

**THE FY 2014 BUDGET REQUEST: U.S. FOREIGN  
ASSISTANCE PRIORITIES AND STRATEGY**

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**HEARING**  
BEFORE THE  
**COMMITTEE ON FOREIGN AFFAIRS**  
**HOUSE OF REPRESENTATIVES**  
ONE HUNDRED THIRTEENTH CONGRESS  
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## THE FY 2014 BUDGET REQUEST: U.S. FOREIGN ASSISTANCE PRIORITIES AND STRATEGY

THURSDAY, APRIL 25, 2013

HOUSE OF REPRESENTATIVES,  
COMMITTEE ON FOREIGN AFFAIRS,  
*Washington, DC.*

The committee met, pursuant to notice, at 9:49 a.m., in room 2172 Rayburn House Office Building, Hon. Edward Royce (chairman of the committee) presiding.

Chairman ROYCE. This hearing on the Committee on Foreign Affairs will come to order.

Today, we hear from the heads of the U.S. Agency for International Development and the Millennium Challenge Corporation, and together these agencies account for \$21.3 billion or 41 percent of the President's \$52 billion international affairs budget request. Especially given our chronic Federal deficit, we must be rethinking how, where, and why we provide foreign aid. To be justified, the bar is high. Aid must support our national security, it has to support our economic interests, it must be efficient, and it has to be effective. It must advance democratic principles and develop reliable trade partners. And it must be implemented in a way that breaks the cycle of dependency.

Over the past decade, USAID has seen its mission chipped away. The global AIDS coordinator who manages the largest U.S. global health program in history is housed in the State Department. The MCC has been created as an independent agency with a mandate to reduce poverty through economic growth. So it has been a challenging time for USAID. Indeed, the Bush administration stood up MCC, Millennium Challenge, as an alternative, a way to break with the tired, old development approaches that for decades have failed. But MCC has had its challenges, too. So-called compacts in the early days were big. They were complicated. They were overly optimistic. This has improved some, but MCC must stay true to itself. Getting pulled into countries where you don't belong could ruin MCC's recipe for success.

By demanding that countries we are aiding have good policies in place and by strictly monitoring and elevating impact, MCC has served as a lab for what does and does not work. It is getting countries on a path toward graduation from foreign assistance. And that is why many of the administration's new initiatives are borrowing from the MCC model. This is progress if it is well implemented.

The President's proposal to reform the International Food Program, helping more at less cost, is a bright spot in the budget request. For much of our food aid, this proposal would remove conditions that commodities be U.S. bought and U.S. shipped. Studies have shown that these conditions only make for a slow and inefficient program and I will add that in terms of being U.S. flagshipped, those ships are owned by foreign carriers in Scandinavia anyway.

It is elementary that buying food closer to where the humanitarian crisis is taking place is faster, it is cheaper, and it helps save more lives. Only in recent years has the U.S. been able to experiment with a small pilot program to buy food close to the crisis. This local and regional purchase effort has been found to be 11 to 14 weeks faster. It has also been found to be 25 to 50 percent cheaper. Essentially, the administration's proposal would end a process called monetization. This is when Washington buys American grain, gives it to international charities who, in turn, sell it in poor countries. Congress' investigative arm called this process inherently inefficient and found that it resulted in the loss of \$219 million over 3 years. That is an average of 25 cents on every taxpayer dollar. It is not just the waste that should bother us, but the harmful impact of dumping such commodities which can destroy local farming and, in turn, increase the dependency on aid that we would like to see end.

So I look forward to working with Ambassador Shah, as well as the ranking member, to advance this ambitious and timely program. And I will now turn to Mr. Sherman of California to recognize him for his opening remarks.

Mr. SHERMAN. Thank you, Mr. Chairman, and I don't know if any of my Democratic colleagues would like me to yield 1 minute to them, but if they indicate that, I will. If not, I will give a hastily created opening statement.

Chairman ROYCE. In the absence of Mr. Engel, that opening statement is appreciated.

Mr. SHERMAN. And its quality will reflect the number of seconds I have had to prepare it. Our development aid is the right thing to do and that is reason enough for us to pay for it. But the American people are also told that it achieves our foreign policy objectives. One of those objectives is to lift all the boats in the world because it is in our foreign policy and economic interest that the countries of the world be able to afford our products. It is said often by the proponents of foreign aid that it is the most poor and dispossessed that become terrorists and wage war against us. But the vast majority of the 9/11 hijackers came from one of the wealthiest countries in the Middle East.

One element of improving our image in the world is whether we tell people who are getting our aid that it is, in fact, American aid. One thing that disturbs me with our aid with regard to Syria, but also other places, is that we are deliberately obscuring the fact that the aid comes from the United States. The American people will occasionally face a Hobson's choice, do you provide aid to people who live in communities where there is such antagonism to America that if they knew the aid came from the United States they may not want it? And yet, Syria is, of course, a difficult situation for us.

So I will be asking our witnesses what we are doing to make sure that the recipients of the aid know that this comes from the generosity of the American people and where there are circumstances where in order for the aid to be accepted, in order for people to be willing to work with us, or in order for aid workers to be safe, we have to obscure that fact.

Picking up on the chairman's comments about local sourcing, I will want to hear your comments there. One thing to keep in mind is that one element of the coalition in support of American food aid is American agriculture. Do we give up some of that support in order to be more efficient, perhaps spending a few less dollars a lot more efficiently to provide food aid around the world?

