S. HRG. 111–354

USAID IN THE 21ST CENTURY

HEARING

BEFORE THE

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

OF THE

COMMITTEE ON FOREIGN RELATIONS
UNITED STATES SENATE

ONE HUNDRED ELEVENTH CONGRESS

FIRST SESSION

APRIL 1, 2009

Printed for the use of the Committee on Foreign Relations

Available via the World Wide Web: http://www.gpoaccess.gov/congress/index.html

U.S. GOVERNMENT PRINTING OFFICE

55–827 PDF WASHINGTON : 2010

For sale by the Superintendent of Documents, U.S. Government Printing Office
Internet: bookstore.gpo.gov Phone: toll free (866) 512–1800; DC area (202) 512–1800
Fax: (202) 512–2104 Mail: Stop IDCC, Washington, DC 20402–0001

COMMITTEE ON FOREIGN RELATIONS

JOHN F. KERRY, Massachusetts, *Chairman*

CHRISTOPHER J. DODD, Connecticut
RUSSELL D. FEINGOLD, Wisconsin
BARBARA BOXER, California
ROBERT MENENDEZ, New Jersey
BENJAMIN L. CARDIN, Maryland
ROBERT P. CASEY, JR., Pennsylvania
JIM WEBB, Virginia
JEANNE SHAHEEN, New Hampshire
EDWARD E. KAUFMAN, Delaware
KIRSTEN E. GILLIBRAND, New York

RICHARD G. LUGAR, Indiana
Republican Leader designee
BOB CORKER, Tennessee
JOHNNY ISAKSON, Georgia
JAMES E. RISCH, Idaho
JIM DEMINT, South Carolina
JOHN BARRASSO, Wyoming
ROGER F. WICKER, Mississippi

DAVID MCKEAN, *Staff Director*
KENNETH A. MYERS, JR., *Republican Staff Director*

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

ROBERT MENENDEZ, New Jersey, *Chairman*

BARBARA BOXER, California
BENJAMIN L. CARDIN, Maryland
ROBERT P. CASEY, JR., Pennsylvania
JEANNE SHAHEEN, New Hampshire
KIRSTEN E. GILLIBRAND, New York

BOB CORKER, Tennessee
ROGER F. WICKER, Mississippi
JIM DEMINT, South Carolina
Republican Leader designee

CONTENTS

	Page
Corker, Hon. Bob, U.S. Senator from Tennessee, opening statement	3
Lancaster, Hon. Carol J., professor of politics, Mortara Center for International Studies, Georgetown University, Washington, DC	4
Prepared statement	6
Menendez, Hon. Robert, U.S. Senator from New Jersey, opening statement	1
Natsios, Hon. Andrew S., distinguished professor, Edmund A. Walsh School of Foreign Service, Georgetown University, Washington, DC	18
Prepared statement	22
Responses to questions submitted by Senator Jim DeMint	43
Radelet, Steven, senior fellow, Center for Global Development, Washington, DC	10
Prepared statement	13
Responses to questions submitted by Senator Jim DeMint	47

USAID IN THE 21ST CENTURY

WEDNESDAY, APRIL 1, 2009

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

Washington, DC.

The subcommittee met, pursuant to notice, at 9:32 a.m., in room SD–419, Dirksen Senate Office Building, Hon. Robert Menendez (chairman of the subcommittee) presiding.

Present: Senators Menendez, Casey, and Corker.

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

Senator MENENDEZ. The hearing will come to order. Let me welcome everyone.

Let me first start off, sort of, by saying this is the first meeting of the Subcommittee on International Development, Foreign Assistance, and International Environmental Protection, and Economic Affairs, and I want to say we can't start with a better issue, and I want to acknowledge and say I look forward to working with the distinguished ranking Republican, Senator Corker, who we have the privilege of serving on a couple of committees together, and one of our very thoughtful members, and I look forward to working with you throughout, not only today, but through a series of hearings as we move forward.

We want to welcome all of our panelists, who are here today to discuss "USAID in the 21st Century: What Do We Need for the Tasks at Hand?"

Foreign assistance is something that is of, obviously, great interest to the members of this committee. While we may disagree on the overall resources that should be devoted to development assistance, I think we all agree that the resources we do provide should be used in the best, most powerful way. Congress needs to see results. The American people need to see results, and so do millions of people around the world whose lives literally depend on our ability to carry out these programs in the smartest way possible.

I have long believed that foreign assistance is a critical part of our overall engagement overseas, as well as our national interest, in the pursuit of our national interest and our national security, and I have been a consistent advocate of stepping up our efforts in this area. In recent years, I've focused on building USAID from the inside out. I've called for building up the staff of USAID in a coherent and strategic manner, and called for increased accountability of

programs, and clear and tangible results. We have seen some progress, but we need to move faster, and we need more clarity of purpose in Washington.

The culture of USAID needs to better adapt to the current context in which it works. Just as our military had to undergo a period of transformation after the fall of the Soviet Union, we can't have a development agency that is building for fighting the last war.

Now, the USAID is working alongside the Department of Defense in places like Iraq and Afghanistan, immersed in complex situations, like those in Pakistan, Sudan, or Sri Lanka. We need an agency that is nimble, responsive, and ahead of the curve. From staffing, resources, and training, our development tools need to be, at the very least, at par, if not ahead, of our diplomatic and defensive efforts.

First, one way to start us along this path is to focus on USAID's leadership. It needs credible and high-profile leadership that can work in partnership with the Congress, the Department of State, the Department of Defense, and the National Security Council. The development voice in our government needs to be a heavyweight voice that commands respect, both in Washington and around the world. This voice needs to be counterpart to diplomacy, not a subset. From the senior leadership of the agency to the resources it controls to its key staff in the field, we need the best possible advocates for our programs on the ground.

Second, USAID needs to take back resources and programs that have slowly been moved over to the Department of Defense. Having the Department of State or the Department of Defense control development strategy and resources, with USAID simply serving as an implementing agency, has caused confusion and ambiguity. We ask our military to plan and execute a lot of missions. Development shouldn't be one of them. Civilian resources should be appropriated to civilian agencies.

And third, the staff at USAID needs to be rebuilt; not just more people, but we need to make sure we have the right people, and make sure we are attracting and retaining the best possible candidates.

So, how do we tackle these challenges? In terms of legislation, I pledge to work on any legislative components to advance a joint executive-branch/legislative-branch set of reforms that will help shape our institutions to carry out their missions. I stand ready to support President Obama, Secretary Clinton, and the next USAID Administrator in reforming and reshaping USAID in a bold and unprecedented way, not just for the tenure of this administration, but for decades to come. Such reform is clearly in the national security interest of the United States.

In this spirit, I look forward to hearing a frank and open discussion and your ideas for how to shape USAID. I think most of us in the room today have a clear sense of the problems. I want to spend today talking about solutions. Let's think about what we need, rather than what we think we can get. In other words, let's approach this, not from what we think we are prepared to supply, but, rather, what we think the challenges overseas demand.

Also in that spirit, many of us are familiar with the many questions about the future of USAID. Let's use today to talk about

answers, regardless of whether or not these answers are ultimately feasible or ultimately adopted. Let's get on record the options that we think are a necessary part of the debate.

With that, let me turn to the distinguished ranking member, Senator Corker, for his opening remarks, and then I'll introduce our panelists.

OPENING STATEMENT OF HON. BOB CORKER, U.S. SENATOR FROM TENNESSEE

Senator CORKER. Well, Leader, I want to thank you—or, Chairman—for calling this hearing. And I—we couldn't be from more different places in the world, and yet, I know that we share the desire to make sure that our foreign aid works in the most appropriate ways. And I want to thank you, again, for calling this hearing, and thank our witnesses.

I'm usually very short, to nonexistent, on opening comments, but I do want to say that it doesn't take many trips abroad or to other countries to realize that we really do need to go through the process we're going through right now. You look at the age of many of our USAID folks, and realize that a lot of them are going to be retiring. You look at the migration of effort that takes place. You look at—much of our focus, it seems, is on the urgent, and not the important for long-term benefit. And it seems that every administration, on both sides of the aisle, comes in with a different set of priorities, and we end up being whipsawed and not dealing with things on a long-term basis.

The whole of the military becoming involved, I think, was very positive. Secretary Gates mentioned that we needed to, certainly, look at this in concert. Obviously, some of the missions that we perform in military zones have to be done with strong support from the military. At the same time, I do know, in many cases, the State Department, USAID plays second fiddle. I've seen tremendous migration as I look at it—it's kind of the—I see many of our USAID folks pursuing a sort of where-the-money-is, OK; and so, changing mission, if you will, to access money, which is only natural.

And so, Senator, I really do look forward to working with you on this. I think this is something that, candidly, Congress has been irresponsible on in not being as focused on. I think we continue to be, again, whipsawed by new priorities and new administrations—all of which are good, but it ends up layering on top of layers, things that cause our foreign aid to be not as effective as it should.

So, I look forward to listening to our witnesses and to your question, and hopefully we'll have a few, and I thank you very much.

Senator MENENDEZ. Thank you, Senator Corker.

Let me introduce our panelists.

The Honorable Carol Lancaster is the director of the Mortara Center for International Studies and a professor of politics at Georgetown University. She is a former Deputy Administrator of USAID, Deputy Assistant Secretary of State for Africa, and the author of numerous books and articles on U.S. foreign aid and development.

Steve Radelet is the senior fellow at the Center for Global Development, a former Deputy Assistant Secretary for Asia and Africa

at the U.S. Department of the Treasury. He is currently the cochair of the Modernizing Foreign Assistance Network, a nonpartisan group of experts working to modernize and strengthen our foreign assistance programs. Dr. Radelet has conducted extensive academic research on aid effectiveness, combined with many years of practical experience living in Africa and Asia, and working on aid effectiveness, debt relief, and poverty reductions.

The Honorable Andrew Natsios is a distinguished professor at the Edmund Walsh School of Foreign Service at Georgetown University, former Administrator of USAID. He was chair of the U.S. Special Envoy for the Sudan between 2006 and 2007, and was, for 5 years, vice president of World Vision, the largest faith-based NGO in the world.

In the interest of time, we ask all of you to, basically, take about 7 minutes. We're going to include all of yours statements fully in the record.

And with that, Professor Lancaster, if you'd like to start.

STATEMENT OF HON. CAROL J. LANCASTER, PROFESSOR OF POLITICS, MORTARA CENTER FOR INTERNATIONAL STUDIES, GEORGETOWN UNIVERSITY, WASHINGTON, DC

Ms. LANCASTER. Thank you very much, Senator Menendez and Senator Corker, for inviting me to come today and share some views with you about this important topic, the future of USAID in the 21st century.

I think the hearing is both timely and fitting, because we are, I think, all of us in government, out of government, in the public, very much aware of the importance of development in U.S. foreign policy. We have heard a great deal about the three Ds—development, diplomacy, and defense—in the Bush administration, and now in the Obama administration. And I think we all probably recognize that foreign aid is one of the principal tools—the principal tool, in many ways—for promoting development abroad.

USAID has long been the lead agency in this endeavor. At present, we need, desperately, a strong aid agency, and at no time has USAID been weaker in its role. And I'm not talking about the very qualified staff that are employed by USAID, but the situation of the agency itself, many conditions of which you touched on. And I will just touch on a few of them very, very briefly.

We know the size of the staff is a problem. When I served in the Clinton administration, and even before, there was always pressure to do more with less, and it can become a mindless kind of a pressure that squeezes down the numbers of staff in agencies. And that's certainly happened to AID, until the staff was almost in a death spiral.

That's been turned around now, and we see staff being hired, and being brought on, and the numbers being expanded. We still need to reconstitute the training programs in AID, which probably we can't do for a couple of years until the new staff get to the level where they need the training. Under budget pressures, we got rid of training in the Clinton administration. That was a very short-sighted decision.

I think there are some questions in regard to AID's internal organization which relate to how AID wants to shape its future

mission and its future priorities and strategies. There have been some very odd organizational changes, which I don't blame Andrew Natsios for, but for example, why did the democracy program end up in the conflict bureau, when the democracy program's impact is obviously much broader than that.

You mentioned the capacity of USAID. And I think here is one of the most troubling things that's happened. We're all familiar with the transformational diplomacy reforms that were implemented in the last administration. There were lots of good ideas in those reforms, but I think many of us have been very troubled by where they went and how they went there. I know you were, Senator Menendez, as well. And I think, with the departure of Randall Tobias, the reforms were sort of put on ice, and so, you have a sort of netherworld in which budget and policy capacities of USAID were moved to the State Department and, I think, largely remain there. So, the agency does not have the capacity to develop strategies and its own budget. That needs to be addressed.

Of course, we don't have any leadership yet, and I think that's also troubling, because things happen anyway, whether there's a leader of USAID or the other agencies, or not. And as they begin to happen, they begin to become institutionalized, other people start taking responsibilities for what might be, logically, in the purview of the Administrator, so obviously that is a big concern.

And finally—you mentioned this—AID has become, I think, in the eyes of many, more of an implementer than a leader. And that's how it's seen abroad, from what I hear, as well as within the administration.

These are all serious problems, but they need to be addressed after two basic issues are resolved. And one of them is the relationship of USAID to other aid programs in the U.S. Government, which I think we've all talked about a great deal. But, the second and really big issue is its relationship with the Department of State. And I think that becomes really crucial.

As I see it, AID is partially integrated into the Department of State. Planning and budgeting are pretty much integrated with the Department of State. Personnel is not. But, in my view, that undercuts the ability of the agency to operate as an agency with its own mission, which is a rather different mission from the Department of State. And this is a very important source of concern.

AID has lost even the small measure of autonomy that it had in previous administrations. When the Ambassador wanted to use development assistance moneys for things that may not have been in AID's mission or purview, there was always the opportunity to appeal to Washington. When AID came under pressure from the Department of State, there was always the opportunity to appeal to the White House. And, ironically, the current Secretary of State was one of USAID's key partners, if you like—quiet partners in the Clinton administration—and from my own observation and experience, we probably wouldn't have a USAID right now if she hadn't, on repeated occasions, stepped in and slowed the effort that was underway in the Clinton administration to merge the two agencies. She, better than any other Secretary of State I've observed or served with, understands the development issues. The only problem is that she's a very busy person right now, and she's not going

to be there forever. So, there is an institutional relationship here that needs to be sorted out.

USAID is neither fully in, nor fully out, but it has lost its autonomy. I don't think USAID people can appeal for help, when they're under pressure, to other agencies, because it is now much more firmly in the State Department command structure.

And so, that autonomy issue is one that needs to be decided, needs to be worked on, needs to be explored, and I'm hoping that Congress will do so. And it's particularly important, in terms of the next USAID Administrator.

Now, it may be that this administration does not wish to expand the autonomy that USAID has, but, rather, leave it partially merged into the State Department. If that should be the case, then I think we have another issue before us, and that is, How do we arrange a full merger, including the personnel system, of USAID into the Department of State? And that's a big piece of, if you like, bureaucratic material to swallow. How do we do that and maintain the development mission of USAID? That requires a more fundamental rethinking of AID and the State Department and the relationship between the two. But, right now I fear that AID is in a situation where it has neither autonomy nor protection, and does not have the capacity to lead in the way that we all wish it to do so.

To conclude, let me just say that I think the Congress has an enormously important role in keeping these issues on the agenda, where I think there may be a tendency for them to slide off, given all the other things that the U.S. Government and the Congress are facing, in terms of financial crises, and budgetary pressures, and the very uncertain relationship that still exists between USAID and the State Department. And I haven't mentioned the Defense Department relationship, but I think my colleagues will take a look at that.

I hope and trust that this will be in your competent hands to keep us attentive and moving forward.

Thank you very much.

[The prepared statement of Ms. Lancaster follows:]

PREPARED STATEMENT OF CAROL LANCASTER, PROFESSOR OF POLITICS, MORTARA CENTER FOR INTERNATIONAL STUDIES, GEORGETOWN UNIVERSITY, WASHINGTON, DC

Chairman Menendez and committee members, thank you for the invitation to testify this morning on the future of USAID. It is a fitting and timely topic; there has never been a time when the U.S. has needed a strong voice and leadership in development. And, I fear, there has never been a time when that voice has been more uncertain.

THE IMPORTANCE OF DEVELOPMENT IN THE 21ST CENTURY

There is more consensus today than ever before among our political leadership, public officials, scholars, and policy analysts and the American public that promoting development abroad should be a key element in U.S. foreign policy—along with diplomacy and defense. Helping the 2 billion people in the world to help themselves emerge from poverty and deprivation is not only the right thing for the U.S. to do—even in this time of financial crisis at home and abroad—but it is very much in the U.S. interest to do so. Poverty is often associated with instability, conflict, environmental stress, the spread of infectious disease, and other ills that in our globalized world can race across borders and meet us not just in our living rooms but in our lives and affect our well-being and our future. We need a strong U.S. Government development agency to lead our government's efforts to promote development abroad, both as an end and as a means to other ends of U.S. foreign policy.

THE CHALLENGES OF DEVELOPMENT IN COMING DECADES

But helping to further development abroad is no simple task; indeed, it has never been more complex and changing. We have seen greater volatility in world economic conditions than at any time in recent memory with not just a financial crisis with ramifications for world production, consumption, incomes and employment but also an energy crisis and a food crisis in which rapidly rising and then falling prices greatly complicated the challenge of development. How, for example, can small farmers in Africa—or farmers anywhere—plan for the next planting if they see the prices of their inputs as well as their products rise and fall and rise again?

The impact of the financial crisis and a drastic slowing of worldwide economic growth are not the only challenges of supporting effective development in the world today. Several others are longer run and equally important. One involves the relationships between development, terrorism, drugs and crime. Many believe that stable and prosperous economies with effective states are the best insurance against terrorists establishing training and operations. It is clear from a look just south of our borders to Mexico and Guatemala that it takes especially strong states to resist the threats and blandishments of narcotraffickers. I fear we are moving close to the establishment of two narcostates very near the American heartland. These problems are not solely about development as traditionally conceived. But they are big and very threatening problems that involve development as well as the effectiveness of states. We need to be far better positioned to address these problems than we are today. An agency with not only a strong development mission but one that can connect that mission with other U.S. interests is essential.

