded as will information security.

Conclusion

The FY 2006 budget request for the new USAID supports U.S. foreign policy goals and national security interests. The request responds to the President's priorities, including support for the Global War on Terrorism, and helping Iraq, Afghanistan and Sudan toward stability and security. It sets priorities that use aid effectively to promote real transformation in developing countries committed to reform. It also helps states that are more vulnerable or crisis-prone to advance stability, security and reform as well as develop essential institutions and infrastructure. The assistance supports individual foreign policy objectives in geo-strategically important states, continues USAID's global reach to offer humanitarian and disaster relief to those in need, and addresses the entrenched poverty and the global ills and scourges that afflict humanity.

I would like to acknowledge the support of this Committee in helping USAID fulfill the enormous responsibilities it faces today and supporting its efforts to promote peace throughout the world by spreading democracy, opportunity, and prosperity.