As Mr. Royce points out, selling our commodities in Third World countries as part of a U.S. Government program may drive prices down and disrupt local markets.

There are also circumstances, particularly where there is disaster nearby, where we have to buy food where buying a lot of food, which might seem to help the local economy, can disrupt it and bid up the cost of food. Those analyzing the Arab Spring have pointed out that it may have been caused as much as anything by the increase in food prices in the Arab world that occasioned world-wide increase in commodity prices.

I yield the remainder of my time to Mr. Bera from California.

Mr. BERA. Thank you, Mr. Sherman, and thank you, Mr. Chairman, for calling this hearing. I look forward to the testimony. Obviously, USAID supports the moral values of our country. As a nation of abundance, one of our best approaches to diplomacy is sharing that abundance with the rest of the world. The Food for Peace program obviously has been a wonderful program, not only for the agriculture sector, not only for our farmers, but for the good will of the United States.

And I look forward to the testimony. I look forward to looking at how to make this the most efficient program possible, as well as continuing to support American diplomacy through the USAID program. So I am very interested in the testimony and looking for ways that Congress continues to partner with USAID. So with that, I will yield back.

Ms. ROS-LEHTINEN [presiding]. Thank you. Thank you so much. And the chair is pleased to yield 2 minutes for an opening statement from Mr. Smith, the chairman of the Global Health Subcommittee.

Mr. SMITH. Thank you very much, Madam Chair. I would like to express my deepest appreciation to you, Dr. Shah, for your extraordinary leadership on so many fronts and the emphasis that USAID is giving to nutrition and food security and in particular our foreign assistance to ensure proper nutrition in the first 1,000 days of children's lives—from conception to the second birthday—to reduce the impact of malnutrition that leads to a myriad of health problems including the stunted growth in development of an estimated 165 million under the age of 5 in the world today.

In September 2010, I joined seven African first ladies in New York City at a roundtable launch of this initiative. What was abundantly clear then has only been reinforced by empirical data that shows that the first 1,000 days of life is a unique, once in a lifetime

window of opportunity for better health and it is without parallel. Much has been achieved. Obviously, much more needs to be done.

UNICEF just issued a landmark report, an extraordinary call for further action, called "Improving Child Nutrition, the Achievable Imperative for Global Progress." UNICEF's Executive Director Anthony Lake says, "The legacy of the first 1,000 days of a child's life can last forever. The right start in life is a healthy start and it is only the start from which children can realize their promise and potential." He says, "We owe it to every child everywhere."

The report further reinforces a growing international consensus that this nutritional focus deserves a much higher priority in international development initiatives than was generally or previously realized. The UNICEF report emphasized and I quote it here,

"Ensuring adequate micronutrient status in women of reproductive age, pregnant women and children, improving the health of expectant mothers, the growth and development of unborn children, and the survival and physical and mental development of children up to 5 years of age."

USAID's Feed the Future's strategic focus on improving nutrition during the first 1,000 days of life is one of the most important contributions that our foreign assistance can make to global health and it works synergistically with initiatives to mitigate malaria, HIV/AIDS, TB, and other devastating diseases around the world, but including and especially on the subcontinent of Africa. I thank you, Madam Chair.

Ms. ROS-LEHTINEN. Thank you very much, Mr. Smith, and our last opening statement will be made by Mr. Cicilline of Rhode Island for 1 minute.

Mr. CICILLINE. Thank you, Madam Chair, and thank you to our witnesses and welcome to the committee. I just want to begin by thanking you for your leadership and work. And as we all know, our investments in development and aid are not only important for us to do in terms of our national security, but they are important because the American people benefit when we help to create a more stable and more democratic world.

I particularly want to compliment you on the work that is being done to reform our food aid, the whole USAID Forward, which I am anxious to hear more about, and the great work that the MCC has done in Cape Verde and in other places around the world. And this is an opportunity, I think, for us to really reinforce our responsibility to make these kinds of investments around the world, which is one of the great strengths of America that we bring these values and the democratic values that we all share. And I just want to compliment both of our witnesses for your outstanding work and look forward to your testimony. I yield back.

Ms. ROS-LEHTINEN. Thank you very much. And this morning we are joined by Rajiv Shah, the Administrator of USAID; and Daniel Yohannes, the Chief Executive Officer of the MCC. Dr. Shah is the 16th Administrator of USAID. Previously, he served as Under Secretary of Research, Education, and Economics at USAID and Chief Scientist at the U.S. Department of Agriculture. Welcome, Dr. Shah.



Then we will hear from Dr. Yohannes, who was confirmed as the CEO of the MCC in 2009. Prior to his appointment, he held positions in the financial services sector, including as the vice chair of the Management Committee of the U.S. Bank.

Welcome to both of our witnesses. Without objection, the witnesses' full prepared statements will be made part of the record, and members may have 5 days in which to submit statements, questions, and extraneous material for the record.

Gentlemen, please feel free to summarize your statements and we will begin with Dr. Shah.

**STATEMENT OF THE HONORABLE RAJIV SHAH, ADMINISTRATOR, U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT**

Mr. SHAH. Thank you. Thank you, Chairman Emeritus Ros-Lehtinen. We appreciate your leadership and your guidance over the past several years as we have conducted our reforms and improved our performance. I just want to take this moment to thank Chairman Royce and Ranking Member Engel for their leadership and support and Representatives Sherman, Smith, and others, Cicilline and Bera, who have made important opening comments.