A further set of challenges and opportunities confronts USAID in the 21st century: There are many more agencies and organizations in the development business today than there were just a decade ago—NGOs which have mushroomed in number; philanthropic foundations large and small; corporate foundations; major corporate enterprises themselves; venture capitalists looking for double and triple bottom lines (doing good as well as doing well with their investments) and even internet portals that now make it possible for individuals to provide private aid directly to worthy causes abroad.

In addition to all these new and not so new actors in the development scene, we are now observing new governments becoming sources of development aid. All the new members of the European Union are required to undertaken aid programs. Formerly (and still) poor countries like India and China—not to mention Korea, Thailand, and Turkey—are also in the aid-giving business. China has become a significant source of aid in Asia, Africa, and Latin America—though we remain unsure of just how large Chinese aid actually is.

Finally, there is the technology factor, especially the spread and rapidly evolving uses of information and cell phone technology. We have all seen the pictures of Masai warriors in the African bush standing on one leg talking on their cell phone. That is not just something imagined by clever advertising executives. Even the poor are increasingly part of the global information highway. The information now available to almost everyone informs the fishermen off the coast of India or the cotton farmers in Mali what the daily prices are for their products and empowers them as never before. The Chinese have found ways to connect with one another and share information that allows them to organize and put pressure on their government for reforms. We can now bank, do medical consultations, organize demonstrations in support of political change with these cell phones. Ultimately, the greater knowledge available will empower the poor as well as others to be more productive, have more control over their lives and be better informed and educated. (I can imagine young people in rural areas in poor countries eventually being able to gain high and college degrees through distance education obtainable through cell phones.) The IT revolution and the cell phone that increasingly utilizes it may be the most important revolution in human history.

We need a strong aid agency that understands the details and implications of these changes and is agile and flexible enough to respond to them to realize its mission of furthering development and reducing poverty in this 21st century.

USAID: THE CURRENT STATE OF PLAY

USAID suffers from several problems that in my view prevent it from providing the leadership needed in U.S. development policy in the 21st century. These problems, I should emphasize, do not exist because of USAID's staff which is committed and experienced but despite its excellent staff. They are structural problems that I very much hope will be addressed soon by the Obama administration and Secretary of State Clinton.

1. USAID's staff has been severely reduced over the past decade and a half, with the training so necessary to rise as effective managers and leaders also much constrained. At the same time, the Agency has taken on the management of much larger amounts of assistance. This situation is not sustainable. These problems were recognized at the end of the Bush administration and Secretary Rice together with partners in Congress supported an expansion of USAID's staff. This expansion should continue but should be keyed to the future organization and functions of the Agency. For that, we need a sense of the future direction of the Agency. I have students who ask me frequently whether it is worth working for USAID given the uncertainties facing it at present.

2. USAID has become little more than an implementing agency for programs decided in the Department of State (the "F" Bureau and elsewhere). During the reforms associated with "Transformational Diplomacy" in the Bush administration, most of the policy and budgetary expertise in USAID was relocated to the F Bureau, taking away from the Agency the capacity to analyze and develop U.S. development policies and link budgets to policies. Apart from a few policy staff in the office of the Chief Operating Officer dealing mainly with process issues, USAID today is no longer the administration's lead "thinker" on development. This deficiency limits U.S. leadership in development abroad and at home. This must change if USAID is to have any role in U.S. development policy in the future and if the U.S. is to regain its past position as a leader in the international development field.

3. Somewhat related to the previous point USAID is now one of three major bilateral aid programs that also include the Millennium Challenge Corporation and PEPFAR. There is a notional division of labor between them but also some overlap regarding what they work on and where they work. There are many more U.S. Government agencies with their own (mostly relatively small) bilateral aid programs and responsibility for U.S. contributions and policies vis-a-vis the international financial institutions located in the Treasury Department. There is no reason why all aid should be managed in the same place—indeed, there are arguments against such an arrangement. But the many U.S. Government aid programs makes the U.S. the world leader in fragmented aid programs—even surpassing the French Government (and probably the Chinese) which are also highly fragmented. There needs not only to be greater coherence and collaboration among all these programs but a clear division of labor among them. USAID should be the leader in shaping development policies with input and collaboration with other programs; it should also identify its particular functions—including but not limited to taking an overview of development needs in recipient countries and providing advice on economic and political reforms to willing governments; working directly with poor communities and civil society organizations on projects and programs involving education, health (not including HIV/AIDS, TB and malaria which are addressed by PEPFAR and not including infrastructure which is part of MCC's remit); working on food security and agricultural development—essential to economic progress in many poor countries; providing humanitarian assistance and post-conflict reconstruction; and developing an expertise on helping to strengthen weak governments with potential security problems (in collaboration with the Department of Defense).

4. If USAID is to be a truly 21st century development agency, it needs the funding and the staff to permit it to be agile and flexible in collaborating with other development agencies and programs, private and public alike. It is no longer possible for the U.S. Government to lead by fiat; it must lead by finding the opportunities to collaborate, sometimes to follow others' initiatives, to innovate and leverage where possible resources to address common problems. The Global Development Alliance created by the Bush administration was an admirable effort in this direction. That effort needs to be extended into other innovative directions. The Agency needs flexible funding to be the innovator and leader it must become, either from fewer earmarks on its development assistance moneys or an earmark for flexible funding. It also needs funding to support research in areas important to development but not funded by private enterprises—for example, in agriculture. The pressures within USAID, from other parts of the administration and the Congress are to allocate funding to service delivery abroad, preferably with visible, direct impacts on people. This is an important function for an aid agency. But expenditures on research can make enormous differences in growth, poverty reduction, and the quality of lives for everyone—the Green Revolution in agriculture is but one example. However, the results of investment in research are often long term and uncertain; it is thus important but often very hard to preserve funding such expenditures. I hate to recommend another earmark—there are too many already—but I wonder if funding for research might not warrant one.

5. My greatest concern about the future of USAID is not about any of these internal challenges or about interagency collaboration. It is about where USAID is now

located—integrated into the Department of State in most essential ways (planning and budgeting) except for its personnel service. Secretary Clinton understands the nature and importance of development better than any other Secretary of State I have observed or worked with. But Secretary Clinton is only one person and she will not be Secretary of State forever. The pressures within the Department of State—where I have served as a Deputy Assistant Secretary of State for Africa—are on dealing with immediate issues and crises, usually in U.S. relations with other governments. There is seldom the luxury of taking the long view, of withholding development aid from governments whose cooperation we need but who are incompetent, corrupt, or uncommitted to the betterment of their populations, or of working with pesky NGOs who can drive our allies abroad to distraction by their criticisms. These latter functions are all part of USAID's work abroad with development assistance. (USAID also implements other aid programs for State—for example, Economic Support Funds—which are intended to support U.S. diplomatic efforts and are very important in that regard.) The danger is that the more USAID is drawn into the State Department orbit, the more its development assistance programs and the more all U.S. aid programs become tools primarily of diplomacy. One key reason for this tendency is that not only USAID's autonomy but its development voice will be lost. Indeed, its autonomy is already lost. When I served in the Agency, we could always appeal to the White House for help when State wanted U.S. to do something we thought ill advised. Ironically, we avoided being merged into State during the Clinton administration because we were able to appeal to then-First Lady Hillary Clinton for help. And I have every reason to think we got that help.

That channel of appeal to others outside of State is now extinguished. The USAID administrator reports directly and only to the Secretary of State. (The Administrator reported both to the Secretary of State and the White House in the past.) USAID directors in missions abroad report to ambassadors and these arrangements, I fear, are a recipe for the eventual loss of USAID's development mission in the 21st century. There is at present a letter circulating urging the administration to create a seat on the National Security Council for the USAID Administrator. But how long will it be before someone points out that at present that will likely give the Secretary of State two votes on the NSC—for what USAID administrator will openly oppose and even vote against policies favored by the Secretary of State in such a body?

There is considerable support for combining MCC, PEPFAR, and USAID in some form in the Obama administration. This makes a lot of sense—but not until USAID's relationship with State is clarified. If USAID gains control over these other agencies but has no autonomy of its own, these agencies will also be moved into State's orbit. And this decision—whether made consciously or as a result of other decisions—will be potentially momentous for the future of U.S. development aid.

Finally, should USAID remain partially merged with State in the future, is there anything that can be done to preserve the development mission and ensure that it is truly a strong element in U.S. foreign policy generally? This is an issue that the development community has avoided tackling but it is time to consider it now. If USAID is not to have a measure of autonomy from State, it must have a measure of protection for its mission within State. Its personnel system should become a new cone for State Department officers with appropriate training, rotation, promotion and other elements of an effective career system. There should be a new Deputy Secretary of State in charge of development—the post of Administrator of USAID is at the Deputy Secretary level and needs to have that degree of status and clout if development is to be an important pillar of U.S. foreign policy. Ideally, there should be legislation that preserves the development mission of U.S. aid and oversight that ensures the mission is followed and realized.

The current relationship between USAID and state is confused and unsustainable if USAID and the U.S. Government generally are to be leaders in development in this century. The most urgent task facing the administration in the area of development is to clarify this relationship and strengthen USAID itself. I hope this committee will keep this issue on its agenda until we have the strong development agency we need, the strong voice for development within the administration, and the expertise to back up that voice. We are in great danger of losing it at present.

Senator MENENDEZ. Thank you, Professor.

Dr. Radelet.

STATEMENT OF STEVEN RADELET, SENIOR FELLOW, CENTER FOR GLOBAL DEVELOPMENT, WASHINGTON, DC

Mr. RADELET. Good morning. Thank you, Chairman Menendez and Ranking Member Corker, for holding this hearing and for inviting me to participate.

With all of the challenges that we face in the world today in the immediate issues that we have to confront, it may seem a little odd to spend time thinking about the rather, what might seem, the mundane issue of USAID reform. But, actually it's directly because of those challenges that it is so important that we get the foundation correct and strong, in terms of how we engage with countries around the world. We face many issues around the world, from hunger to disease, to instability in Pakistan and Afghanistan, to piracy off the coast of East Africa, and many other issues, and we cannot achieve our objectives of our own strong national security and in encouraging and stimulating prosperity around the world and stable governments around the world, without a strong and robust development agency that can lead the way in how we engage with these countries.

People around the world, especially because of the crisis, are looking to the United States for leadership. Whether we like it or not, whether it's accurate or not, they blame the United States for the crisis. And whether it's accurate doesn't matter; they do. And they're looking for us to step up and to help out. And we need to do so, for our own good, but also because if we don't, someone else will. There are lots of others that are willing to step up and take the lead if we're not willing to do it. So, we're at a very critical time.

As we think about AID reform, it's important to put that in the context of broader development capacity. Foreign assistance is only one tool, and only one approach, in how we engage in supporting development. Our trade policies, our migration policies, our policies on international finance, remittances, many other things, relate to the development challenge.

And, more broadly, before I speak about AID reform, it's important to think about the steps we need to strengthen our broader development capacity. And I think there are four broad ones that we need to think about:

First, we need a development strategy to work in parallel with our national security strategy and other strategies. We don't really have a strategy for this important tool of how we engage. So, first we need a strategy, led by NSC, an interagency process to strengthen the way that we engage to support the development process.

The second piece is legislative reform, the Foreign Assistance Act, relative to USAID, but others, as well. We need the legislative basis to think about our development, not just foreign assistance, but development process.

Third is funding. Not only the amount of funding, which is crucial, but how we allocate that funding to our bilateral programs, to our multilateral programs, and across the different agencies, and to which countries do we allocate.

And fourth is the organizational piece. AID, which is the focus of our attention today, but also the MCC, PEPFAR, and also the

relationships between these agencies and the Department of Defense.

So, we have this broader set of issues that we need to keep in the back of our mind as we talk about one specific issue here, which is strengthening USAID.

Let me focus now specifically on USAID. We all know that, over the last many years, it has become increasingly weakened and does not have the capacity, at the moment, to really step up and take the lead on development issues. Let me suggest five steps that can be taken to rebuild USAID in the coming years:

No. 1, put someone strong in charge. We want to urge the administration to name a new, strong leader at USAID as quickly as possible. As Carol Lancaster pointed out, things happen. We have our strategy, going forward, on Pakistan and Afghanistan, and we do not have someone at USAID, at this moment in time. We need a strong leader that can lead the charge, not only on the day-to-day issues for USAID, but to lead the reform issues, going forward. And that person needs to have a seat at the NSC. It needs to be part of those broader debates of government policy and how we engage with developing countries. Senator Menendez pointed out that development is not a subset of diplomacy. We need a separate person at the NSC to give that input with the professional development perspective. So, No. 1 is strong leadership.

No. 2 is that smart power requires a smart division of labor between State and USAID, in particular. Over the last few years, more and more of the responsibilities have moved toward State. And, while our development programs need to be aligned with diplomacy efforts at State, they are separate from and require a degree of autonomy and a distinct set of skills. The skills and expertise required at State for diplomacy, foreign policy, and communications are quite different from the economic development, poverty reduction, and long-term program management skills that are needed at USAID. And if that relationship is too close, with too much of the responsibility and authority at State, it actually undermines, over time, the strength and credibility and capacity at USAID. While it might make sense on an organizational chart, it actually does undermine and weaken our development capacity over time.

The F process is a good example of that. While well intentioned, in that there were some good parts to it, in the end it further weakened USAID by further taking away some of its responsibilities.

A couple of things in particular, I think, that need to move back to AID. One is the budget responsibility. You can't have a strong USAID unless the direct reporting relationship from USAID to OMB is restored, and that USAID actually has direct responsibility over its budget.

In addition, the capacity for developing strategies for strategic thinking and policy formulation on development issues need to reside at USAID, not at State. That's where the capacity should be. It should be done in cooperation and consultation with State, but those main responsibilities need to be at USAID. In recent years, they've moved to State, and they need to move back. So, that division of responsibilities is key.

Three, you need to build the right team. The professional capacity at USAID has been weakened considerably, and we need both the right numbers and the right technical skills for USAID to function as a premier development agency. The goal should be for USAID to be the premier development agency in the world. And it used to be that. And it's not anymore. But, you need more staff—a lot more staff—and you need staff with the right skills—in economics, in finance, in agriculture, in agronomy, in education, in health—skills that, again, are not going to be found in Foreign Service officers, who have wonderful and specific skills in other areas, but they don't have the specific development skills.

Fortunately, in the last couple of years, this has begun to turn around, and there is the beginnings of bringing back that capacity to AID, but that needs to be supported and stimulating, going forward. So, that's the third piece.

Fourth is the legislative foundation. The Foreign Assistance Act is weak and largely out of date. It was meant for a different set of challenges that we faced nearly 50 years ago, at the beginning of the cold war. And over the years, it's been burdened with more restrictions, earmarks, and multiple objectives that really make USAID's job much more difficult. It is really a burden on the agency, and it undermines its ability to respond effectively in the field to the most important issues that it faces at hand. So, if we're going to strengthen AID, we need a strong legislative foundation for that, which would rebuild the relationship between the executive branch and the legislative branch, providing the executive branch with the authorities it needs, but, at the same time, giving a rightful oversight and effective oversight role to Congress. So, that relationship needs to be rebuilt.

Fifth, and finally, is more money, better spent. More money, by itself, will not solve these problems. But, more money, better spent, is a big part of the challenge, going forward. These steps that I've outlined earlier, and others that my colleagues will lay out, are important steps to making sure that every dollar we spend is spent as effectively as possible. And we need to focus, as much as possible, on doing that. But, it's also a matter of more money. There's been increases in the last few years, and those are welcome, but they're off a small base, and they are not sufficient to address the big challenges that we face around the world.

In terms of making sure that we spend our money more effectively, two specific steps. One is that we need to strengthen our monitoring and evaluation capacity. It's far too weak. We don't have a good handle on what activities are effective and what activities are not effective. And if we're going to be serious about spending our money more effectively, we need a much stronger monitoring and evaluation capacity. And second, we need to streamline and reform USAID's procurement process, which adds to the bureaucracy and ensures the money is not spent as well as it could be.

Taking on these reforms is not going to be easy, particularly in today's context of building USAID into a modern development agency is going take time, resources, and effort. But, the challenges we face require a strong development agency. It's time to take advantage of the opportunity that we have and the consensus that

is formed around the importance of development to modernize and strengthen our U.S. foreign assistance programs, particularly USAID, so that it can serve as a critical pillar of our foreign policy and our national security.

Thank you very much.

[The prepared statement of Mr. Radelet follows:]

PREPARED STATEMENT OF STEVEN RADELET, SENIOR FELLOW, CENTER FOR GLOBAL DEVELOPMENT, WASHINGTON, DC

Thank you, Chairman Menendez, Ranking Member Corker, and other members of the subcommittee. I am honored that you have invited me to offer some perspectives on the role of USAID in the 21st century.

I. INTRODUCTION: WHAT HAPPENS THERE, MATTERS HERE

Today we find ourselves at a critical juncture. The challenges our country faces at home and abroad are serious and emblematic of a new era. An era where the world's challenges—disease, human and food insecurity, climate change, financial crises—do not respect borders and are truly global problems requiring global solutions. Trade, remittances, and private investment tie rich and poor countries together, creating shared opportunities for prosperity in plentiful times, but also shared instability and strain in times of financial crisis. Outdated and inefficient policies, instruments, and organizational structures must be brought into the 21st century. The new Obama administration is confronting a perfect storm of domestic economic concerns at home and multiple challenges overseas: Continued wars in Iraq and Afghanistan, escalating instability in Pakistan, emerging sanctuaries for terrorism and piracy in unstable regions of Africa, and, in the wake of the global economic downturn, deepened poverty and threats of heightened political instability in countries across the world.