I want to thank you for the continued partnership to ensure that America has the capacity to effectively project its values around the world through our development and humanitarian activities and to do so in a manner that advances our national interests while delivering real results. We believe this is an important moment for development. We are drawing down from a decade of war and have the ability to rethink and reimagine how America projects itself and its values around the world.

President Obama and Secretary Kerry, like Secretary Clinton before him, have repeatedly commented on the importance of elevating development as part of our national security strategy and as part of our foreign policy, including as part of our economic competitiveness strategy.

I note that perhaps the most significant moment I have had in this role was an opportunity to visit a refugee camp in Dadaab, Kenya on the border of Somalia during last year's tragic famine. In that context, I had the opportunity to meet women who had been through extraordinary challenges in efforts to bring their literally starving children to safety. Some made it. Some were able to bring their children. Others were not. But in that context, I had the chance to see firsthand that when they walked through the camp and got into a place that was safe, it was American humanitarian effort and American development partnerships that, in fact, gave them hope.

And as tragic as that moment was, just a few months ago I had a chance to visit Mogadishu. And I got a chance to see the other side of the hope that is taking fruit there. I noted that the day before my visit USAID had worked with the local partners to install more than 600 solar street lights and for the first time in two decades, people were able to come out peacefully and celebrate in the evenings.

We are replacing piracy on the coast with small-scale fishing infrastructure and helping people leave IDP and refugee camps to go back to their communities supporting the revitalization of their

own agriculture in more than 400 communities in that country. That path from dependency to self sufficiency, and ultimately dignity and growth, is what our aid and assistance should be about. And I hope we get to discuss today whether this approach is delivering results. We believe it is.

Our signature Feed the Future program, which started when we cut back on agricultural investments in 23 countries to focus on 19 where we thought we could make the biggest impact, has reached more than 7 million farm households and is helping to reduce stunting, as Chairman Smith noted, in more than 12 million children who previously lacked effective nutrition.

In our Feed the Future countries, we are seeing extreme poverty being reduced at an average annual rate of 5.6 percent, significantly higher than in counterpart nations. We are working with the private sector to motivate \$3.5 billion of private investment to become complementary to our investments, including having raised more than \$500 million through the Development Credit Authority to this purpose. And we are implementing real policy reforms along the way.

This is just one example of how large scale, modern, results-oriented efforts can work and deliver critical outcomes. It is the result of a reform effort we call USAID Forward which I am eager to describe to you in terms of our progress today. Thanks to the support of this committee, we have been able to rebuild our staff, bringing in more than 1,100 Foreign Service Officers to USAID over the course of my tenure. We have been able to implement an evaluation policy that is recognized as best in class. And today, you can go to the Apple app store and download an application on your iPad or iPhone and pull down more than 180 high-quality evaluations that describe, in an adulterated, independent manner, how our programs are working or not working and what we are learning as we seek to make improvements.

We have expanded our investments in local solutions that can at times be less costly and more sustainable in delivering these results. And I am very eager to discuss with you today our efforts to reform food aid to bring this approach about efficiency and effectiveness to efforts to reach an additional 4 million children without spending additional resources and to do a better job of savings lives while renewing the partnership with American agriculture.

So I thank you for the chance to be here today and look forward to this dialogue, learning from you and continuing this important partnership.

[The prepared statement of Mr. Shah follows:]

TESTIMONY OF  
DR. RAJIV SHAH  
ADMINISTRATOR,  
U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT  
FY 2014 BUDGET REQUEST  
HOUSE COMMITTEE ON FOREIGN AFFAIRS  
WASHINGTON, DC  
APRIL 25, 2013

Thank you Chairman Royce, Ranking Member Engel, and members of the Committee. I am pleased to join you to discuss the President's fiscal year 2014 budget request for USAID.

In his State of the Union address, President Obama called upon our nation to join with the world in ending extreme poverty in the next two decades. Today, we have new tools that enable us to achieve a goal that was simply unimaginable in the past: the eradication of extreme poverty and its most devastating corollaries, including widespread hunger and preventable child and maternal deaths.

The President's fiscal year 2014 budget request responds to this call and the most critical development challenges of our time. It supports important global partnerships, including the New Alliance for Food Security and Nutrition and the Child Survival Call to Action, by increasing and focusing investments in food security and maternal and child health. It builds resilience in areas besieged by recurrent crisis and natural disaster, with a focus on the Horn of Africa and Sahel regions. And it advances a comprehensive food aid reform package that will enable us to feed two to four million additional people each year.

The President's request enables USAID to strategically advance our national security priorities by implementing critical economic growth, democracy, human rights, and governance programs in the Middle East and North Africa, as well as in support of the Administration's Asia-Pacific Rebalance. It also focuses activities in Afghanistan, Pakistan, and Iraq at an appropriate level to sustain the gains we have made in those countries over the last decade. And it strengthens economic prosperity, both at home and abroad.

I want to highlight how the investments we make in foreign assistance, which represents just one percent of the federal budget, help our country respond to the global challenges we face and how we have modernized our Agency to deliver results that shape a safer and more prosperous future.

**A NEW MODEL FOR DEVELOPMENT: PARTNERSHIPS, INNOVATION, AND RESULTS**

The FY 2014 request for USAID managed or partially managed accounts is \$20.4 billion, six percent below the total enacted funding for FY 2012. In this tough budget environment, USAID is committed to maximizing the value of every dollar. We have made tough choices so that we are working where we will have greatest impact, and shifting personnel and funding resources towards programs that will achieve

the most meaningful results. Since 2010, regional program areas have been reduced by 29%, Feed the Future agriculture programs have been phased out of 22 countries, and USAID global health program areas have been phased out of 23 countries.

The President's FY 2014 request continues to build on gains we have made over the past year to work smarter and more effectively through a suite of ambitious reforms called USAID Forward. Through USAID Forward, the Agency has fostered new partnerships, placing a greater emphasis on innovation, and a relentless focus on results. These reforms have formed the foundation of a new model for development that continues to define the way we work around the world.

The FY 2014 budget provides funding to mobilize a new generation of innovators and scientists. Through our Development Innovations Ventures, we invite problem-solvers everywhere to contribute a cost-effective and cutting-edge idea that could scale to reach millions.

It provides funding for Grand Challenges for Development, capitalizing on the success of previous challenges to accelerate reductions in maternal and child mortality, promote childhood literacy, power agriculture through clean energy, and raise the voices of all citizens through technology. We have received more than 500 applications per challenge, with almost 50 percent of innovations coming from developing and emerging economies. For example, through *All Children Reading: A Grand Challenge for Development*, nearly three dozen organizations—half of them local—are pioneering a range of novel approaches to education, from helping children in India learn to read with same language subtitling on movies and TV to bringing fully stocked e-readers to rural Ghana.

The request accelerates advances of USAID's Higher Education Solutions Network, a constellation of seven development innovation labs on university campuses that work with a global network of partners to provide solutions for key development challenges, leveraging tens of millions of dollars of university and private-sector financing.

The 2014 request also allows us to work more effectively with a range of partners, from faith-based organizations to private sector companies. A new focus on leveraging private sector resources has enabled us to dramatically expand our Development Credit Authority—unlocking a record \$524 million in FY 2012 in commercial capital to empower entrepreneurs around the world. Last year alone, we increased our contributions to public-private partnerships by almost 40 percent, leveraging an additional \$383 million.

This funding also allows us to rigorously measure and evaluate our work so we know which of our development efforts are effective and which we need to scale back or modify. Since the launch of our evaluation policy, 186 high quality evaluations have been completed and are available on our website or through a mobile "app" that is easily downloaded. Half of these evaluations have led to mid-course corrections and one-third has led to budget changes.

A new emphasis on supporting local solutions has enabled us to shift \$745 million in funding to local institutions, firms, and organizations in the last year alone—helping replace aid with self-sufficiency.

When we partner with developing country institutions, we use sophisticated tools to assess their financial management capacity and safeguard U.S. resources.

As part of our new model, we're insisting our partners make policy reforms and fight corruption in order to meet the conditions of our assistance. Through new models of partnership that demand mutual accountability—including the New Alliance for Food Security and Nutrition and the Tokyo Mutual Accountability Framework for Afghanistan—we are creating incentives for governments to strengthen their own institutions.

Across our work, we are moving from a traditional approach of top-down development to a new model that engages talent and innovation everywhere to achieve extraordinary goals. In education, a core development objective, we are harnessing this new approach to help close the gaps in access and quality of education. We know that globally 171 million people could be lifted out of poverty if all students in low-income countries gained basic literacy. Our strategy for basic education is focused on improving reading skills for 100 million children in primary grades by 2015 and increasing equitable access to education in crisis and conflict environments for 15 million learners by 2015.

#### **FOOD AID REFORM**

At its foundation, our new model of development shares the bedrock principles of effectiveness and efficiency that serve as the clarion call for government today.

There is perhaps no better example of this fundamental imperative than the food aid reform package proposed in this year's budget request, which would enable us to feed two to four million more hungry men, women and children every year with the same resources, while maintaining the valuable contribution of American agriculture to this mission.

Through P.L. 480 Title II, or Food for Peace, America's agricultural bounty and generosity have fed well over a billion people in more than 150 countries since 1954. But while the world has changed significantly since Title II was created, our hallmark food assistance program has not. The current program limits our ability to use the appropriate tools for each humanitarian situation—tools we know will help people faster and at a lesser cost.

Buying food locally can speed the arrival of aid by as many as 14 weeks—making up precious time when every day can mean the difference between life and death. It can also cost much less—as much as 50 percent less for cereals alone. In complex environments such as Syria and Somalia, which are increasingly the kind of crises where we need to provide assistance, these more flexible tools are invaluable.

The more agile, flexible, and modern approach laid out in the President's budget request pairs the continued purchase of the best of American agriculture with greater flexibility around interventions such as local procurement, cash transfers, and electronic vouchers. The President's proposal maintains the majority of our emergency food aid funds—55 percent in 2014—for the purchase and transport of American commodities. That means we're going to keep working with soy, wheat, pulse, and rice

farmers and processors across America who help feed hungry children from Bangladesh to the Sahel—often in the form of specialized high nutrition products.

At a time of urgent human need and budget constraints, we can save more lives without asking for more money.

The proposal also reaffirms our commitment to development partners who receive Title II funding, enabling them to provide the same types of development programs at a lower cost. These programs strengthen our ability to reduce chronic poverty, build resilience, and help prevent future crises.

#### **FEED THE FUTURE**

Ending hunger and creating a food secure world are vital components of the fight to end extreme poverty. Launched in 2009 by President Obama, Feed the Future is unlocking agricultural growth, helping transform developing economies and ending the cycle of food crises and emergency food aid. Although the initiative is still in its early days, we are beginning to see significant results.