All of these global threats pose direct and grave challenges to our national security at home and to fighting disease and poverty around the world. In each and every case, cutting-edge development policy and an empowered development agency are critical to an effective solution. As President Obama outlined in his administration's new strategy for Pakistan and Afghanistan, stability in these crucial areas will remain elusive unless development outcomes are achieved. Part and parcel of the administration's strategy in these countries are core development activities: The delivery of basic health and education services, efforts to bolster the capacity of both states to govern effectively, the introduction of alternative sources of livelihoods for Afghan poppy growers, building infrastructure, and stimulating robust economic growth in the impoverished border regions of Pakistan that are home to extremists, to name a few.

For these reasons, President Obama has pledged his commitment to elevate development as one of the three "D's" of our national security—alongside defense and diplomacy—and to leverage development and foreign assistance as key "smart power" tools of statecraft. So, too, have a host of public officials across government:

- Secretary Clinton, in her Senate confirmation hearing, said "Investing in our common humanity through social development is not marginal to our foreign policy but integral to accomplishing our goals."
- Retired Marine Corps General Anthony Zinni has said "We know that the 'enemies' in the world today are actually conditions—poverty, infections disease, political turmoil and corruption, environmental and energy challenges."
- Defense Secretary Gates said "It has become clear that America's civilian institutions of diplomacy and development have been chronically undermanned and underfunded for far too long—relative to what we spend on the military, and more important, relative to the responsibilities and challenges our nation has around the world."
- Former Secretary of Agriculture Daniel Glickman urged this committee just last week to strengthen U.S. development leadership and USAID to address the global food crisis.

Furthermore, global development was part of the political discourse in the 2008 Presidential elections, spurred by an informed, supportive, and growing constituency of Americans who asked Republican and Democratic candidates alike how they would strengthen U.S. development programs. There has been no greater moment in recent history to modernize and strengthen our development programs to address the challenges and opportunities of the 21st century.

II. INVESTING IN A MODERNIZATION AGENDA: WHAT ARE WE TRYING TO ACHIEVE?

As the Obama administration, Congress, military leaders, and American voters have recognized, strong development policies and programs are critical to enhancing the U.S. image in the world, achieving our foreign policy goals and increasing our national security. To reap these benefits from development, however, we must have a greater impact on the ground and demonstrate that we are reaching our key objectives in developing countries: Stimulating economic growth and poverty reduction, promoting political stability, and responding to humanitarian crises.

Our current development programs deserve more credit than they usually receive. PEPFAR has put 2 million people on life-saving antiretroviral treatment through PEPFAR; the MCC has spurred policy reforms and paved the way for supporting economic growth in 18 countries through investments in agriculture and essential infrastructure; and USAID has many examples of large-scale successes, from the substantial reductions in deaths from maternal and child mortality and diseases like river blindness and polio, to efforts to bring peace and security to countries such as Bosnia and Liberia.

At the same time though, the U.S. development voice is more like a choir, without a conductor. We have 20-some different agencies with different policy objectives, structures, and bureaucracies and little strategic oversight and coordination. And that is just our foreign assistance. Policies affecting trade, migration, climate change, capital flows, governance and others also influence America's standing in the world and our relationship with other countries, and at present, these policies often contradict each other and undermine our development objectives.

We can, and must, do better. Getting a bigger bang for our development bucks requires being smarter about our development strategy, legislation and organizational apparatus.

III. STEPS TOWARD MODERNIZING FOREIGN ASSISTANCE

While it may be tempting to consider partial changes that make small improvements in our current development architecture, marginal reforms will only lead to marginal improvements, which will fall short of achieving our objectives and may not be sustained over time. More fundamental changes are needed to meet our foreign policy objectives. In particular, four broad steps should be taken to modernize our foreign assistance programs:

- *Craft a development strategy.* The administration should prepare, under the leadership of the NSC, a National Strategy for Global Development, distinct from but consistent and coordinated with the National Security Strategy. A strong strategy is essential for clarifying goals and objectives, coordinating development-related activities spread across the government, and increasing the efficiency and effectiveness of key programs.
- *Rewrite the Foreign Assistance Act.* The FAA is unwieldy and outdated, and adds significantly to the costs and inefficiencies of many of our programs. While using the authorities in the current act more strategically is a good first step, it is no substitute for reaching a new understanding and alliance with Congress on the goals, objectives, and modalities of foreign assistance programs.
- *Increase funding for and accountability of foreign assistance.* While foreign assistance funding has increased in recent years, it is still a tiny share of the budget, and very small relative to the amounts needed to meet today's challenges. As our HIV/AIDS program has shown, relatively small investments can pay big dividends for both showing strong U.S. leadership abroad and effectively fighting disease and poverty.
- *Build a strong, consolidated, and empowered development agency.* Our programs are spread across too many agencies, and USAID has been significantly weakened over the last decade. President Obama had it right during the campaign: To meet today's challenges we need an elevated, empowered, consolidated, and streamlined development agency.

Action on all four fronts is needed to elevate development and modernize U.S. foreign assistance programs. Our discussions today focus on the fourth area, and in particular the next steps for USAID, but these discussions should be seen in the context of the need for other complementary steps to truly make our programs more effective.

IV. AN AGENDA FOR BUILDING A 21ST CENTURY DEVELOPMENT AGENCY

The five most important action steps to rebuild USAID include the following:

1. Put Someone in Charge, With a Seat at the NSC

To concretely signal President Obama's commitment to elevate development as a "smart power" national security approach alongside defense and diplomacy, the administration should name a strong, capable leader as USAID Administrator as soon as possible to exert leadership on development policy and transform USAID into a 21st century development agency. Over time, USAID would be strengthened and reprofessionalized to serve as the base for consolidation of other major foreign assistance programs such as MCC, PEPFAR, and perhaps even the multilateral development bank programs currently housed at Treasury. The ultimate objective would be to have the USAID Administrator be the one voice of the U.S. Government on development policy and development assistance, the one point of contact for the field for questions on development impact of programs and of other government policies (trade, migration, investment, etc.), and the one person accountable to Congress for delivering the development and development assistance agenda.

As a real signal of the importance of development in national security, the USAID Administrator should be included as a member of the National Security Council and other high-level interagency deliberative bodies. At a minimum, the administrator should be invited to all NSC Principals Committee meetings dealing with international economic issues. This will provide professional development perspectives and policy input at the highest policy-setting table, independent from but complementary to diplomatic and defense.

2. Smart Power Requires Smarter Division of Labor

For our development policies and programs to contribute to the U.S. smart power agenda, we need to be smarter about who sets our development policies, how they inform the decisionmaking process and where they sit within the U.S. Government. Over the last 15 years, we have seen a consistent and substantial reduction in USAID technical staff, a sharp rise in the reliance on private contractors and overall decline in the agency's ability to fulfill its development mission. The creation of the MCC and PEPFAR outside of USAID was viewed as an effort to work around USAID dysfunction instead of rebuilding its capacity. And in 2006, USAID's budget, planning, and policy functions were transferred into the State Department through the creation of the Director of Foreign Assistance (DFA) further relegating USAID to the status of a contract manager and pass-through for foreign assistance funds. Although the F Bureau was created in part to better coordinate and elevate foreign assistance, it has come at the expense of a weakened USAID and has divorced on-the-ground implementation of programs from the important policy and budgetary decisions that underpin them. As a result, we now know better where and for what our foreign assistance dollars are going, but the ability to better plan for the most effective use of those resources to meet U.S. objectives have been diminished.

Building a strong and effective development agency will require providing our development programs with a certain degree of autonomy from our diplomatic and defense efforts alongside distinct authority and responsibility over the development budget and policy.

- *Autonomy.* While development programs should be closely aligned with our overarching foreign policy objectives—diplomatic and defense—development is a distinct set of issues requiring very different professional skills and background to address economic development, poverty reduction, and long-term management of development programs. Too close of a relationship between State and USAID runs the risk of confusing the two skills sets and not necessarily doing better at either. Some separation between the two objectives will help attract the right experts for each institution and strengthen the core technical development skills required to be more effective with our development dollars. Moreover, direct oversight by the State Department of foreign assistance programs raises the concern that the development mission will be subordinated to the short-term political pressures and diplomatic objectives of the State Department, which could undermine the achievement of key development objectives over time.
- *Budget.* A strong development agency must have budget responsibility to enable the agency to provide a meaningful voice for development (and contribute field perspectives) during the budget preparation and interagency budget negotiations, currently managed by the Office of the Deputy Secretary of State. Many broad budget responsibilities may appropriately lie within the State Department—including responsibilities for reviewing and coordinating budgets across many foreign affairs agencies, reviewing proposals for reducing inefficiencies and nonperforming programs, consulting with Congress on the need to rationalize earmarks, and mobilizing financial resources. But USAID's authority over its own budget should be restored, including control over the final allocation of

development resources across countries and programs based on input from country teams.

- *Policy.* Development assistance strategies, including sectoral and country strategies, should be developed at USAID. The policy function (formerly PPC) currently resides in the F Bureau and should be transferred back to USAID to facilitate long-term thinking and planning on development policy. Capacity should also be restored to USAID to enable it to design its programs in-house to best meet strategic objectives, ending over time the current practice of outsourcing program design to contractors.

3. Build the Right Team

One of the key resources needed at USAID is people: Both the right numbers of staff and the technical skills required to function as a premier development agency, as well as the capacity to hire and train staff. Over the past 15 years USAID's professional capacity has been weakened, not only compared to the past, but also compared to the Departments of Defense and State. In recent years, administrative resources and staffing for USAID have been slashed, at the same time that responsibilities and budgets have grown. Today USAID faces a critical shortfall of experienced career officers and a dearth of technical expertise within USAID in such areas as science, economics, and agriculture, rendering the institution ill-equipped to address the myriad development challenges of the 21st century. This combination of staff reductions and scarcity of technical expertise has weakened USAID's capacity to provide strong development input in policy formulation and decisionmaking, adequately manage projects, and provide appropriate technical oversight.

Fortunately, during the last year this trend has begun to change, with commendable efforts underway to rebuild USAID's staff. But there is still a long way to go. To fill this gap, it will be important to ensure that net increases at field posts are significant, above and beyond conversions of Personal Service Contracts (PSCs) and Foreign Service Limited positions (FSLs). To pave the way for an increase in permanent staff hires, it is critical that the constraint on Operating Expenses (OE) be relieved. Other important measures include filling USAID's management gap with an increase in permanent staff, including mid-level managers, possibly through the expansion of the Development Leadership Initiative into civil service and FSN positions, and shifting the balance of USAID human resource from an overwhelming concentration of general management experts to a larger percentage of technical experts.

4. Provide a Strong Legislative Foundation

USAID's legislative foundation is the Foreign Assistance Act of 1961. But that foundation is weak and largely out of date. The FAA is nearly 50 years old, grounded largely in cold war threats, and not focused on meeting today's challenges. Over time hundreds of amendments have added multiple objectives and priorities that in some cases conflict with one another, rendering it ineffectual as a rational policy framework. It has become laden with multiple earmarks that are administratively burdensome, undermine USAID's ability to respond effectively on the ground to greatest needs, and weaken its ability to achieve strong results. The foreign assistance authorization process, which once reviewed and modified the FAA nearly every year, has not functioned in over 20 years.

Rewriting the FAA is central to building a strong and capable development agency. Although several critical pieces of foreign assistance reform can be achieved without legislation—creating a national development strategy, strengthening monitoring and evaluation system, improving procurement and contracting procedures, building human resource capacity—no broad-based foreign assistance modernization initiative can be fully implemented without major legislative modifications.

Rewriting the FAA will require a "grand bargain" between the executive branch and Congress, reflecting a shared vision of the role and management of U.S. foreign assistance, providing the executive branch with the authorities it needs to respond to a rapidly changing world, and ensuring rightful and effective legislative oversight. Done purposefully, inclusively and transparently, this bargain would reestablish confidence in the foreign assistance system among the U.S. public and nongovernmental development organizations and reduce the ability of special interests to secure self-serving earmarks. Partially amending the FAA, rather than rewriting it, would run the risk of exacerbating the fragmented and incoherent nature of the existing act, continuing to layer modernized legislative provisions on top of outdated and irrelevant policy authorities. As part of this process, the administration and Congress should consider renaming USAID to signal a break from the past and its intention transform it into a 21st century development agency, perhaps naming it

the Development Investment Agency to emphasize our investments in the development process.

The bottom line is that without a restructuring of authorities and a rationalization of restrictions, whether they be congressional earmarks or Presidential directives, all the personnel and organizational reforms undertaken will not make a truly material difference in the effectiveness of U.S. foreign assistance programs.

5. More Money, Better Spent

More money by itself will not help the U.S. to better achieve its foreign policy goals. But more money, better spent, is an important part of the answer. In today's difficult economic times, we must ensure that every dollar we spend is used as effectively as possible on the ground, and the steps outlined above are central to spending U.S. funds more effectively. So, too, is allocating our funds more wisely, with more funding going to low-income countries with the biggest needs and to better governed countries that can use it well. We can also allocate funding toward promising new innovations, such as Advanced Market Commitments (AMCs) for vaccines and other applications, and cash-on-delivery programs that provide payment only after the provision of goods and services has been verified.

But additional funding also will be necessary. President Obama's commitment to doubling foreign assistance is critical for the U.S. to meet some of its most important foreign policy and national security goals. The increased funding of recent years is a good start, but it was on top of a very low base, and is inadequate for the United States to fight poverty, state failure, and instability in low-income countries around the world. If we invest in solving global problems early—like halting the spread of new infectious diseases before they reach the U.S., and easing the suffering and indignity that foster anger and violence—we save both lives and money.

To ensure stronger accountability for funds spent, we must establish much stronger monitoring and evaluation (M&E) and impact evaluation processes aimed at keeping programs on track, guiding the allocation of resources toward successful activities and away from failures, and ensuring that the lessons learned—from both successes and failures—inform the design of new programs. USAID—once a leader in this area—has lost much of that capacity, and is behind MCC and PEPFAR in terms of transparency.

One important step would be to establish an independent office for monitoring and evaluating foreign assistance programs. This office should be responsible for setting M&E standards, training, conducting external studies, and collecting and making public all evaluations for the sake of transparency and learning. The MCC model is a best-practice in this regard and could be applied more broadly to USAID and other agencies. It is crucial that measures of ultimate impact be conducted independently of the designers and implementers of the programs. For that reason, the United States should support and ultimately join the International Initiative for Impact Evaluation (3IE), which brings together foreign assistance providers from around the world to provide professional, independent evaluations of the impact of development initiatives.

Finally, a key component of ensuring that funds are better spent will be streamlining and reforming USAID's procurement processes and capacity—both in Washington and in host countries. To promote local ownership, procurement management capacity of host countries should also be bolstered. USAID should prioritize regular publishing of procurement plans, as well as program implementation to apprise partners of USAID's achievements and best practices. The timeframe of contracts should be long enough to achieve sustainable results. An expansion of contracts to 5 years would help reduce transaction costs and create incentives for implementing partners to focus on longer term, complex challenges. The establishment of a unified set of rules and regulations for foreign assistance funds would help reduce the cost of regulatory compliance and risk of noncompliance. To the extent possible, these rules and regulations should be harmonized with other bilateral and multilateral donors.

V. CONCLUSION

Taking on these reforms will not be easy. Rebuilding USAID into a strong, modern development agency capable of addressing the myriad challenges of the 21st century requires investments in resources, organizational change, and real reforms. Yet change we must, and delay we cannot. The impact of the financial crisis—on our budget at home, and on escalating poverty abroad—reminds us of the imperative of using each and every one of our foreign assistance dollars with the maximum effectiveness, to achieve the greatest possible impact in poor countries. Likewise, the national security threats posed by fragile regions abroad—in Pakistan and Afghanistan and in unstable countries that tomorrow might be at the top of the U.S.

agenda—point to the imperative of bolstering our ability to deliver development on the ground, and along with it stability and peace. It is time to take advantage of this unprecedented opportunity to modernize and strengthen U.S. foreign assistance and to deliver on the promise of development to serve as a critical pillar of our national security.

Senator MENENDEZ. Thank you, Doctor.

Ambassador Natsios.

STATEMENT OF HON. ANDREW S. NATSIOS, DISTINGUISHED PROFESSOR, EDMUND A. WALSH SCHOOL OF FOREIGN SERVICE, GEORGETOWN UNIVERSITY, WASHINGTON, DC

Ambassador NATSIOS. Thank you, Mr. Chairman. I would like to thank the committee for the invitation to speak this morning.

Two former USAID Administrators, Brian Atwood and Peter McPherson, in two different administrations, and I wrote an article on foreign aid reform which appeared in Foreign Affairs in December of last year. I stand behind the analysis and recommendations we made in that article, which has been widely circulated in the development community and in the State Department, but I want to cover a few of those issues that are in that article.

I am convinced no great power can maintain its preeminence without a robust foreign aid program. Given what defense intellectuals call the asymmetrical threats facing American vital national security interests since 9/11, we are likely entering a period in international affairs where foreign aid, humanitarian assistance, and long-term development may be the most important instrument of national power available to our policymakers, more important than diplomacy or military power. And I served as a diplomat for a while, and I was a military officer for 23 years; I retired as lieutenant colonel. My son is in the military. I'm very pro-military. The Defense Department is not a development agency, and neither is the State Department.

President Bush accomplished three important tasks in foreign aid. He increased funding from $10 to $23 billion; he placed heavy focus in foreign aid on our foreign policy; and he made changes in doctrine and theory. However, the organizational structure is a different matter. It remains dysfunctional and very confused.

Let me begin by talking about mission and mandate. Some will argue, in Europe and in the national system, that poverty alleviation should be the only mission of our assistance programs. I think that would be a mistake. While poverty reduction must be one of its central objectives, it is insufficient, as a mission alone for AID, given the threats facing America and our other friends around the world. The need, particularly of developing countries, to move away from aid dependency requires us to move beyond poverty reduction as an exclusive focus. We must also be engaged in state-building, and that is helping countries build the public and private institutions necessary to keep order, administer justice, provide public services, such as schools, health services, and roads, facilitate and encourage economic growth, and improve democracy to protect human rights and democratic principles.