In Rwanda, we have reached 1.6 million children under five with nutrition programs that reduced anemia, supported community gardens, and treated acute malnutrition. In Bangladesh, we helped more than 400,000 rice farmers increase yields by 15 percent through the more efficient use of fertilizer, which led to the first-ever rice surplus in the country's poorest state. In FY 2012, we helped more than 7 million farmers across the world apply these kinds of new technologies and practices, four times the number we reached the previous year.

The FY 2014 request provides \$269 million for the President's G-8 commitment to the New Alliance for Food Security and Nutrition, which aims to lift 50 million people in sub-Saharan Africa out of poverty in the next decade. Since its inception at last year's G-8 Summit, we have helped leverage more than \$3.75 billion in commitments from more than 70 global and local companies. In Tanzania, Yara International is constructing a fertilizer terminal at the nation's largest port, and, in Ethiopia, DuPont is expanding seed distribution to reach 35,000 smallholder maize farmers and increase productivity by 50 percent.

At the same time, participating African governments have committed to serious market-oriented reforms. Tanzania has removed its export ban on staple commodities, Mozambique eliminated permit requirements for inter-district trade, and Ethiopia no longer imposes export quotas on commercial farm outputs and processed goods.

#### **GLOBAL HEALTH**

Thanks to strong bipartisan support we are on track to provide life-saving health assistance to more people than ever before. The FY 2014 Global Health request supports our goals of creating an AIDS-free generation, ending preventable child and maternal death, and protecting communities from infectious diseases.

Across our global health portfolio, we are aligning our budgets to the areas of greatest need. Now, 90 percent of USAID bilateral maternal and child health funding is in the 24 USAID priority countries that account for three-quarters of maternal and child deaths.

The request supports the continuation and scale-up of high-impact HIV/AIDS prevention, care, and treatment tools in pursuit of an AIDS-free generation. The request also provides \$1.65 billion under PEPFAR for the U.S. contribution to the Global Fund to Fight AIDS, Tuberculosis, and Malaria.

In June, USAID co-hosted a Call to Action to accelerate progress and end preventable child death. A powerful example of how our new model of development can rally diverse partners behind ambitious but achievable goals, the Call to Action has encouraged more than 170 countries, 200 civil society organizations, and 220 faith-based organizations to sign a pledge to help reduce child mortality. This global effort builds on an 8 percent reduction we have seen from 2008 to 2011 in child mortality in countries where the U.S. Government provides assistance.

We will continue to fund critical efforts in voluntary family planning, immunizations, nutrition, malaria, tuberculosis, and neglected tropical diseases—cost-effective interventions that save lives, while preventing the spread of disease.

#### **SUPPORTING STRATEGIC PRIORITIES AND STRENGTHENING NATIONAL SECURITY**

Across the world, we are strengthening democracy, human rights, and governance, with a special emphasis on marginalized populations, including women and youth. Support for democratic and economic transitions enables the rise of capable new players who can help solve regional challenges and advance U.S. national security.

Since January 2011, the State Department and USAID have allocated more than \$1.8 billion to support democratic transitions in the Middle East and North Africa and respond to emerging crisis needs in the region. The President's Request of \$580 million for the Middle East and North Africa Incentive Fund provides support to citizen demands for change, improves our ability to respond adroitly to new challenges and opportunities, and begins to address the imbalance between our security and economic assistance in the region.

The budget request supports our humanitarian assistance work around the globe in places where the need is greatest. This is particularly true in Syria, where at least 4 million people are in need of humanitarian assistance and 2 million are displaced. To date, State and USAID have provided nearly \$385 million in humanitarian relief to the Syrian people.

In Iraq, Afghanistan and Pakistan, USAID continues to work closely with interagency partners including the State and Defense departments, to move toward long-term stability, promote economic growth, and support democratic reforms, including the rights of women. Despite the challenges, we have seen a number of positive gains. For example, over the past decade in Afghanistan, we have increased access to education, resulting in dramatic increases in primary school enrollment from 900,000 boys in 2002 to 8 million students in 2012, 37 percent of whom are girls. In Iraq, USAID-funded legal clinics have

supported over 1,700 legal cases on behalf of vulnerable individuals, including internally displaced persons and ethnic and religious minorities.

The President's budget request supports the Administration's Asia-Pacific Rebalance by increasing funding for the region to address critical gaps in core programs to renew U.S. leadership, deepen economic ties, promote democratic and universal values, and strengthen diplomatic engagement. In addition, we are seizing new opportunities for partnership in Asia, including in Burma, a nation undertaking political and economic reform.

#### **GLOBAL CLIMATE CHANGE AND BUILDING RESILIENCE**

As a result of global climate change, natural disasters are becoming more frequent and more severe. With a new emphasis on helping vulnerable communities build resilience to disasters, the Global Climate Change Presidential Initiative invests in developing countries to accelerate transitions to climate-resilient, low-emission economic growth, while incentivizing private sector investment to scale impact and sustain progress. For example, we are partnering with the Consumer Goods Forum—which represents about 400 companies and \$3 trillion in market value—to reduce tropical deforestation from key commodities, like palm oil and timber.

Drawing on lessons learned during last year's food crisis in the Horn of Africa—as well as decades of experience responding to disasters—USAID is pioneering a fundamental new approach to help communities strengthen their resilience in the face of crises. In Ethiopia, for instance, we're working with international firms like Swiss Re and local businesses to develop index-based livestock insurance—a new product that uses satellite data to protect pastoralists from drought-related losses.