I want to just add, here—this is not in my testimony—we actually reorganized AID in 2001, prior to 9/11, to create a bureau focused on fragile and failed states. And when we did that, we made a whole series of reforms. If anyone's interested, either of you

Senators, I'd be glad to, in the questions and answers, to go into the details of that. Much of that is still in place, and it's becoming more enriched.

We moved democracy and governance—I moved democracy and governance—Carol, you know, wanted to be polite here—to the conflict office, which we created. There was no conflict office in AID before I was there. We created an Office of Conflict Mitigation because of this fact: We did a survey of the 70 USAID missions in the field, and we asked them how many had had civil wars or major conflicts that traumatized the country in the preceding 5 years. I thought maybe five, six, seven, eight. Sixty percent of USAID missions were in countries that had civil wars in the preceding 5 years from 2001. Many of them had destroyed the countries. That needs to be a central focus—state fragility and state failure—of what AID does. And that bureau was designed to do that, and people in the bureau know that. We moved democracy and governance there because governance is the reason for state failure, and it's the major threat to national security interests. The State Department and Defense Department call this "ungoverned spaces." Ungoverned spaces mean state failure.

Where was bin Laden's headquarters before he went to Afghanistan, a failed state? It was in Sudan, another failed state. And before that, in Somalia, another failed state. We are threatened by failed states. We must deal with this from a developmental standpoint, because it's a failure—essentially, a failure of governance.

Because AID has been traditionally associated with the State Department organizationally, development and diplomacy somehow have become conflated. They are alike in every unimportant way, to paraphrase Wallace Sayre. While diplomacy is all about managing our relationships with other countries, development is about changing and transforming countries internally. That's not what diplomacy is about. USAID is a program management organization that hires, promotes, rewards, and trains staff to develop their skills as technical leaders in their disciplines, as good program managers, and highly operational people who get things done.

The State Department is an information collection and analysis foreign policy coordination institution which values good writing, interpersonal political and negotiating skills. It hires and promotes generalists, not technical specialists, which is what AID does. Most career people in AID privately—in my own observations as a political appointee—would tell you the agency has far more in common with the Defense Department, in terms of organizational culture, than the State Department. The current gradual absorption of USAID by stealth, a term I borrowed from my friend Carol Lancaster, into the State Department to the merging of the agency's budgeting system, procurement system, which they're trying to get a hold of now. I hope they don't do that; it'll be very destructive to AID if State takes control of that. The electronic e-mail system—its logistics in the field, its office space in the field, its motor pools in the field, reduction of AID's field presence and warehousing capacity in the fields—all have been merged in the embassies. There's a whole focus on downsizing AID in the field. You cannot win a war by withdrawing from the battlefield, which is what we're doing now. And it's been done through three administrations. It is,

in my view, a disaster. If this continues, it will paralyze the agency and we will not have a development function.

This has nothing to do with political party or ideology. If you want a functional aid agency, you have to put them in the field, where they belong, and that's not what's happening.

AID and the State Department are like oil and water. This is not an attack on the State Department. I served as a diplomat for a year and a half. I have great respect for our diplomats; they do excellent work. The two institutions do completely different things. State is now managing development programs that, I have to tell you—the only Federal agency, when I left AID, that did not do program audits in their IG office is the State Department. There's a reason for that. If they did program audits of their programs that they manage out of State, there would be a lot of very serious problems in this body. There's a reason they don't do program audits. They do a terrible job of managing programs. I remember, at one point, when the—what's that program in the Middle East—Middle East Partnership Initiative was set up. There was an instruction from Washington, "Do not ever let anybody from AID manage the program. State's going to manage it." In one mission, the Ambassador said, "I am not allowed to give AID this money. I must have the embassy mission," so they—she called in the U.S. Embassy nurse—not the nurse for the country, the nurse for the diplomats—to run the program. She quietly went to the AID mission director and said, "I'm going to get in serious trouble. I have no idea how to manage health programs. I'm a nurse. Why are they giving me this program?" Because there's no one else in the embassy to run these programs. The instructions to have AID not be involved in the MCC is one of the reasons the program is so slow in implementation in the field. These kinds of decisions make no sense, operationally, at all.

While I support a Cabinet-level position, I am not certain there is political support for a change in Washington, so I believe in a good compromise. Senator, you properly said we need to be politically realistic; I completely agree with you. Complete organizational independence, with a dotted-line relationship from the Administrator of AID to the Secretary of State, not for the whole agency. I used to have desk officers who were 23-year-olds, trying to give assistant administrators, confirmed by the Senate, instructions on what to do, because everybody at State thinks everything in AID is completely under their control. I've had people—career people at State say, "It's a wholly owned subsidiary. You do what we tell you to. And don't make any comments. We know what we're doing." They know what they're doing in diplomacy, they're excellent diplomats; they do not know anything about development.

I think the statutory responsibility of the AID Administrator should be, in law, as the chief international development officer for the United States Government for all agencies. That is the case, by the way—we already have precedent in the Foreign Assistance Act—in terms of disaster response. And it does make a difference. When we have a major international disaster, like the tsunami, I would say, "I have a letter from the President of the United States, under Federal law, saying, I, as Administrator of AID, am in charge of disaster response for this," and the military carried out

orders. You show that letter, they do what you ask them to. We didn't used to have fights in natural disasters, as a result of that. I think giving that authority to the AID Administrator, in law, would make a great deal of difference.

I might also add that the legal authorities in the Foreign Assistance Act are to the Secretary of State, not to the AID Administrator. That's a big problem. If you're going to rewrite the Foreign Assistance Act, gentlemen, I think you should seriously consider vesting those authorities with whoever is the AID Administrator, statutorily. We now have 20 Federal agencies, like we did in 1961, when Jack Kennedy created AID, running our AID program. The way in which we're dealing with this is by having interagency meetings of four different Federal Cabinet departments coordinating $20 million programs. I mean, it's one thing to coordinate a $50 billion program, but $20 million? And the way we used to do it, and it's been done through several administrations, is lowest common denominator. If anybody objects to what anybody else is doing, they veto the program. So, it slows everything down. It means that domestic agencies that have no experience in the developing world can veto an AID program.

During the cold war, OMB enforced an administrative discipline on the Federal system that all program moneys spent in development projects had to go through, and be managed by, AID. I asked career people at OMB, "Did it work?" They said, "Yes, it did." It collapsed in the early 1990s. If you want to discipline this properly, go back to the old system. That did not mean we didn't use other Federal agencies, but it meant, if the U.S. Geological Survey, which OFDA, the Office of Foreign Disaster Assistance, which I ran in the early 1990's, needs help in earthquakes, they contract with the U.S. Geological Survey, which has expertise in this area, to work for AID in the field. And so, they would join the technical teams, but there was never any doubt who was in charge. Now everybody does their own work with no real coordination.

There's two Federal agencies and two different administrations that signed 20 to 30 agreements with sovereign governments in other countries to do development programs, when they had no resources to do it. And the mission directors would come back to AID—the ministers in the governments in the Third World—come back to AID, saying, "Why aren't you implementing these programs?" "Well, we didn't even know the agreements had been signed." Neither did the ambassadors, I might add.

I'd like to suggest two immediate reforms. PEPFAR office should be moved from State to AID.

Senator MENENDEZ. If you can wrap up for——

Ambassador NATSIOS. Yes.

And finally, I think the MCC Board should be kept in place, but the MCC field presence should be merged into field missions. And once the contracts—or the compacts are approved, the implementation should be done with the AID mission and the ministries in the governments in the countries, not in the separate—we have all these separate entities implementing programs; it doesn't make any sense.

Thank you very much.

[The prepared statement of Ambassador Natsios follows:]

PREPARED STATEMENT OF ANDREW NATSIOS, PROFESSOR IN THE PRACTICE OF DIPLOMACY, THE WALSH SCHOOL OF FOREIGN SERVICE, GEORGETOWN UNIVERSITY, WASHINGTON, DC

Mr. Chairman, I would like to thank the committee for the invitation to speak this morning. This is a matter of great importance for the United States. Two former USAID administrators, Brian Atwood and Peter McPherson, and I wrote an article on aid reform which appeared in Foreign Affairs in December 2008. I stand behind the analysis and recommendations we made in that article, but will review this morning a few of the issues we covered.

I am convinced no great power can maintain its preeminence without a robust foreign aid program. Given what defense intellectuals call the asymmetrical threats facing American vital national security interests since 9/11, we are likely entering a period in international affairs where foreign aid, humanitarian assistance and long-term development may be the most important instrument of national power available to our policymakers, more important than diplomacy or military power, or at the very least, of equal importance. I know that members of both parties of this committee for some time have been trying to rewrite the Foreign Assistance Act to correct the current chaotic organizational structure, inadequate staffing, and confused mission of our current U.S. foreign assistance program which is spread out across 20 agencies. President Bush accomplished two important tasks in foreign aid: He increased funding from $10 billion to $23 billion, placed heavy focus on the foreign aid in our foreign policy, and made major changes in the doctrine and theory of our aid program. The organizational structure is, however, a different matter: It remains confused and dysfunctional.

Let me begin by talking about the mission and mandate. Some will argue that poverty alleviation should be the only mission of our assistance programs. While poverty reduction must be one of its central objectives, it is insufficient alone as a mission given the threats facing America and our allies, and the need of developing countries to move away from aid dependency. We must also be engaged in state-building, that is, helping countries build the public and private institutions necessary to keep order and administer justice, provide public services such as schools, health services, and roads, facilitate and encourage economic growth, and improve governance to protect human rights and democratic principles. This goes beyond an exclusive poverty focus.

Because of the demand in this city (which has grown stronger over the past 15 years) for quicker, measurable, and quantifiable results our aid program has gradually moved away from institution-building, program sustainability, and capacity-building toward the delivery of services directly to poor people in developing countries. The HIV/AIDS PEPFAR program is one example of this. Building institutions takes a long time and a great deal of patience, requires local political will and leadership, and sustained funding, but it ought to be the ultimate objective of aid programs. Progress in building states can not be easily quantified as required by Federal law, OMB, GAO, and IG audit requirements. One of the major reasons that OMB phased out funding for USAID scholarship programs, one of the most successful programs in doing institution-building, is that its outcomes can not be easily measured, particularly over the short term. The focus on measurement is now mandated under Federal law, called GYPRA (Government Performance and Results Act). This is also one reason USAID programming has become increasingly risk averse, avoiding experimentation and innovation, because new approaches increase the risk of project failure which the regulatory apparatus in Washington was designed to minimize.

We can correct some of these problems through reform. The grantmaking portion of USAID's portfolio should be redefined and overhauled to encourage new non-traditional partners, more indigenous organizations and institutions, and new experimental approaches to development, a clear exemption of grants from results measurement requirement for all aid programs (allowing that there will be failures sometimes), with a more lenient standard for IG audits, GAO evaluations, and OMB oversight (so long as there is no malfeasance).

Much of what people say is wrong with our aid program regardless of which agency is running the program is more a problem with the Federal Government broadly and this has to do with the regulatory environment in which all Federal agencies must do their work. Our aid programs must conform to the 1,982 pages of the Federal Acquisition Regulations which govern all Federal procurements. It has no control over the contradictory demands made on it by the Congress, State, OMB, IG, and the GAO. I found the most frustrating element of my job was getting agreement among overseers to do anything complex took a very long time and this was because stakeholders and overseers often disagree with each other even on

mundane matters. As the committee, I am sure knows, unlike most other Federal departments the work of our aid agencies is not done in the United States but developing countries of very different culture, norms, and worldviews which do not always see things exactly the way people do in countries contributing the funding. If we are to undertake successful development programs they must be tailored to the local circumstances or they will fail.

Because USAID has been traditionally associated with the State Department organizationally, development and diplomacy have somehow become conflated. They are alike in every unimportant way, to paraphrase Wallace Sayre. While diplomacy is all about managing our relationships with other countries, development is about changing and transforming countries. The State Department focuses on managing external relationships and short-term crisis management; USAID focuses on long-term transformational change inside other countries through its development portfolio. Certainly over the past 15 years USAID has become much more skilled at assisting our military officers and diplomats in crisis management, but at the heart of it the three D's are very different instruments of national power. The tools of the development professional in USAID are technical expertise in development sectors, country strategy papers, procurement instruments, assessment and evaluation tools, financial spread sheets, and implementation plans. USAID is a program management organization which hires, promotes, rewards, and trains staff to develop their skills as technical leaders in their disciplines and as good program managers.

Conversely, the State Department is an information collection, analysis, and foreign policy coordination institution which values good writing, interpersonal, political and negotiating skills. The current gradual absorption of USAID by stealth into the State Department through the merging of the agency's budgeting system, procurement, electronic mail system, its logistics, office space, motor pool, reduction in USAID field presence, and warehousing capability in the field, is gradually eroding the Agency's capacity to carry out its mission. OMB has been facilitating this merger using the argument of efficiency, ignoring the program consequences of this merger. I believe the result will be organizational failure. Unless this trend is reversed the foreign aid program of the U.S. Government will end up the way our public diplomacy program did when State absorbed USIA. USAID and State are like oil and water. This is not an attack on the State Department. I served as a diplomat for a time and I must say I have great respect for our diplomats and for the fine work the State Department does around the world, but that work should not be confused with development. If the Congress intends on having a competent international development agency, its independent policymaking authority over the allocation of its budget with a direct-line relationship to OMB should be restored and its business systems made once again independent. Structurally a reformed foreign aid agency should be organizationally independent of the State Department.

While I support a Cabinet-level position I am not certain there is political support for such a change in Washington, and so I believe a good compromise would be organizational independence with a dotted-line relationship to the Secretary of State for the Administrator of the Agency with an independent statutory seat on the NSC, statutory responsibility of the USAID Administrator as the chief U.S. international development officer, as the coordinator of international disaster assistance for the U.S. Government, and independent legal authorities for the Agency under the Foreign Assistance Act.

Having foreign aid programs run by 20 different Federal agencies embarrasses the U.S. Government abroad with contradictory programming, endless transactional costs in program implementation, time delays, interagency fighting, and unclear decisionmaking. For example, over the past 12 years two Federal departments have written Memos of Understanding with dozens of countries to provide technical assistance without funds to carry out the programs, no staff, no field presence and no coordination with the embassies or USAID missions. None of the agreements have been implemented which has been an embarrassment to the U.S. Government. Inevitably the country Cabinet Ministers who signed the agreements end up in the USAID mission director's offices asking why the program hasn't started, which the USAID mission were not party to. During the cold war, OMB enforced an administrative discipline on the Federal system that all program money spent in development projects had to go through and be managed by USAID, a discipline which ended with the cold war. We should restore the discipline now that we have a new war on our hands. One of the principles of war I learned as a military officer was unity of command; that should be equally true for aid programs with the U.S. Government as well.

I would like to suggest several organizational changes to improve the structure of our aid program. One immediate change would be for the PEPFAR HIV/AIDS Office in State to be moved to USAID where it properly belongs. The independent

MCC board should be kept in place, along with the indicators and central staff to review proposals and do evaluations, but the field presence of the MCC should be merged into the USAID mission abroad and have a reporting line back to Washington. The sector earmarking by both the executive and legislative branches of all development spending outside the MCC has come at the cost of local ownership, local leadership, and decentralized decision making. The World Bank, U.N., and European aid agencies are now generally moving to much greater degree of decentralization, while our aid program, which had been for decades the envy of the development community because of its high level of decentralization and heavy field presence, is being centralized in the State Department through the F process. This has been further aggravated by the sector earmarks of OMB and appropriations process which now absorb any remaining discretionary funding in the accounts. I think the abolition of sector earmarks is unlikely, and thus I would suggest this committee consider giving USAID mission directors transfer authority of up to 10 percent (or more) of the country budget allocation out of one or more earmarks to another priority demanded by the local situation, with full disclosure to Washington. This would mean total sector earmarks spending levels would not be exactly the same as required by law. I would urge Congress to support the tripling of the size of the USAID Foreign Service to 3,000, which would require a relaxing of embassy restrictions on the size of USAID field staffs, the rewrite of the embassy security statute to allow more flexibility to get staff to the field and then let them leave the embassy compounds more regularly. The Embassy Security Act is now a serious impediment for USAID getting its work done.

Finally I would add that USAID did its job exceptionally well during the cold war and was regarded as the preeminent development agency in the world 20 years ago. When the bipartisan coalition behind foreign aid ended with the collapse of the Soviet threat, the base of support eroded and led to the current weakened agency. If the United States is to have a robust development agency to match its diplomatic and defense capability, a bipartisan coalition is needed to sustain the program over the long term. My hope is that the Congress will move to form the bipartisan coalition support base once again.

Senator MENENDEZ. Thank you. Thank you all.

Let me start a round and then turn to Senator Corker, and we'll go from there.

I think it was a very thoughtful beginning, here. And, Dr. Radelet, I know you started off with a broader view, and I think that the chairman of the full committee will, hopefully, be holding a hearing soon that will start there, and we'll continue to work with him on these other issues. But, we wanted to start with AID.

And in the context of so many varying opinions, I had my staff do a little chart for me about various organizations and significant individuals who have made key recommendations for foreign assistance reform. So, I did a little chart. And, you know, it varies. There are some that are fundamental across-the-board common views, but with so many studies having so many varying opinions, I'd like to ask all of you, for starters, on the best—you know, on those overall studies, on the best way to reform foreign aid's structure. What, in your opinion, are the two top reforms? And how would they affect USAID in that context?

You have had several—several of you have listed several, but if I were to say to you, "What are the two top reforms, in priority order, and how will they affect USAID in that overall structure?" what would you say? Any one of you who choose to——

Professor Lancaster.