#### **CONCLUSION**

When people around the globe cannot feed their families, when young adults find themselves without education or a source of income, and when parents watch their children die of preventable illnesses, the world is inherently less secure. The FY 2014 budget request will continue our work to combat these causes of instability and end extreme poverty.

These investments aren't just from the American people; they're for the American people. By promoting sustainable growth in the developing world, we spur new markets abroad and energize our economy here at home. By driving innovations in agriculture, education, and global health, we strengthen global stability and advance our national security. And by delivering aid in the wake of natural disasters and humanitarian crises, we express the generosity and goodwill that unite us as a people.

Thank you.



Ms. ROS-LEHTINEN. Thank you so much, Dr. Shah.  
Mr. Yohannes.

**STATEMENT OF THE HONORABLE DANIEL W. YOHANNES,  
CHIEF EXECUTIVE OFFICER, MILLENNIUM CHALLENGE  
CORPORATION**

Mr. YOHANNES. Thank you, Madam Chairman, and members of this committee for the opportunity to appear today with my friend and colleague, Dr. Shah, to discuss the Fiscal Year 2014 budget request.

I would like to summarize my statement and submit the full version for the record.

Ms. ROS-LEHTINEN. Without objection.

Mr. YOHANNES. Thank you. The present request of \$898.2 million would allow the Millennium Challenge Corporation to continue advancing prosperity, stability and American values around the world. MCC does this by reducing poverty through sustainable economic growth. Our partners are rigorously selected countries that have a track record of sound democratic and economic governance. We ask them to prioritize their economic needs and to develop and implement cost-effective solutions that make a measurable difference.

We are selective about which investments we make because Americans deserve to see their tax dollars deliver a high rate of return. We sign compacts with our partner countries spelling out the terms of our assistance. During compact implementation, we monitor and evaluate progress and require that programs be completed in 5 years. We will stop the flow of development dollars if countries fail to respect human rights or democratic values. Lastly, we measure program effectiveness to see what did and did not work. This is part of our evidence-based approach, and because we are committed to transparency and accountability we make our findings public.

Madam Chairman, MCC is delivering real achievements for the world's poor. Transportation networks are stimulating trade with regional impact. Projects in land security, food security, energy security and water security are connecting the poor to economic growth and opportunity. And MCC-inspired reforms are empowering women, advancing civil rights, and promoting democratic principles.

Your constituencies are also benefitting as policy reforms and targeted investments foster an enabling environment for American businesses to succeed. Last fall, MCC released the first set of independent impact evaluations. These use rigorous statistical methods to measure changes in farm and household incomes of project participants. In El Salvador, for example, evaluators found that dairy farmers doubled their farm incomes. In Ghana, the annual crop income of farmers in the northern region increased significantly relative to the control group over and above any impacts recorded in other zones. Even when the findings are not all positive, this helps us improve the design and evaluation of future projects as we continue to learn and hold ourselves and our partners accountable.

In December 2012, MCC's Board of Directors selected five countries as eligible to develop a compact: Liberia, Morocco, Niger, Si-

erra Leone, and Tanzania. Our request also includes funding for threshold programs with Guatemala and Nepal to help them reform policies and institutions that will move them closer to qualifying for compacts. The five newly eligible countries are home to over 100 million of the world's poorest people. They represent an opportunity to reduce poverty and advance U.S. interests. These countries have taken concrete steps to reform, improve governance, and qualify for MCC compacts. This is what many call the MCC Effect. In fact, a recent study of government officials in developing countries worldwide ranked the influence of MCC's policy performance scorecards greater than any other external measurement system.

MCC's modest request for Fiscal Year 2014 will not allow us to fund compacts with all five countries, so some will have to compete for future funding. It is important to note, however, that the MCC Effect depends on having sufficient resources to incentivize and sustain policy changes. If our funding is cut, that effect is diminished.

Madam Chairman, with the committee's support, MCC and our partner agencies will continue to play a key role in fighting global poverty.

Thank you, and I welcome your questions.

[The prepared statement of Mr. Yohannes follows:]

**Testimony of  
Daniel W. Yohannes  
CEO of the Millennium Challenge Corporation Before  
The House Committee on Foreign Affairs  
April 25, 2013**

Thank you, Chairman Royce, Ranking Member Engel and members of the Committee, for the opportunity to appear before you today.

In the fight against global poverty, the people of the United States through the Millennium Challenge Corporation (MCC) and our development partners in the U.S. Government are advancing prosperity, stability and American values around the world. To advance these goals, the President is requesting \$898,200,000 to fund MCC in fiscal year (FY) 2014.

MCC has one mission: reducing poverty through sustainable economic growth. Our partner countries are rigorously selected and have a track record of sound democratic and economic governance.

We are very selective about the investments we make; Americans deserve to see their tax dollars deliver a high rate of return and the greatest impact. That is why we work with our partner countries to prioritize their economic needs and develop and implement solutions that make a real and measurable difference.

We sign compacts with our partner countries that address key constraints to economic growth through targeted investments. These investments create new economic opportunities through, for example, improved transportation, strengthened land rights, reduced incidence of disease, or better learning environments, to give just a few examples.

Because of our commitment to country ownership, countries not only prioritize compact investments but also stand up local entities to implement the programs. We provide oversight and support to countries to make sure rigorous accounting and procurement standards are followed. We also carefully monitor and evaluate compact implementation, and we require programs be completed in five years, holding our partners and ourselves accountable for achieving high-quality results within a fixed timeframe and without additional U.S. resources.