Ms. LANCASTER. Yes. Well, I am of the opinion, both from my scholarly background, but also, importantly, from my many years in the U.S. Government, that organization is politics. Where you put something organizationally has a great deal to do with how it functions and what its mission is, no matter what's written down on paper. The most pressing concern I have is the relationship

between AID and the State Department. That has to be, as both of my colleagues have said, a relationship that is compatible, but leaves enough autonomy for USAID to protect its development mission.

I remember, just as an anecdote, when I was hired as the Deputy Assistant Secretary of State for Africa, the Assistant Secretary—then-Assistant Secretary said, "Your job is to raid the aid budget." And—in those words—and I tried. And often I failed.

Senator MENENDEZ. To what? Raid?

Ms. LANCASTER. Raid the aid budget.

Senator MENENDEZ. Raid the aid budget, OK.

Ms. LANCASTER. I tried, and often I failed.

Senator MENENDEZ. Like the pirates off the——

Ms. LANCASTER. Sorry?

Senator MENENDEZ. Like the pirates off the coast——

Ms. LANCASTER. Yes, that's right. Except that they're more effective than I was. [Laughter.]

And the reason I was so often ineffective was that there was enough space, if you like—bureaucratic space—between USAID and the State Department so that when I had to go out on a particularly stupid mission, I could be resisted. The only way I could make a real dent was if I could engage the Secretary of State. That's a lot harder—it would not be a lot harder to keep me contained if, ultimately, everything is under the same chain of command. So, that has always been a concern for me. That's No. 1. Where that ends up is going to make a huge difference into what we do with foreign aid funding.

The second thing is the capacity of USAID. Even an autonomous agency cannot do the job we needed to do if that capacity isn't greatly, greatly strengthened. And AID needs to be able, not just to implement and evaluate—and I so much agree with Steve, that's an important thing—but, to think, to be able to engage in policymaking.

The relationships with the other agencies are very important, but I think these two are my top priorities.

Mr. RADELET. I would suggest, as No. 1, the legislative reform with the Foreign Assistance Act, for a variety of reasons, on the restrictions and earmarking; but, as a key part of that foreign assistance reform, to get the relationship between USAID and State correct, as part of that legislation. So, I completely agree on the core issue of the division of responsibilities between State and AID, and my concern that, over time, as things move toward State, that that is fundamentally weakening. So, that's No. 1.

And second is the capacity issue of getting the right numbers of staff and the right kinds of skills at AID, which has been so significantly diminished over the last 15 years, and needs to be very seriously rebuilt.

Ambassador NATSIOS. Mr. Chairman, I completely agree with my two colleagues, but let me add one other thing, and that is the staffing levels. We cannot run AID with 1,000 Foreign Service officers and 1,000 civil servants. The budget doubled and our staff declined. This doesn't make any sense. If you want AID to do the work itself, you need to increase the size of the career service—and that's happening now.

But, there's something else that has to happen. And unfortunately, I'm not sure it's in the control of the committee—the Senate Committee on Foreign Relations—I wish it were. And that is, there is an act which has told the embassies to downsize the U.S. Government presence in the field. After the 1998 embassy bombings, the Government—the Senate—the House and Senate committees that deal with government operations wrote an Embassy Security Act, which basically creates huge walls around the embassies, puts the AID compounds inside the embassy. By the way, that's isolating us from civil society, which is the lifeblood of AID in the field. People are afraid to go see AID now, because they—I mean, people from local civil societies see all of the security barriers, they don't even want to come into the compounds anymore. We used to have separate buildings. And I might add, they were secure buildings, too. And our staff has been reduced in size. If you increase the number of Foreign Service officers, they're all going to stay in Washington unless that law is changed.

And there's another problem, and that's the merger of the business systems that is happening in the field and in Washington. OMB is pushing this, under the guise of efficiency.

Let me tell you what really happens. AID motor pools are being merged into State's all over the world—or was abolished. So, we must now wait in line for five other bureaus within the State Department—that always have priority, because they're within the State Department—for the drug-control people, the economic counselor—to get out to see a project. We used to have our own motor pools. We don't have those anymore. They are being gradually phased out.

We used to have our own warehouses run by Foreign Service nationals. It costs very little to run this. They're being merged into State. We don't even have control over our warehousing. That's a serious problem; and unless that's corrected, it seems to me, the operational capacity of AID to get stuff done is already compromised; is going to be compromised further.

Senator MENENDEZ. Let me ask one quick followup question, Dr. Radelet. You've mentioned the rewrite of the Foreign Assistance Act several times. And I think that is a very worthy goal. I also think it is a significant challenge to ultimately achieve. So, as—and I know that Congressman Berman, on the House side, is very much focused on this, and we share his desire. But, while we seek to attain that goal, you've all mentioned that the train is already leaving the station in some critical issues, of which AID is not there at. So, how does one—does not one need to move on this now? While we seek the greater aspirational goal of having a rewrite of AID, do we need to seek to create certain authorities now within that context? Otherwise, I think we're in trouble. That's one question, specifically to you.

And all of you have mentioned capacity. Ambassador Natsios actually quantified it. I wondered if you both would quantify for me, and, to some extent, qualify it, as well, and then I'll turn to Senator Corker.

Mr. RADELET. On the first question, I think you're absolutely right, and I think the answer is to move as quickly as possible on the things that can be done today—and there are many things that

can be done with the current legislation—but, at the same time, to set the foundation in to work, over the time required, which will be a while, to move forward on the Foreign Assistance Act. But, we've been waiting for 48 years, so if it takes another few months or a year or two, that will be OK.

But, there are certain things that can be done. Staffing, for example, can be increased. A stronger monitoring and evaluation capacity can be rebuilt, within the legislation. Although there are restrictions, there are ways that those can be used more flexibly. Some changes can be made on procurement. There are a number of things that can be done now, while the foundation is laid to move forward on the deeper reforms. So, it should absolutely not wait, it cannot wait, it should not wait.

But, at the same time, to only do the rather modest reforms that can be done without the broader legislative reform will only lead to modest improvements. And those modest improvements can be easily reversed by whoever—in the future. So, I think we need to take advantage of this opportunity that we've had, which last for decades to really make the fundamental changes that will last for decades to come. Modest changes won't do it, in the long run.

Senator MENENDEZ. Professor.

Ms. LANCASTER. At great risk to my reputation, I'm going to disagree with Steve a little bit, here. I think it's a very good idea to rewrite the Foreign Assistance Act. But I think it's going to be a huge political lift, both in the Congress and on the part of the White House. And I hope it happens, but I realize the world we're living in. I think we can do more than modest reforms, otherwise. We did not rewrite the Foreign Assistance Act to create the Millennium Challenge Corporation. And I think some of the things we're talking about here can be done in other ways, whether it's a small piece of authorizing legislation or, God forbid, through the appropriations process.

On capacity I think it's very hard to put numbers on capacity, at this point. I think we can identify functions. The policy function ought to be in AID for AID. The same for monitoring and evaluation. But, the size of those functions, I think, will depend on resolving some of these other issues. What is the role of AID going to be? Where is its strategy going to take us? A lot of that, we'll have to sort out as a result of some of the organizational issues, because they're all wrapped up together there.

So, numbers, if that's what you are seeking, are hard to estimate at this point, until we sort out the fundamental questions.

Senator MENENDEZ. Senator Corker.

Senator CORKER. Thank you, Mr. Chairman. And I thank each of you for your service and testimony.

Mr. Natsios, I know, mentioned that the mission of USAID ought to be more than poverty alleviation, it ought to also be state-building, and I'd love to—neither one of you, I don't think, specifically mentioned that in your testimony, and I guess, before we move down the path of how to organize USAID, is there an agreement, I guess, among the three of you, that that dual mission is what USAID ought to be about?

Mr. RADELET. I agree, I actually think of three missions. One is economic growth and poverty reduction. The second is state-build-

ing, building capacity, including encouraging democratic governments, over time, to emerge. And the third is responding to humanitarian crises, which is a little bit different from the other two. But, I think those three, I would put at the top as the core objectives.

Senator CORKER. Professor.

Ms. LANCASTER. I'd just like to add one thought—two thoughts, actually. I would add another priority, which is already there, and we need to——

Senator CORKER. They're sort of getting watered down, aren't they?

Ms. LANCASTER. There are only four. Only four, not 50. [Laughter.]

And that's addressing global issues, which I don't think we can avoid. I think it's already a great deal of what we do. Things like the spread of infectious disease—HIV/AIDS is led by PEPFAR, but USAID inevitably comes in behind to help that work. And, of course, I think we're moving into an area where we're going to be concerned about adapting and mitigating climate change. So, I wouldn't put those off the table. And there may be more of a coordinating function than an aid function, but I think it needs to be there.

I just have one other thought with state-building. I think it's great to put state-building in there. I think we have a lot of work to do before we figure out how to do it right.

Senator CORKER. So, on that note, there was a recent long op-ed, I guess, in the Wall Street Journal by a lady named Ms. Moyo, talking about our foreign aid to Africa has actually helped corrupt many governments there. Again, I say this—I'm a very strong supporter of foreign aid. I think we have got a long ways to go to get it right. So, we talk about, you know, USAID being involved in state-building, and we talk about it being separate from the State Department. And yet, there is a conflict, I think, there between the relationship of State Department to these foreign governments and the work that USAID might build—might be involved in, within these states, in trying to build a government that is less corrupt, is more transparent, and builds on democratic principles. So, I'd love for you all to sort of help us understand how that conflict, which would be major conflict, could be resolved, and also any editorial comments you might have about the op-ed itself.

Ambassador NATSIOS. If I could just make a comment about—I haven't read her book yet. I'm writing my own book now. And I need to read it. But, there is a series of books, that Bill Easterly has sort of encouraged, that is the opposite of Jeffrey Sachs' sort of utopianism. I think they're both wrong. I've read reviews of her book. She seems to be talking more about aid programs that go through the governments of sub-Sahara Africa. AID does not do any budget support in sub-Sahara Africa, so there's very little corruption in aid programming in Africa, because it doesn't go through the governments that she says are corrupt. There is criticism that AID has built a parallel structure of contractors, universities, and NGOs to do their programming. We do work with the governments, but we don't put the money through them, because we had a lot of problems of the kind she talked about.

She's more criticizing the European budget approach, which, instead of doing their own programming, they go through the government ministries, through just giving them a check. And the World Bank, of course, always goes through governments, because they are dealing with sovereign debt, in most cases.

I actually agree with her that, in countries that have very weak institutions, it's very unwise to put large amounts of budget support. We stopped doing that, 15, 20 years ago. So, I think some of her criticism is misplaced. It's making generalizations about all aid programs, when they're not all alike. They're very different from each other, depending on the country running the program.

Mr. RADELET. Ms. Moyo has an opinion that is shared by some in Africa, but it is a decidedly minority opinion. As on just about any issue in the world, there are people with a range of wide reviews. I spend a lot of time in Africa these days, mostly working in Liberia or working with President Sirleaf and many others there, and this is a very—Ms. Moyo's views is decidedly a minority.

I have read the book. I think it is very weak analysis. And I think it does not do justice to the facts. The idea that aid has not worked as effectively as possible is absolutely right. The idea that aid is the cause of Africa's slow growth over the last three decades, which is her thesis, just has no—I don't think there's any academic, intellectual, or other support for that view.

Mr. Natsios is right, these extreme views, as with extreme views on any issue, are not particularly helpful to moving forward.

There is a challenge——

Senator CORKER. But, let me—I mean, I expected that you might say that, and I understand the difference between budgetary support and——

Mr. RADELET. Right.

Senator CORKER [continuing]. And direct aid to citizens. But, the conflict also that exists between USAID and State Department still seems to be an—and that was not addressed; if you could also speak to that as you're answering.

Mr. RADELET. Yes. There is the conflict between the two, and I think that this requires the real development expertise that can balance the objectives of needing to work with weak states that are not perfect, that do have corruption problems, that do have weak governance; but, at the same time, they are places where we have goals and objectives, where we need to work. I think what this means is that we need a development agency that can—that has more flexibility to work with different kinds of countries in different ways, and getting away from kind of a one-size-fits-all. The MCC is a terrific first step in that direction, where, in the better-governed countries, where there is less corruption, we give longer term commitments, we give those countries more say in making sure that what we're doing is consistent with their objectives, and we're working with their systems to try to build those systems up. That kind of approach would not work in a Zimbabwe or other places, where there's a completely, not functional, or government that's creating many problems, where we would never give the President of Zimbabwe or leaders in other countries the say in where our U.S. funding should be allocated. There we would work through NGOs and nongovernment types of agencies, try to ad-

dress the immediate needs, as we can, have a shorter term perspective, and work in a very different way. And then there are countries in between.

We need to have a different set of approaches for different countries, based on their level of governance, their commitment to strong development and poverty reduction; and, in countries that are moving in the right direction, we need to give them stronger support, longer commitments, and more scope to work on it; whereas, countries where there is greater corruption, we need to work around the governments and try to support NGOs and nongovernment actors that can meet more immediate needs.

Ms. LANCASTER. Senator, could I just take another——

Senator CORKER. Sure.

Ms. LANCASTER [continuing]. Shot at this question? Because I see your question in bit of a different light.

Pakistan is actually the interesting case right now, but you could take Egypt, as well, where there is a potential conflict between how much aid we give and what we do with it for diplomatic purposes and for development purposes. And I think we have to recognize that it's absolutely essential that the Department of State have funding that backs up its diplomacy. I don't think anybody contests that. And sometimes that money goes to countries whose governments are not the best. Zaire was the poster child for poor governance in the 1960s and the 1970s. The volume of aid and sometimes its uses are decided based on diplomatic purposes, because we are strengthening an ally or rewarding a country that's obviously done us a favor even though that aid is often implemented by development agencies. That kind of money, economic support funds, ought to be used and identified as something separate from development assistance funds. What I think worries a lot of us is when development assistance funds are allocated primarily for diplomatic purposes.

Senator CORKER. My time is—thank you, and my time's up. And I'm—keep going? Sure. Thank you, Mr. Chairman. [Laughter.]

That's post-partisanship. I thank you so much. [Laughter.]

So, let me follow up a little bit on—I mean, do you think that, the three of you—you know, we have, you know, an expanding mission as we move from right to left on the table, from whence I'm looking—do you think there is a—is it that same sort of internal discussion that takes place between State and USAID that sort of drives us to end up having 20 different organizations that are carrying them? And how—what—the three of you have a sort of a different vision. I know that they're little microdivisions, but do you think the three of you could quickly—and I'm not asking you this, but—come up, in a day or so, with a mission that you all agree upon, the three of you, coming from different backgrounds? So——

Ambassador NATSIOS. The mission that Steve mentioned, I agree with. I ran the humanitarian aid functions for many years. I've written many books about it. I didn't intend to leave that out. I was adding in state-building to poverty reduction and economic growth, because it's not discussed enough in the literature. But, Steve is correct. AID is the preeminent emergency response agency in the world. I mean, 60 percent of all of the emergency response

funding for the disaster in Darfur comes from AID. So, we don't want to compromise that. It works very well.

Senator CORKER. And then—so, we'd move on out into, you know, issues—climate change, the effects, adaptation issues—we'd move on out into PEPFAR and all—we would all agree that those things would come under the same umbrella.

Ambassador NATSIOS. Well, I believe—Carol and I would disagree on this—I think the notion of global issues—global issues are dealt with in countries. There's no such thing as a PEPFAR program, except in the countries in which people have HIV/AIDS. And we use the health ministries, we use the church community and Muslim groups to help us. We use civil society and private hospitals, but we work in the context of the institutions of the country. That's state-building.

So, I think—state-building includes the Ministries of Health, it includes civil society in those societies. So, I think you can include those global issues, in terms of building up the state structures to deal with these global issues. It's not that we should ignore them, it's the context in which we deal with them.

Ms. LANCASTER. Yes, I think that Andrew and I are probably differing on packaging rather than anything else.

I think that all of us, probably would share those goals.

Mr. RADELET. I think so. There's no way that we can ignore global issues, like HIV/AIDS and climate change, but those need—our support for those issues need to be developed in the context of specific countries and, I think, come under part of the rubric of poverty reduction, frankly, because if we don't address those kinds of issues, that gets right at the heart of poverty.

What the global issues call for is coordination across our different programs in different countries, particularly neighboring countries, but sometimes even beyond neighboring countries, to make sure that the approaches that are being taken in one country on endemic disease are consistent with the approaches taken in the country next door, because disease does not honor international boundaries.

So, I think it is—I think we are consistent.

Senator CORKER. Mr. Chairman, thank you for the time. I know Senator Casey has arrived. I have a number of other questions. I don't know how long the hearing will last, but I know it's time for Senator Casey.

Senator MENENDEZ. We'll—depending upon members, we'll see—we'll see if we can stay a little longer.

Senator Casey.

Senator CASEY. Thank you, Mr. Chairman. I appreciate you calling this hearing.

This is a topic that so many people who care about how the United States conducts its foreign assistance have been concerned about for an awful long time, and are worried about how we deliver that and the reforms that need to take place.

I wanted to, first of all, thank each of the witnesses for your testimony, for the perspective that you bring to this issue from long years of experience. And I guess I wanted to start with the issue of organizational reforms. And some of this, I know you've covered in your statements and you may have responded to by way of

answering questions of my colleagues, Senator Menendez and Senator Corker. But, it doesn't hurt to repeat yourself, if you have to, on this.

First of all, with regard to the suggestions as to how to streamline Federal agencies that currently handle our foreign assistance, I wanted to—first of all—refer to Ms. Lancaster's opening statement. You said there's only a notional division of labor between USAID, the Millennium Challenge Corporation, and PEPFAR, and the latter two programs, obviously established under the Bush administration, and work on different development models than that of USAID. How would—the basic question I have is, How would coordination between these three major bilateral aid programs work? What's the balance that we need to strike, here?

Ms. LANCASTER. Well, there is a little bit of a crossover between USAID and PEPFAR in dealing with international health issues. And in particular, I see PEPFAR as facing a challenge to its effectiveness if some of the elements that are needed to make HIV/AIDS campaigns effective are not there, including nutrition and adequate food and so on. So, there is a notional division of labor there. I am a little concerned, though, that the enormous size of the PEPFAR budget could really absorb a lot of the development budgets in the countries where PEPFAR is operating, because of its gravitational pull.

There has been a little bit of a division of labor between AID and MCC. AID is doing some of the threshold work in countries teeing up for an MCC compact. However, I think there are still places where two or three of these agencies are still working. I would think, together, they might be able to find synergies that would make each of them a little more effective.

Senator CASEY. Yes?

Ambassador NATSIOS. If I could just add. PEPFAR does not exist in the field. There are only two agencies, basically, spending the money—the Center for Disease Control and AID. And HHS got into this, with CDC, using the same AID contractors, the same AID health experts, the same AID partner NGOs, doing the same thing in the same countries. It actually makes no sense, organizationally, and there's constant conflicts in the field. The ministries of health don't know who to go to sometimes, and there's all these turf wars. It's useless. PEPFAR is simply a coordinating office in the State Department. It has no business being in the State Department. What does the State Department know about disease prevention and program management? Those functions belong in AID.

You know, the three functions that AID still is a leader in, intellectually, in the world are the ones Steve mentioned. If you ask European aid agencies or the World Bank, Where is AID preeminent? It's in disaster response, civil wars, conflicts, natural disaster; it's in economic growth and poverty reduction from a private-sector point of view; and it's in international health. The preeminent international health—bilateral or multilateral—is AID.

This was done for political reasons. PEPFAR could be moved, with no effect in the program, simply into the International Global Health Bureau in AID.

In terms of MCC, the MCC board, the way the Congress designed it, is protecting the program from use of the money for

other nondevelopmental purposes. Let me put it in a diplomatic way. I've watched attempts to raid the budget, because I used to sit on the board. And the fact that you have all these people making these decisions on which countries get their compacts approved makes great sense. I would not touch the board. It protects the integrity of the program. The local control of this makes sense. What does not make sense is having an education program in the country where AID has an education program and there's a compact program in the same country.

And you know who's hiring—being hired to run the AID program—the MCC programs in the field? Retired AID officers. When they started the MCC, they said, "We want nothing to do with AID. AID's the problem." Then everything got all screwed up and people were removed from positions, and now the rule is—"we want retired World Bank people and retired AID officers." If you look at a current roster, they're mostly retired AID officers. So, it's not as though there's a culture conflict, because they're the same officers who ran both programs.

So, putting the AID—the implementation of the program in the AID—as a separate division in the USAID missions in the field would not be any kind of a stretch, organizationally. And in many countries, do you know where the office space is and the technical support for the MCC, informally, is? It's in the AID missions. They physically sit there.

Mr. RADELET. The Office of the Global AIDS Coordinator and the MCC were set up as separate entities from USAID because of the belief that USAID did not have the institutional strength to take on these responsibilities. The better solution would have been to address that problem several years ago, but that wasn't taken on. Now we have the opportunity to do that.

It is exceptionally odd that we have an HIV/AIDS program at the State Department. It has nothing to do with diplomacy. It is a technical health problem with much broader implications, beyond HIV, into nutrition, into health systems, into agriculture and livelihoods, that affect people's capabilities to prevent HIV and to deal with it, if they happen to contract it. That needs to be moved back into AID. And the MCC, as a fundamental economic growth program, also obviously, properly belongs in a strong development agency.

The right way forward is not to merge those in, today, but to rebuild AID and give it the capacity and the strong professional—the leadership and the professional capacity that it needs, and then, at the appropriate time, move those back in, as separable entities within a strong development agency, so they can continue to do the great work that they are doing, with the special characteristics that the MCC and PEPFAR have, but under a strong leadership so that they can be better coordinated and better integrated with the other development programs that will make them, ultimately, more successful. That's the right way forward. It'll take us a couple of years to get there, but having them as separate entities with everyone stepping on each other's toes and poor coordination doesn't make sense and won't work in the long term.

Senator CASEY. Well, thank you very much, that's very good advice. Thank you.

Senator MENENDEZ. Let me indulge the panel just for a couple more questions, here. I don't know if Senator Corker will have some more, but—you all listed—when I asked you about the two major reforms, and how they would interface with AID, pretty much came up with a consensus view that independence and capacity were important. Let me ask you a broader question, Which agency should take the lead on coordinating all U.S. foreign aid?

Mr. RADELET. Let me answer that in terms of development, more broadly, because it's a slightly different answer, here. I think, in terms of development, more broadly, and U.S. engagement to support development, I think the NSC has to play a strong role in developing a strategy that brings together agencies that talks—that brings together, strategically, foreign assistance, trade, migration, other development policies. So, at that development level, NSC.

In terms of foreign assistance, AID should be the premier organization under which many of our foreign assistance programs are consolidated. Whether we bring all of those together, one can debate whether every little thing should be brought together, or not. But, certainly what is now in AID, much of which is what is now done by the Defense Department, the MCC and PEPFAR should be brought under the umbrella of a strong development agency. And also, arguably, our multilateral development policy, which is at Treasury, which, therefore, is somewhat divorced from our bilateral programs that are elsewhere. So, I think those core things should be brought together under a strong agency. It can't happen now, but if AID is strengthened in the way that all of us would like to see it strengthened over the next couple of years, that should create the opportunity to bring at least those core programs together.

Senator MENENDEZ. Anyone else, or you all agree on that?

Ambassador NATSIOS. Let me just add one comment about the notion of the use of foreign aid for diplomatic purposes. Carol has spoken to it, and I agree with what she said. But, the Defense Department—I, you know, lecture a lot at the National Defense University, and read their journals, and publish in their journals, so I know the Defense intellectual world a little bit. And they have an interest in this that's very direct. You know, my son is training to become an officer, and he will be shortly, and I'm a little worried. And I know that what we do in development is going to affect him in the field when he goes—and he's going to go into combat, I'm sure.

So, we can't say to the Defense Department, "It's none of your business." We created an Office of Military Affairs. It was very controversial when we created it. State didn't want me to do it. They said, "You go through us to get to Defense." We put Foreign Service offices, for the first time, in all the regional combatant commands, which we never had before. There are 66 AID officers or staff on the PRTs, Provincial Reconstruction Teams, in Afghanistan right now, including 18 professional Afghans working for AID. So, we're involved in doing planning all over the world on this.

I think the Defense Department actually has something we need, which is—when I talk about the $3 or $4 billion they're spending on development, they don't know how to spend it. They privately admit to me they don't want to spend it, but they want it spent

in the countries. For example, there's no AID mission in Mauritania, in Niger, or Chad. There are serious terrorist threats to those countries. They want programs there. And State Department does, too. The Defense Department has an account, the 1206 account. It says they can't spend the money, but they can give the money to another agency.

I think what they should be allowed to do is decide which country to spend the money in, and the overall level of spending out of those accounts, but the programming of the money, the management of the money, the policy decisions on how it's spent in the country should be done by AID.

And the British have a system where they have people from the foreign ministry—one person from the foreign ministry, one person from the development agency, one person a military officer—sit and decide, in these special funds that focus on counterterrorism and on conflict zones, where there are national security issues, how to allocate those funds. And that makes a lot of sense to me. In fact, frankly, it's going on now—no one knows it—at an operational level.

Senator MENENDEZ. One of the—I understand what you're saying, Ambassador—one of the concerns I have, I just read Secretary Clinton's comments in the Post about development assistance in Afghanistan. She said there are so many problems with them that there are—problems of design, problems with staffing, a problem of implementation, problems with accountability, go down the line, I think was her quote, and then she ended up referring to the amount of money spent without results there is heartbreaking. And, you know, I get concerned—and she went on to talk about that there's very little credibility among Afghans. And I know that Oxfam had a report that charged that much of U.S. aid in Afghanistan is wasted on consulting costs, subcontractor fees, and duplication. So, my concern, here, is that, in fact, so much has been shifted to the Department of Defense. Also, to Secretary Gates's credit, he has talked about how, in fact, he—you need a robust, you know, foreign diplomacy, as well as a foreign—foreign assistance, so I give him all the credit in the world. Transforming—making that shift from those words is going to be, you know, one of the things that we need to see happen.

But, I don't even think that we have the same accountability or scrutiny for those funds as we do, for example, AID. I think scrutiny is good, by the way. I'm not suggesting there should be less for AID. But, I also think that that type of scrutiny should be looked at, in terms of what's been happening in the use of these funds at the Department of Defense. So, I'd like to see this transition out to, you know, what is, in essence, a civilian agency, working in coordination——

Ambassador NATSIOS. Yes.

Senator MENENDEZ [continuing]. Working in coordination. But, you know, I think that when a civilian agency goes to a population somewhere else in the world, since we, as Americans, are here to be a partner—I think when the Department of Defense goes someplace in the world and, you know, tries to do the same thing, it is much more suspect as to what the purpose is. You may be winning hearts and minds for the moment, but I don't know that you're

winning hearts and minds for the long term, at the end of the day. That's just a personal reflection that I have.

Senator Corker, do you want another round?

Ambassador NATSIOS. Could I just add one comment about——

Senator CORKER. Sure, sure.

Ambassador NATSIOS [continuing]. What you're talking about, Senator? Because I think you're right. I am not suggesting the Defense Department should be spending any of that money. And they shouldn't be. And I've said, repeatedly at NDU, "You should not be engaged in this, but we need to plan with you and talk with you." And so, that's what I'm proposing, here.

But, if you want some strategic reforms that don't require massive rewrites of anything, make the USAID IG responsible for auditing all spending of all foreign assistance for all Federal agencies. You'll see a huge change, because Federal agencies will not want to spend this money. Most of the other Federal agencies have no audit people abroad. Most of the IG for AID, their people are all over the world. They live in the Third World, doing audits. Make them be placed in charge of all the Defense Department spending, particularly if it goes through AID, by statute. Do it even for the State Department. That would shock the State Department, because there's no real auditing going on, from a programmatic standpoint, now.

Let me just—I should probably say this publicly, because I don't think most people know this. Do you know who the Defense Department sent to oversee the AID reconstruction program in Afghanistan? The former chief operating officer of General Motors, who had never been a Third-World country or a war zone or done reconstruction. We were told that they had skills from the industrial sector that would be useful in reconstruction, which is utter nonsense, with all due respect. And I'm a Republican, I love the business community. Government and business are alike in every unimportant way.

Some of the most stupid decisions I have ever seen were made by people who have never been to a war zone, never done reconstruction in Iraq and Afghanistan. I mean, they weren't malicious, but they didn't have any expertise.

This is a separate discipline. It requires professional career officers to run it. And if we had made some of these allocation decisions in both countries, I don't think we'd have had some of the issue we've had. We did what we were told, as best as we could under the circumstances, but the structure needs to be changed so we are no longer subordinated.

No one should be sent to run—the AID mission director's supposed to be in charge of these reconstruction programs.

Senator MENENDEZ. I think you should be more passionate about how you feel. [Laughter.]

Senator MENENDEZ. Senator Corker.

Senator CORKER. It's very good testimony, and I'm really glad you're having this hearing, and you can see that, walking through all of these issues, we're just beginning. It's going to take a lot of tough sledding, if you will, to actually come to an end that makes sense.

But, let me just follow up on the whole issue of the Defense Department and aid, and the rub that's there, and some of the suggestions that have been made.

In visiting Iraq and Afghanistan—and, I think, soon, Pakistan's going to be in similar situations, in some parts of the country—but, in visiting there, there seemed to be—the reason the Defense Department subsumed this, was the urgency of getting money out. OK? And I realize that sometimes urgency doesn't lead to the long-term benefit. But, there were also some cultural issues, it seemed. Look, the military basically can tell people where they're going and when they're going to be there, just like they will with your son, soon. The culture at USAID and State is different than that, to some degree.

And so, as we talk about aid, especially aid during a time of conflict, and security needing to be provided, which seems to me an incredibly difficult task, no matter who's carrying it out, are there not some built-in issues that make it difficult to do exactly some of the things that you all have said about USAID in these conflict zones? I'd just love to hear your response.

Mr. RADELET. There are some things that are built in, but I think they can be changed, on both counts. What your point is—both on the money and the people, is the flexibility that Defense has that AID does not have, and the ability to respond very quickly. Partly, AID can't respond very—it doesn't have the flexibility, for the reasons around the Foreign Assistance Act and the heavy restrictions, and that every dollar is determined, how it's going to be spent, long in advance. So, when something happens quickly, mission directors don't have the flexibility and the resources to move, just on the money, to allocate money to an urgent crisis.

Second, on the personnel issue, you're right, but that's partly because AID's professional capacity has been so decimated over the last 15 years that they're not able to move people quickly. That's beginning to change, because they're hiring people, and they're also, my understanding is, developing a rapid-response capability with a staff of people that will be available for exactly this purpose, that when something comes up, that they can move people quickly to the field, that have the background, that have the experience doing this in other countries, to address these problems.

So, at the moment, Defense filled the void because AID couldn't do it, but there are steps that can be taken to give USAID both the resources and the flexibility so that they can adapt, with professionals with the right background, to address these issues in the future.

Ambassador NATSIOS. Well, let me—I understand what you're talking about, Senator, and you're right. This is not written down, but I'll tell you the story. I used to ask, annually, of, not just the career staff, the 2,000 people, Civil Service, but our 6,000 Foreign Service nationals, in a confidential survey—we'd ask a set of questions. And we got huge response rates—like, 60 percent of the workforce would respond. At the end, I would say, "Do you have advice to say to me?" Fifty of the career Foreign Service citizens would ask me to resign, because I was ruining the agency by dealing with the military, being in conflict zones, your—and the career—the senior people running the agency said, "You know,

they're from the old order, and they just don't get it." They all retired. They got sick of me and that I wasn't going to change where I was moving the agency.

We created a specialty in the Foreign Service, Backstop 76, for dealing with emergencies. Out of the 1,000 Foreign Service officers, 130 officers, including very senior people, volunteered to change their specialization into this field to deal with reconstruction, conflict, and civil wars dealing with the military. I was stunned, because I thought no one would join it. Everybody wanted it. We had to actually cut back the number of volunteers to get into these positions. We're not having any problem getting people. In fact, when we created OMA, I thought no one in the career service would join. They had a waiting list of career people who wanted to join the office.

So, there is—there was, in the old order, a bunch of people from the 1960s who couldn't take the—and they left, they retired, and they were angry when they retired. They were angry at me. They kept asking, every year, for me to resign. So, by the time I left, no one asked me to resign, in these surveys, and I thought maybe I converted them. They said, no, they just retired.

So, the agency made the conversion—both of you, Senators, at the beginning, asked—already; and they're doing this issue, and they're doing a very good job. And the military respects them much more now.

One, just, quick question. At the beginning of Afghanistan, the military sent e-mails to Colin Powell, saying, "Oh, AID takes forever to build a school. We can build it in a month. It takes them 6 months." Because we have a rule, we never build a school unless the Ministry of Education agrees where it's going to be built, how big it is, and whether they will put teachers in it. There were a dozen military schools built that are now barnyards, because the Ministry of Education was never consulted, had no intention of sending teachers there, sent no textbooks, and, in fact, there weren't even enough kids to go in the school. Some of them are police stations now.

When they had those disasters, one good thing about the military is, they're very flexible. If they make a mistake, they shift. Right now, in the field, DOD funds cannot be spent unless the AID officer approves them. It's not a DOD edicts but a practice of field commanders. All the commanders said, "We're not making any of those mistakes again." The AID officers know what they're doing. They have to approve everything that's done in the PRTs, even if it's DOD funds, because they know what they're doing.

The military respects our officers in the field. That is being dealt with operationally. You know why? Because they want to survive, and they want to get the mission done. All of our employees are dedicated to doing this right—including our diplomats.

Senator CORKER. Professor.

Ms. LANCASTER. I just have a footnote. I watch young people coming through master's programs, interested in doing development. And I am seeing an uptick in master's students who have some military background and want to shift into the development field. They will span those two cultures.

There is a very can-do military culture, which makes you feel really good, when things can be done quickly and expeditiously. I think the AID culture is one that sees more complexities in the world, because, in fact, that's what they have to face. Those two cultures exist.

There are actually two cultures in USAID right now. I think Andrew might have touched on it. The humanitarian response, which is a real can-do culture, and, again, the longer term how-do-we-do-this-right, let's-take-enough-time-to-do-it.

But, I don't think that the cultural differences are insuperable, and I think Andrew's sense is that they are being bridged.

I do think there are real issues, though, with the involvement of the Defense Department. And, again—we've talked about it already—what is that relationship going to be with AID and with State, and how directly involved will they be in delivering assistance? I say to people, I wouldn't want to drive a tank down Pennsylvania Avenue, the military is not my profession. There is also a profession that involves development work. And I think somehow we have to—and hopefully you all will take a lead to sort out those difficulties there.

Senator CORKER. Mr. Chairman, I know my time is up. I just want to make a statement about PEPFAR. I think many of the statements made were dead-on. You know, what I've seen in PEPFAR that—you know, look, that's where the money is, right? And so, as you watch USAID and, just, in-country teams dealing with PEPFAR, there's this migration of mission creep. I mean, all of a sudden everything is about HIV. Everything. I mean, economic development—I mean, you can—there's a chain of—there's a progression that says that everything in the world contributes to HIV, and the reasoning is there, because that's where the money is and that gives us access to money.

So, I think the comments you made about MCC, and being able to separate out those moneys so they're actually spent exactly in that area, is applicable to PEPFAR, also. OK? And I think we have this undefined creep that's taking place. I don't criticize the people in the field, because they're being entrepreneurs. I mean, they're figuring out a way to get their hands on money to do things that they think are important. But, I think as we move through this, we've got to figure out a way to, again, have people working together, but actually stovepipe the money in such a way that it's being spent on those things that we are allocating to be spent on. Otherwise, I think we come back, in a decade, and we're going through this all again, because there's not specificity, if you will, in these programs.