Our work does not stop once the compact is complete; we ensure projects are handed over to local authorities, who are responsible for continuing operations and maintenance. We also measure the programs' actual effectiveness in increasing incomes for the poor to see what worked and what didn't, and we make our findings public.

These bipartisan principles define MCC's approach to development, and, Mr. Chairman, our approach is working.

MCC programs are creating opportunities in poor communities around the world. Transportation networks are stimulating trade and commerce with regional impact. Projects in land security, food security, energy security, and water security are helping connect the poor to economic growth and opportunity. MCC-inspired reforms are empowering women, strengthening property rights, advancing civil rights, and promoting democratic principles. And American businesses are seeing new opportunities to invest and profit.

### **Past and Current Operations**

Since our creation in 2004, MCC has signed 26 compacts and funded 23 Threshold Programs, committing over \$9.6 billion to fighting poverty around the world. Nine of those compacts have been completed, including three (Benin, El Salvador and Ghana) during the past fiscal year. Based on the rigorous cost-benefit analyses that we perform before signing a compact, MCC estimates over that our past and current investments will benefit over 170 million people.

MCC currently has active compacts totaling more than \$6.2 billion in 15 countries: **Burkina Faso, Cape Verde, Indonesia, Jordan, Lesotho, Malawi, Moldova, Mongolia, Morocco, Mozambique, Tanzania, Namibia, Philippines, Senegal and Zambia**. Five of those compacts will end this year. We are in the process of developing compacts with **Benin, El Salvador, Georgia and Ghana**, plus five more newly selected countries. In addition, we currently operate smaller Threshold Programs in **Niger, Timor-Leste, Liberia** and have Threshold Programs under development in **Guatemala, Honduras, Nepal and Tunisia**. Threshold Programs help countries to become eligible for compact assistance through key policy and institutional reforms.

### **FY 2014 Priorities**

In December 2012, MCC's Board selected five countries as eligible to develop a compact with FY2014 funds: **Liberia, Morocco, Niger, Sierra Leone, and Tanzania**.

These five countries, together home to over 100 million people, are some of the world's poorest, but each has taken concrete steps to improve governance and become eligible for MCC assistance. Together, they represent an extraordinary opportunity to reduce poverty and advance the interests of the United States. While our FY 2014 request will not allow us to fund compacts with all five countries, we are hopeful that future resources will allow us to take full advantage of that opportunity.

The request includes resources for the development of high-quality compact programs as well as rigorous oversight over those programs and agency administrative expenses necessary to ensure that MCC remains an effective and responsible steward of U.S. taxpayer dollars.

The request also funds two Threshold Programs to assist Guatemala and Nepal to implement key policy and institutional reforms that support economic growth.

### **The Selection Process and Incentives for Reform**

MCC prioritizes policy reform. Countries are required to practice sound policies and build strong institutions to qualify for assistance. We rely on objective third-party data to determine whether a country is meeting our requirements for ruling justly, investing in its people and encouraging economic freedom. In order to be transparent, we publish this data in our annual scorecards.

Countries are taking notice by enacting reforms and improving their performance to become eligible for MCC assistance. We call this the “MCC Effect,” and we aren't the only ones to observe it. A new survey conducted by the College of William and Mary asked government officials, civil society, and the private sector in developing countries to list which external assessments had the greatest influence on governments in their countries. The top response was MCC's strict eligibility criteria – not bad for a young agency with just 300 staff and an annual budget of less than \$1 billion.

Recent examples of the MCC Effect include the efforts of the Government of Niger to establish a protected area the size of Indiana, which resulted in Niger passing MCC's Natural Resource Protection indicator for the first time in FY 2013. Sierra Leone also passed the MCC scorecard in FY 2013 after several years of policy reform that included strengthening its anti-corruption agency, investing more in public health and reducing tariff rates. Also notable was Guatemala's enactment of a law against illicit enrichment as part of its efforts to control corruption. In every region, developing countries continue to make significant reforms to qualify for MCC funding, and the relationships of these countries with the United States have been significantly strengthened because of MCC engagement.

While MCC is committed to prudently managing its budget resources in the current constrained environment, a certain minimum level of resources is required to incentivize and sustain such policy changes. MCC is an important tool to encourage policy reform and sustained good policy performance in developing countries. Congressional support of the President's budget request is essential to ensure that the MCC Effect remains strong in FY 2014 and beyond.

### **Holding Countries Accountable**

The incentives for reform do not end when countries qualify for assistance; we continue to monitor the policies of our partner countries throughout the compact period. And we will stop the flow of development dollars if countries break their compact by failing to respect human rights or democratic values. This holds our partners accountable and bolsters MCC's principle of performance-based, selective engagement.

As demonstration of our commitment to good governance, to date we have partially or completely terminated programs in Mali, Armenia, Nicaragua, and Madagascar. In addition to punishing backsliding, we recognize countries that make course corrections. For

example, we reinstated Malawi's compact after the government redressed governance problems that had led to a temporary suspension of our program there. And, in recognition of a return to democratic rule after a constitutional referendum and free and fair local, parliamentary and presidential elections, Niger's suspended Threshold Program was reinstated and in December 2012, MCC's Board selected Niger as eligible to develop a compact proposal.