So, I'll stop there. And, Mr. Chairman, I may leave, but I really do thank you for your leadership. I look forward to working with you and Senator Casey and others, and truly believe, as you stated in your opening comments, that this is something that's very important to the security of citizens in this country, too. I know that we do focus a lot of domestic issues, as the professor mentioned, because that's what our constituents call about, and that's what is on their minds, but somehow or another we've got to elevate the consciousness in this country that the things you're working on in-

directly are equally important to their well-being. And I thank you for what you do.

Senator MENENDEZ. Thank you, Senator Corker.

Senator Casey.

Senator CASEY. Thank you very much.

I wanted to just focus on one bill, one issue. Senator Lugar and I introduced the Global Food Security Act, and it was just moved out of committee yesterday. As many of you know, it's really focused on a couple of areas. One is improving or enhancing the coordination between USAID and the Department of Agriculture, as well as other agencies. We're attempting to expand U.S. investment in the agriculture productivity of developing nations. The bill also is an attempt to make food assistance programs more flexible. And we have authorization language for a $500 million fund for U.S. emergency food assistance.

I was wondering if you could put that in the context of your own experience on aid, generally, just in the context of food aid, some of the problems you've seen, and react to the bill, as well. I'm not sure I'm looking for a lot of amendments, at this point, but we're always open to listening. But, to put that in perspective, the problems you've seen with food aid and how this or other legislative remedies could help. And anything, in addition, that you would have, based upon your own experience.

And, Mr. Natsios, I know that you haven't been shy today, or bashful. [Laughter.]

Ambassador NATSIOS. Well, sir, I ran——

Senator CASEY. My wife's a Massachusetts——

Ambassador NATSIOS [continuing]. The food aid program.

Senator CASEY [continuing]. Native, by the way. So——

Ambassador NATSIOS. Pardon me.

Senator CASEY. My wife is a Massachusetts native.

Ambassador NATSIOS. Is she really? Where is she from in Massachusetts?

Senator CASEY. From Belmont.

Ambassador NATSIOS. Belmont, not too far from Hollister, where I come from. Yes.

Senator CASEY. Yes. So, we're—I'll tell her about our meeting today.

Ambassador NATSIOS. OK. [Laughter.]

I ran the food aid programs 20 years ago, in AID, and when I was at World Vision, I was in charge of World Vision's food programs, funded by the U.S. Government, so I know them, I've written articles on food aid issues.

We proposed, in AID, an amendment, which didn't get through, to allow local purchase of food aid. Food aid now has to be purchased in the United States. And about 30 to 40 percent of the cost of food aid is transporting it from the United States to Ethiopia or Afghanistan. We put a lot of food aid in Afghanistan. And I don't want to have the whole program local-purchase, but I think a portion of it needs to be flexible.

Now, I'll tell you a story, and it's—this is a true story. We had, in Afghanistan, after 2001—after we took control, we defeated the Taliban, Karzai took over—we introduced a new seed variety of wheat. It's actually not that new, but it's drought-resistant, high

yield, and we tripled production in many areas of Afghanistan in early 2002; so much so, they had the biggest wheat crop in history. Farmers stopped harvesting it, because the price dropped to 20 percent of the normal level. And it started to rot in the fields. Meanwhile, we introduced 200,000 tons of wheat from our Food for Peace Program. My economist said, "Andrew, you know, if we could purchase the 200,000 tons in Afghanistan, the price would have gone back up again." You know what happened the next year? Those farmers who lost money in wheat, moved to poppy production for heroin, because they said, "We can make more money, we won't have this happen." And our staff said, "Andrew, why can't we local-purchase the food that we grew in Afghanistan for the Afghan people?"

Dr. Norman Borlaug, who probably saved more lives than anybody in human history—he got the Nobel Peace Prize in 1970 for the Green Revolution—he and I wrote an article, for the Wall Street Journal, on the local purchase of food aid. If there's one change I would make in the Food for Peace—the agriculture—the farm bill, which just went through, it would have been to allow this. Congress allowed a $12 million program over 5—$60 million program over 5 years as a test, run by USDA, overseen. Now, I have to say, USDA has a little different interest than AID in this. Their view is they market American products abroad. I was troubled that it was structured this way. But, it's a plus.

I don't know what's in this bill. Senator Lugar, who I have great respect for—I understand there's more flexibility for our officers in that bill, to spend this money. If that's the case, it would be a big boon, because we can marry, then, the food programs with the agricultural programs and stimulate local production that we then purchase for our emergency programs. It makes great sense, developmental sense.

Senator CASEY. We'd invite your comments on it, thank you.

Mr. RADELET. If I can add to that, I applaud your efforts and Senator Lugar's efforts. And Andrew has spoken on the food-aid side. I just want to underscore—and I'm—I know he would agree, and I think Carol would agree, as well—the emphasis on agricultural productivity. It is remarkable and distressing how there has been a drop in funding—from all donors, not just the United States—for supporting agriculture, in the last 20 years, which is just at the core of so many development issues, from rural poverty to food, nutrition, to, frankly, mitigating HIV/AIDS, both in terms of prevention, to give people a livelihood, but also to strengthen people's nutrition and their ability to withstand the virus. Funding has dropped enormously, and it's time that we get back into it. We have such tremendous expertise in our land grant universities and other places, where we can move both on the technological front, but also in terms of getting those technologies out to the field.

Now, we can't do this alone. And here is a great place where we need to coordinate our bilateral assistance with our multilateral assistance, because one of the keys to agricultural productivity and fighting rural poverty is infrastructure, is roads, is getting roads out to the rural areas to connect people to markets, both to make their inputs cheaper, but also to give them markets so that they can sell their goods. I'm not sure it makes sense for USAID to get

back into major road-building, but the World Bank and the African Development Bank and the Asian Development Bank should have those kinds of expertise. And it's—I think it's a good example where—but, they don't have the expertise in developing new agricultural technologies, which we do. So, there are opportunities here to work together.

And a great example of the beginnings of this is with the MCC and the Gates Foundation. I happened to be at a reception last week where Bill Gates was there and was talking about the beginnings of their partnership, the Gates Foundation partnership with the MCC in Tanzania on, particularly, this score. Here, the MCC is actually building the roads, but doesn't have the technological capacity. The Gates Foundation is working on ag technology, and they're working together. We can do that more broadly to really try to address, much more significantly, the problems in agricultural production.

Ambassador NATSIOS. I agree with everything that Steve said.

Ms. LANCASTER. Yes, can I just——

Senator CASEY. Thank you

Ms. LANCASTER [continuing]. Say a word?

Senator CASEY. Sure.

Ms. LANCASTER. Just two quick points.

U.S. support for agriculture used to be very high. It was in the 1980s that it came down, down, down. And the reason is, the world food crisis that we talked about, in the 1970s, vanished. And so, the interest in it diminished, and the political support for putting efforts into promoting agricultural production in poor countries diminished. And I saw it happening when I was in AID, too.

I don't want to be an advocate for congressionally mandated programs, but I think interest in Congress in this issue is important.

The one piece that I don't think anybody quite mentioned was agricultural research. It's probably had the biggest payoff of any aid moneys anywhere, but it's often a long-term investment, and sometimes it's risky.

I think we came close to eliminating U.S. contributions to international agricultural research, a year or two ago, just before the recent food crisis, broke. There needs to be some more attention to that, because it's an ongoing problem. You solve one agricultural problem, and you've got another one right behind it for further research. I hope there will be a piece in that bill that talks about that.

Thanks.

Senator CASEY. Thank you very much.

Senator MENENDEZ. Well, thank you, Senator Casey.

Thank you all. Let me thank the witnesses for their testimony. I think it's a great start to our work. It was very thoughtful.

Ambassador Natsios, on behalf of all of us, thank your son for his service to our country.

The record will remain open for 2 days so that committee members may submit additional questions to the witnesses. And we ask the witnesses to respond as expeditiously as they can to these questions.

Senator MENENDEZ. And seeing no one else seeking recognition, the hearing is adjourned.

[Whereupon, at 11:18 a.m., the hearing was adjourned.]

ADDITIONAL MATERIAL SUBMITTED FOR THE RECORD

RESPONSES OF PROFESSOR ANDREW NATSIOS TO QUESTIONS SUBMITTED BY SENATOR JIM DEMINT

FOREIGN AID ADMINISTRATION

Question. It has been suggested that USAID should be elevated to an independent Cabinet Agency, as in Great Britain. But the result there indicates that such a step would make it more difficult to shape development programs in a way that would advance the national interest and make for a coherent strategy. What are your views?

Answer. I believe that development is an instrument of national power, soft power, with profound implications for U.S. national interest and that its subordination to the State Department means the necessary development voice of USAID is not being heard. Some of the worse mistakes made by the USG in Iraq and Afghanistan were because the USAID policy voice was never heard (because we weren't in the meetings) or went through State or DOD and became hopelessly muddled and emasculated before it got to the White House for decision. I could give many practical examples of why this is the case. The DFID model would avoid that. The early years of the DFID reorganization in 1998 led to the agency trying to stay independent of the British foreign policy apparatus, but the past 3 or 4 years it is much better integrated. I think the way to organize the U.S. system is to put a much stronger and larger USAID at the policy table with a seat at all national security council meetings involving developing countries. That would ensure their views and expertise are used properly, but also that they are held accountable for carrying out the aid portion of a national security strategy. But to make this work USAID would have to be independent of the State Department Diplomacy and development are completely different from each other, while they both need each other to be successful one should not be subordinated to the other.

Question. What are your thoughts on the F Bureau and the Director of Foreign Assistance position, and how would you optimize the relationship between USAID and the State Department to ensure an appropriate balance between priorities and resources for development and diplomacy?

Answer. The F Bureau did some very damaging things and some very good things. The Bureau was created by cutting the policy and budgeting head of USAID off—the PPC Bureau within USAID was gutted and all the staff moved to State to the F Bureau which deprived the agency of its intellectual and strategic nerve center. This was a disaster for the development function in the U.S. Government as the F Bureau is not being used for strategic purposes but for budgeting. The F Bureau did build a new budgeting system (which I had started the year before I retired as Administrator) and management information system which is excellent and badly needed. In any reorganization these new budgeting and information management systems should be kept in place—but transferred to USAID. Gordon Adams, who I believe teaches at American University and may have helped design the new system, but certainly is a defender of the system, has spoken and written widely about it. He is a fine scholar, but no development expert, and has written some deeply flawed things about the F Bureau. The things he likes most about it are the most destructive. For example, the decentralized nature of the USAID program which allowed us to have a very influential role in the development of poor countries has been compromised by this new system of highly centralized decisionmaking. All development like all politics is local, having people in the State Department making decisions on what should or should not be done in rural Tanzania is crazy and violates all of what we know about good development practice. What in heaven's name does the State Department know about food security in India or rural Africa, and yet they are making profound decisions about resource allocation that are completely outside their technical expertise. In this respect the F process is a disaster. That does not mean the new budgeting and management information system should be eliminated, it is the one good thing that came out of an otherwise bad experience.

Question. How should the President organize the administration to support the three pillars of national security, defense, diplomacy, and development to best support U.S. interests abroad?

Answer. Recentralize all foreign aid programming and resource allocation back into a much better staffed USAID as it was during the cold war. Separate USAID and its business systems from the State Department as it was during the cold war. Put USAID on the national security council, and create an interagency coordinating committee of DOD, State, and USAID to decide on resource allocation by region and country for the geostrategic portion of our aid budget. Much of what USAID does by law and practice is not supposed to be driven by DOD or State. For example, the HIV/AIDS program, polio eradication, famine relief budget allocations are decided by a need-based formula based on infection rates or mortality rates in the case of famine relief. Why DOD or State would be involved with this makes little sense to me. It ought to be a clinical and quantitative measurement matter, not diplomatic or defense driven. But we clearly have situations where foreign aid is essential to implementing a peace agreement, or stopping the spead of terrorist networks, shoring up friendly governments under attack by terrorist or narcotics syndicates. In these cases clearly there is a need to have State and DOD drive the broader process of resource allocation, but not the management of the program in the country itself. This should be based on the account (ESF in the case of State and the section 1206 in the case of DOD) out of which the money is being spent, as it was during the cold war. Aid is allocated based on four criteria: Need (of the people or society we are trying to help), performance (how productive is the aid and how reformed is the country we are assisting), risk (are their future risks we are trying to protect against such as an Avian flu pandemic) or interest (the foreign and strategic policy interest of the U.S. Government). It is in the last area State and DOD must be involved in aid decisionmaking.

Question. It has been demonstrated that our U.S. ambassadors have the ability to distribute only 5 percent of U.S. aid in their respective countries. Do you believe that our ambassadors, in close coordination with regional experts at the State Department and USAID, should have control of a larger percentage of assistance?

Answer. I don't know what you mean by this question. What do you mean by the word "control"? If you mean should ambassadors decide how much money the country they are posted to should get, this makes no sense since every ambassador would ask for massive increases in their aid budgets. If you mean the allocation by sector of aid money once it gets to the field, that would require OMB and the Congress to end all sector accounts and earmarking (HIV/AIDS, child and mother health, food aid, education etc.) and leave these decisions to be made in the field which is unlikely to happen (we could abolish much of the F Bureau if we did this). I would support a process by which developing countries (if they are governed reasonably well) once they knew how much their country was getting in over all aid would negotiate with the USAID mission how the money would be allocated by sector and by strategic objective, and then get the ambassador's approval for this. That would be the ideal process, but it is unlikely to happen because of the F process (which has centralized whatever local decisionmaking discretion existed in the old system). The only aid program like this is President Bush's MCC which leave decisionmaking to the countries getting the aid (with some limitations of course), which is the best system. If you mean of ambassadors controlling aid, that they should decide how aid money is spent in terms of partner organizations and implementation mechanisms it would probably lead to serious abuse of funds, it would mean we would not achieve strategic development objectives (congressional oversight committees, the GAO, OMB, and the inspector general's demand that aid be managed based on country strategic plans). Most ambassadors are reactive, that is local groups come to them asking for a grant or financial help and they like to say yes. This is hardly a way of making aid decisions.

Question. USAID and DOD Provincial Reconstruction Teams fall under different rules of engagement complicating and sometimes preventing partnership in development and reconstruction efforts in Iraq and Afghanistan. Ambassador Crocker, under the advice of General Petraeus, adjusted some of the rules of engagement enabling USAID and FSOs to accompany DOD teams on patrols. Despite USAID and FSOs volunteering to participate on the patrols, mid-level management prevented their participation. How should the government transform the culture of the State Department and USAID to address the 21st century environment and eliminate barriers to cooperation with the DOD?

Answer. The culture of State and USAID is driven by Federal law, and congressional demands to minimize risk to our embassies and aid missions abroad. The Federal law passed after the Embassy bombing of 1998 makes security, not getting the job done by our aid officers and diplomats, the first priority. USAID officers refer to the USAID mission in Kabul as the prison because it is so difficult for offi-

cers to leave the compound and as a result they can't get out to see the projects in the provinces. The law needs to be completely overhauled as it is a major impediment to restaffing our aid programs and embassies abroad and getting aid work done in insecure environments. Ryan Crocker and General Petraeus were right in what they did. The law is being used to downsize our diplomatic and aid presence abroad, when we should be increasing our presence. The notion that every time an aid or state officer is murdered abroad there has to be a commission of inquiry is crazy—if we did that to DOD we might as well withdraw from the battlefield. The world has changed since 1998 and the law is caught in a time warp.

FOREIGN ASSISTANCE

Question. President-elect Obama made commitments to "elevate, empower, consolidate, and streamline" U.S. development programs. With foreign assistance programs scattered across more than 20 different Federal agencies, how should the government address inefficiencies and incoherence within the current structure in order to help maximize the impact of U.S. assistance and instability that threaten prosperity and security globally and at home?

Answer. During the cold war, OMB and the White House enforced a standing rule that no aid money could be spent abroad unless it was controlled and managed by USAID. If USAID needed a technical expert on, say, seismology from the U.S. geological survey to help with earthquake monitoring they would sign a PASA interagency agreement (in fact USAID has had such an agreement for 30 years). I would return to the old discipline which worked quite well from what OMB career staff told me.

Question. What metrics should the U.S. Government use to gauge the success of U.S. foreign assistance programs? If the metrics are not met would you advocate for the elimination of a program?

Answer. The F process has created metrics for every item in the aid budget, so the metrics exist. I do not like them myself. This is not the place to critique the use of metrics as it would take pages. I have a chapter in a book I am now writing on the very damaging affect metric-based management of aid programs has on innovation, creativity, and new thinking. Some of the best aid programs are not easily measured by metrics. Some of the worst aid programs have very appealing metrics but are developmentally very unsound and counterproductive. Metrics is seriously overrated and yet the aid community is moving toward them.

Question. Over the past five decades, the Foreign Assistance Act of 1961—which was originally written and enacted to confront the cold war threats of the 20th century—has swelled into a morass of rules, regulations, objectives, and directives. Foreign policy experts on both sides of the aisle—including former USAID administrators from both Democratic and Republican administrations—have said writing an entirely new Foreign Assistance Act is central to clarifying the mission, mandate, and organizational structure for U.S. foreign assistance. The Project on National Security Reform also recently recommended a "comprehensive revision of the Foreign Assistance Act of 1961."

- How do you propose we redesign the foreign assistance of the U.S.? Who do you believe are the key players that could ensure reforms meet the needs of the 21st century?

Answer. The Foreign Assistance Act should be rewritten, but I think it will be politically very difficult to get through the Congress. USAID has the most expertise in the area, but State and DOD clearly have a major role as well. The NGOs, contracting firms, and think tanks have some expertise that should be used.

- Where do you believe the Millennium Challenge Corporation fits into any new restructuring?

Answer. The chair of the MCC Board should be the USAID administrator, but the board should be kept as an entity. The field offices of the MCC should be merged into the USAID missions where many of them sit physically anyway. Many of the MCC field directors are retired USAID officers, so this could happen without a big culture conflict in the field. I think the MCC Washington staff should be more narrowly focused on reviewing compacts for presentation to the board for approval and then conducting independent evaluations of how the compacts are doing. The technical assistance to local governments to prepare compacts, implementation and coordination with local governments in the field should be transferred to the field USAID missions.

Question. Do you think the government should link U.S. foreign aid to human rights conditions? For example, Egypt, the second largest recipient of U.S. aid since 1979. They persist in major abuses of human rights and religious freedom. Should the government consider conditioning aid to Egypt based on the government meetings certain benchmarks like the release of political prisoners, lifting of media restrictions, etc.?

Answer. Our U.S. Ambassador to Egypt, DOD, and the State Department would strenuously object. The Egyptian Government will simply not accept the funding and the aid program would be shut down. I think a better way would be to put into the new Foreign Assistance law that any government abusing human rights using some objective measurement should not get any budget or sector support from the U.S. aid program (money that goes directly into the local government's treasury), which means the aid program would be completely run through NGOs, contractors, and private universities not through the local government.

FOREIGN AID REFORM

Question. Senator Clinton committed President Obama to "enhancing our foreign assistance architecture to make it more nimble, innovative, and effective." What specific ideas and actions do you believe are necessary to achieve these goals?

Answer. We would have to completely overhaul the very onerous regulatory apparatus in Washington set up to control the Federal bureaucracy run by OMB, GAO, IG, and congressional oversight committees which micromanage every aspect of our aid program. I am writing a chapter in my book on foreign aid on the consequences to innovative and effectiveness of this regulatory system which is a gotcha culture which penalizes risk taking, experimentation, and innovation. And has created an extremely complicated system of controls to avoid any problems—if you innovate you will have problems and failures which is in the nature of innovation.

METRICS

Question. In addition to what metrics we should use to gauge success, what criteria should the government use to determine elimination or reduction of foreign assistance programs?

Answer. I am a conservative, but I believe in the new world of threats this country faces cutting the aid budget makes as much sense as cutting the defense (I am a former army officer) budget. We should be talking about making aid more effective, not cutting it. It is a best defense against the darker forces of globalization (90 percent of globalization is very productive and good, but it has a very dark side of terrorist networks, drug cartels, human trafficking, illegal arms markets, money laundering, smuggling, etc.).

Question. Some of the largest criticism regarding foreign aid regards distribution monitoring and management. What do you believe is the proper balance between rapid delivery of aid and accountability and oversight to ensure aid does not find its way to terrorist organizations? How can we build a monitoring-and-evaluation capability at USAID that is independent, rigorous, and reliable across U.S. foreign assistance activities, that will contribute to restoring the United States as a credible partner, and that will ensure U.S. taxpayer funds are invested well? Is there any way to leverage low-cost technology to track aid distribution?

Answer. The State of the art in monitoring and evaluating the quality of aid programming according to many aid professional around the world was the CDIE in USAID which has been strangled by budget cuts and personnel losses from the mid-1990s on. I tried to revive CDIE but we could not get funding to do it. The monitoring of aid programs to ensure money is not stolen or falls into the wrong hands (which is different than the monitoring and evaluation function which is about the quality and productivity of aid programs) is already built into the aid system, which has probably less leakage than any aid program in the world. This function may be so developed it is reducing innovation and experimentation in programming aid funds. If you look at the more than 100 audits done of recontruction in Iraq USAID did much better than any of the other Federal departments involved. You might also want to look at the SIGIR final report which again complements USAID on what it did right in Iraq under very difficult secure conditions.

RESPONSES OF STEVEN RADELET TO QUESTIONS SUBMITTED BY SENATOR JIM DEMINT

FOREIGN AID ADMINISTRATION

Question. It has been suggested that USAID should be elevated to an independent Cabinet agency, as in Great Britain. But the result there indicates that such a step would make it more difficult to shape development programs in a way that would advance the national interest and make for a coherent strategy. What are your views?

Answer. Currently, U.S. foreign assistance programs are spread across nearly 20 agencies with different objectives and implementing procedures. There exists widespread agreement that this fragmented organization undermines the ability of the U.S. Government to implement a coherent strategy and to shape development programs in a way that advances the national interests. Moreover, USAID, our lead development agency, has been significantly weakened over the years through a loss of professional staff and a shift toward contracting out services rather than directly overseeing and implementing programs.

As a result, there is a clear need to build a strong, consolidated, and streamlined development agency to elevate our development programs and make our foreign assistance programs as efficient and effective as possible. There are several options that could help achieve this goal, including a serious effort to rebuild and re-professionalize USAID and fold into it other programs, create a strong successor agency that consolidates programs, or over time create a Cabinet-level agency for development, similar to the way in which the EPA consolidated many disparate programs and became a strong Cabinet agency over time. The key objective should not be a particular institutional form, but to build a strong and professional agency that consolidates programs, reduces redundancy and duplication, enhances coordination, and makes every dollar we spend more effective. Such an agency—with the budgetary authority and mandate to lead policy formulation, coordinate with programs and policy that remain in other departments, and to manage foreign assistance programs in the field—would help reduce bureaucracy, eliminate waste, increase efficiency, and streamline decisionmaking.

A critical first step toward a longer term agenda of consolidation of the major foreign assistance programs is the strengthening and re-professionalization of USAID. For USAID to serve as the ultimate base of future consolidation, its capacity must first be bolstered so that it can lead as the preeminent development voice of the U.S. Government.

Question. What are your thoughts on the F Bureau and the Director of Foreign Assistance position, and how would you optimize the relationship between USAID and the State Department to ensure an appropriate balance between priorities and resources for development and diplomacy?

Answer. The creation of the F Bureau and the Director of Foreign Assistance position in 2006 were well-intentioned first steps toward the goal of better coordinating our foreign assistance programs. Despite some achievements in framing and reporting of foreign aid, however, the creation of the F Bureau came at the expense of a weakened USAID and has divorced on-the-ground implementation of programs from the important policy and budgetary decisions that underpin them. As a result, we now know better where and for what our foreign assistance dollars are going, but the ability to better plan for the most effective use of those resources to meet U.S. objectives has been diminished.

Building a strong and capable development agency will require the provision of autonomy of development from our (distinct) diplomatic and defense efforts; the restoration of USAID's authority over its own budget; and shifting the policy function from the F Bureau back to USAID, to enable long-term thinking and planning on development policy.

Question. How should the President organize the administration to support the three pillars of national security, defense, diplomacy, and development to best support U.S. interests abroad?

Answer. President Obama has expressed his commitment to elevate development as a "smart power" national security approach, alongside defense and diplomacy. As a real signal of the importance of development in national security, President Obama should name a strong, capable leader as USAID Administrator as soon as possible and name the Administrator as a member of the National Security Council and other high-level interagency bodies. At a minimum, the administrator should be invited to all NSC Principals Committee meetings dealing with international economic issues. This will provide professional development perspectives and policy

input at the highest policy-setting table, independent from but complementary to diplomatic and defense.

Question. It has been demonstrated that our U.S. Ambassadors have the ability to distribute only 5 percent of U.S. aid in their respective countries. Do you believe that our Ambassadors, in close coordination with regional experts at the State Department and USAID, should have control of a larger percentage of assistance?

Answer. Currently, our foreign assistance is unable to respond flexibly to the priorities and changing conditions in country and on the ground. This lack of flexibility and adaptability undermines the effectiveness of our foreign assistance programs. Part and parcel of our efforts to make our foreign assistance programs more context-driven and effective should be the granting of more discretion of foreign assistance dollars to country missions and embassies. Such reforms would enable USAID missions to respond more effectively and swiftly to crises—whether they be violent conflicts, natural disasters, or health pandemics—and to evolving priorities on the ground. These reforms should also build in accountability measures to assure that funds spent are used effectively and help achieve broader U.S. goals.

Question. USAID and DOD Provincial Reconstruction Teams fall under different rules of engagement complicating and sometimes preventing partnership in development and reconstruction efforts in Iraq and Afghanistan. Ambassador Crocker, under the advice of General Petraeus, adjusted some of the rules of engagement enabling USAID and FSOs to accompany DOD teams on patrols. Despite USAID and FSOs volunteering to participate on the patrols, mid-level management prevented their participation. How should the Government transform the culture of the State Department and USAID to address the 21st century environment and eliminate barriers to cooperation with the DOD?

Answer. There is little doubt that civilian-military partnerships are an important reality in the efforts to bring stability and development to countries such as Iraq and Afghanistan, and increasingly Pakistan as well. The military's tremendous logistical, transport, and human resource capacity make it a natural partner in some global development initiatives, and in particular in immediate post-conflict and natural disaster situations. However, problems can arise in this partnership. When the line between military and civilian personnel becomes blurred, for instance, civilian development workers can be endangered. Coordination problems can also arise, as pointed out in the example of cultural barriers. To strengthen civil-military partnerships on the ground in countries on the ground will require a bolstering of civilian capacity and more active coordination in-country by the ambassador.

FOREIGN ASSISTANCE

Question. President-elect Obama made commitments to "elevate, empower, consolidate and streamline" U.S. development programs. With foreign assistance programs scattered across more than 20 different Federal agencies, how should the Government address inefficiencies and incoherence within the current structure in order to help maximize the impact of U.S. assistance and instability that threaten prosperity and security globally and at home?

- What metrics should the U.S. Government use to gauge the success of U.S. foreign assistance programs? If the metrics are not met would you advocate for the elimination of a program?

Answer. A key component of revamping the way the United States does development must be the establishment of a good system to evaluate the real, long-term impacts of our development investments. To ensure accountability for funds spent, a much stronger monitoring and evaluation (M&E) and impact evaluation process must be established, aimed to keeping programs on track, guiding the allocation of resources toward successful activities and away from failures, and ensuring that the lessons learned—from successes and failures alike—inform the design of new programs. At the performance level, a monitoring and evaluation system should be designed in close coordination with State, USAID, MCC, and PEPFAR to aggregate to top-line objectives and standardize indicators across foreign aid agencies to both effectively report on the impact of foreign aid and to reduce unnecessary data collection and reporting requirements from the field. Programs that do not meet objectives should be revamped and adjusted, using feedback from the evaluation process. Programs that continue to fail to meet objectives, even after efforts to adjust the program, should be discontinued, with funding instead going to programs that are achieving success.

Question. Over the past five decades, the Foreign Assistance Act of 1961—which was originally written and enacted to confront the cold war threats of the 20th century—has swelled into a morass of rules, regulations, objectives, and directives. Foreign policy experts on both sides of the aisle—including former USAID administrators from both Democratic and Republican administrations—have said writing an entirely new Foreign Assistance Act is central to clarifying the mission, mandate and organizational structure for U.S. foreign assistance. The Project on National Security Reform also recently recommended a "comprehensive revision of the Foreign Assistance Act of 1961."

- How do you propose we redesign the foreign assistance of the United States? Who do you believe are the key players that could ensure reforms meet the needs of the 21st century?

Answer. Rewriting the FAA is central to building a strong and capable development agency. Without a restructuring of authorities and a rationalization of restrictions, whether they be congressional earmarks or Presidential directives, no broad-based foreign assistance modernization initiative can be fully implemented without major legislative modifications. Fundamentally, rewriting the FAA will require a "grand bargain" between the executive branch and Congress, reflecting a shared vision of the role and management of U.S. foreign assistance. The executive branch must be provided the requisite authorities to respond to a rapidly changing world, while at the same time the rightful and effective legislative oversight is ensured.

To be successful, creation of a new FAA will require significant leadership and investment from the executive branch, where the legislation should originate, but only in active partnership with congressional champions of foreign assistance modernization. Responsible and interested parties in both branches must own this process if it is to succeed. It should also help forge a more positive and constructive relationship through which Congress will be more willing to extend greater flexibility to the Executive, while receiving greater administration attention to their priorities and better tools for exercising policy and program oversight.

- Where do you believe the Millennium Challenge Corporation fits into any new restructuring?

Answer. The Millennium Challenge Corporation (MCC) was described by Secretary Clinton in her Senate confirmation hearing as "a very creative and innovative approach to foreign aid." Launched 5 years ago, the MCC is one of the U.S. Government's most promising "smart power" national security tools, and its innovative approach to foreign assistance complements other key U.S. development programs, including USAID, PEPFAR, and the Multilateral Development Banks. The MCC has made considerable progress since its inception, and is showing great potential toward fulfilling its mission of supporting poverty reduction through sustainable economic growth.

In the absence of significant reforms to USAID and the Foreign Assistance Act, the MCC should remain where it is. However, a restructuring of foreign assistance programs could lead in the medium to long term—under the right circumstances—to a consolidation of foreign assistance programs, including the MCC, into a significantly empowered and strengthened USAID, or a successor agency. At the heart of this consolidation would be efforts to improve coordination, reduce bureaucratic costs, and provide cross-fertilization of ideas and innovations. To preserve the integrity of the MCC's innovative approach to foreign assistance and to ensure its effectiveness, the unique components of the MCC model (including country ownership, predictable financing, policy-based selectivity, and public-private governance model) should be maintained.

Question. Do you think the Government should link U.S. foreign aid to human rights conditions? For example, Egypt the second largest recipient of U.S. aid since 1979. They persist in major abuses of human rights and religious freedom. Should the Government consider conditioning aid to Egypt based on the government meeting certain benchmarks like the release of political prisoners, lifting of media restrictions, etc.?

Answer. Since the launch of the Millennium Challenge Account 5 years ago, we have seen already a shift in our foreign assistance dollars being awarded to those countries with sound governance and a clear track record of investing in people and respecting human rights. In that sense, many of our development dollars are already being directed to those countries with proven performance in areas like control of corruption, sound governance, and human rights. In other instances, foreign assistance money is distributed by the State Department for purposes other than strictly development objectives, and often to countries with less sound human rights and governance records. In these situations, a different political calculus is made

and issues like human rights are considered alongside other political and economic objectives. On ongoing challenge that must be considered on a case-by-case basis is our support to countries that may not fully adhere to all of our principles, but at the same time provide vital actions in support of other key foreign policy objectives.

FOREIGN AID REFORM

Question. Senator Clinton committed President Obama to "enhancing our foreign assistance architecture to make it more nimble, innovative, and effective." What specific ideas and actions do you believe are necessary to achieve these goals?

Answer. Other than actions already described above on strengthening USAID, possible restructuring of our foreign assistance agencies, rewriting the FAA, and strengthening our monitoring and evaluation programs, there are many promising innovations in foreign assistance. One such innovation is the Advanced Market Commitments (AMCs) for vaccines and other applications. Through an AMC, donors could make a commitment in advance to buy vaccines if and when they are developed, which would create incentives for industry to increase investment in research and development. New commercial investment would complement funding of research and development (R&D) by public and charitable bodies, accelerating the development of vital new vaccines for the developing world.

Another promising innovation is cash-on-delivery programs, a new form of aid in which donors would commit ex ante to pay a specific amount for a specific measure of progress. In education, for example, donors could promise to pay $100 for each additional child who completes primary school and takes a standardized competency test. The country could then choose to use the new funds for any purpose: to build schools, train teachers, partner with the private sector on education, pay for conditional cash transfers, or for that matter build roads or implement early nutrition programs. This innovative approach would place full decisionmaking about the use of funds in the hands of developing country governments, letting them determine the best way to achieve the outcome recipient and donor both want: a quality education for all.

METRICS

Question. In addition to what metrics we should use to gauge success, what criteria should the government use to determine elimination or reduction of foreign assistance programs?

Answer. A stronger monitoring and evaluation (M&E) system would enable the Government to assess whether foreign assistance programs are achieving their objectives and impact on the ground, and make decisions on redesigning, refocusing, eliminating, or reducing funding accordingly. In addition to the evaluation of the impact of a program, the U.S. Government has begun to apply an additional set of criteria in determining eligibility and elimination of foreign assistance programs. Since the launch of the MCC 5 years ago, for instance, the United States has applied a very rigorous and objective set of criteria to determine eligibility and also elimination of MCC compact and threshold program assistance. These include 17 indicators that measure a country's commitment to promote political and economic freedom, invest in education and health, the sustainable use of natural resources, control of corruption, and respect for civil liberties and the rule of law. In several instances, the MCC has terminated program funding for countries that have failed to meet these objective indicators.

Question. Some of the largest criticism regarding foreign aid regards distribution monitoring and management. What do you believe is the proper balance between rapid delivery of aid and accountability and oversight to ensure aid does not find its way to terrorist organizations? How can we build a monitoring-and-evaluation capability at USAID that is independent, rigorous, and reliable across U.S. foreign assistance activities, that will contribute to restoring the United States as a credible partner, and that will ensure U.S. taxpayer funds are invested well? Is there any way to leverage low-cost technology to track aid distribution?

Answer. Quality monitoring and evaluation (M&E) are critical components of effective development assistance, paving the way for achieving better results, bolstering transparency, and sharing knowledge and learning. M&E informs program managers whether a desired result is or is not being achieved and also why.

To pave the way for stronger, more rigorous, and more reliable M&E at USAID, an independent office for monitoring and evaluating foreign assistance programs should be established. The office should be responsible for: setting M&E standards, training, conducting external studies, and collecting and making public all evaluations for the sake of transparency and learning. The MCC model is a best-practice

in this regard and could be applied more broadly across other agencies. An M&E system should be built that enables the aggregation to top-line objectives and standardizing across foreign aid agencies. All data and evaluations should be made public, including budget process data at each stage—request, passback, 653a, and final appropriation.

It is crucial that measures of ultimate impact be conducted independently of the designers and implementers of the programs. For that reason, the United States should support and ultimately join the International Initiative for Impact Evaluation (3IE), which brings together foreign assistance providers from around the world to provide professional, independent evaluations of the impact of development initiatives.

○