### **Promoting Gender Equality**

MCC prioritizes gender equality and integration. In 2011, we introduced a new eligibility indicator that measures a country's commitment to gender equality in the economy. Once countries are eligible for our assistance, we work with them to assess and measure the gender and social impact of projects.

We start with analyses of social and gender constraints to poverty reduction; in FY 2012 these analyses were done for compacts under development in Benin, El Salvador and Ghana. MCC also requires that our partners employ staff with expertise in social and gender assessment from the beginning of compact development. In addition, all compacts must have an approved social and gender integration plan.

In 2006, MCC was the first donor to condition a major investment on gender equality. In Lesotho, we required the government to pass a law granting economic rights to married women, and for nearly five years that compact has worked to strengthen women's economic rights and participation. As the compact draws to a close, we have contributed to the sustainability of these efforts by continuing education and outreach efforts to further women's economic empowerment and assisting the Ministry of Gender in reforming its policy and institutional structures.

### **Partnering with the Private Sector**

At the core of MCC's vision is the understanding that market-based economic growth led by private investment is critical to sustainable development. Working with the private sector is not an afterthought to how we do business. Rather, it guides our thinking right from the beginning of the compact planning process. Our compacts create sustained interaction and collaboration with the private sector during program design and implementation.

To attract private sector interest in our partner countries—and also promote homegrown entrepreneurship—we look for ways to include the private sector in decision-making as early as possible. Often, business is the first to recognize and understand the constraints to growth and investment. Early and frequent consultations with the private sector help MCC partner countries analyze these constraints, learn best practices and discuss financing opportunities.

The ultimate key to development effectiveness is linking private investments to our aid investments right from the start. MCC has helped facilitate a number of public-private partnerships, including an award-winning \$184 million build-operate-transfer deal for

Jordan's largest wastewater treatment plant, to assist that strategically important country in strengthening its water security.

### **Creating Opportunities for American Businesses**

By fighting poverty overseas, MCC is also working to create opportunities for American businesses to tap into the trading partners of tomorrow in order to expand and profit.

MCC is a gateway to opportunity through procurements for our compact programs, which we make sure are competitive, fair and professionally administered. By creating a level playing field, we make sure American companies can get a fair deal. Proof of this is the fact that American companies are competing and winning more of our business than companies from any other country

Symbion Power of Washington, D.C. offers a great example of a company leveraging a procurement to gain a foothold in one of Africa's frontier markets. Symbion and its partners won more than \$110 million in MCC procurements to improve Tanzania's energy sector. Symbion has since expanded its business in Tanzania far beyond its initial contract under the MCC compact.

MCC also serves as a gateway to opportunity by creating an enabling environment for follow-on investment. We do this by using measures of inflation, fiscal policy, corruption, ease of starting a business, regulatory quality, and land rights, among other things, to determine if a country is ready for our help. We also create an enabling environment for the private sector by (1) working with partner countries on specific sector-level policy reforms that further open up opportunities for private investment and (2) investing in infrastructure, such as power, roads, airports, and seaports, to expand trade and commerce.

### **Measuring Results**

We aim to deliver and track results throughout the entire lifecycle of our investments. From before investments begin to their completion and beyond, MCC's robust and comprehensive results framework measures, collects and reports on those results.

We start by tracking the significant policy reforms countries often undertake to qualify for, or comply with, MCC compacts. We then monitor and measure inputs, outputs, medium-term outcomes, and ultimately longer-term impacts.

- **Inputs**

MCC's primary input is financial support for investments that promote poverty reduction and economic growth. MCC and our partner countries use analyses of key constraints to growth, cost-benefits and beneficiaries to identify which investments will have the biggest impact on raising incomes and generating economic returns.

- **Outputs**

Once we have made an investment, MCC begins measuring results by tracking outputs that measure the goods or services produced by a program, such as kilometers of roads or irrigation canals built, or the number of farmers trained or land titles issued. MCC and our partner countries use rigorous monitoring and evaluation (M&E) plans to establish targets and track progress on these outputs. Transparently reporting on these outputs is key for accountability and for making mid-course corrections as needed.

In FY 2012, MCC completed 549 kilometers of roadway, bringing the total to 1,712 kilometers since 2004. In FY 2012, we also mapped 3.2 million rural hectares and formalized 1.2 million hectares, for a total of over 5.7 million mapped and almost 1.6 million formalized since 2004. MCC also constructed over 11,700 sanitation systems and built 379 educational facilities that supported more than 142,000 students through educational activities. That's in addition to the 451 schools built and 155,513 students helped in previous years.

▪ **Outcomes**

MCC measures the medium-term effects of a program, such as increased traffic volume on improved roads, new business investments, increased production of high value crops, increased access to electricity or clean water, or increased school attendance. MCC and partner countries use detailed monitoring and evaluation plans to track outcomes since they are the drivers of the increased income that we ultimately aim to achieve.

And we have many outcomes to share. Take, for example, the results framework in the three countries that have recently completed their five-year programs:

- **In Benin**, MCC sought to address constraints in the country's main seaport, the port of Cotonou, which is a key trading hub for neighboring countries and the driver of economic growth in Benin. The compact also tackled nationwide challenges such as insecure property rights, lack of access to capital and an inefficient judicial system.
  - MCC funded \$188 million of port improvements, including a new south wharf, a sand-stopping jetty, enhanced intra-port transport, and strengthened port administration security and customs measures. A 25-year port concession will ensure that the new wharf is adequately financed and professionally operated over time and brings another \$256 million of projected investment.
  - At the recent IMF-World Bank Spring Meeting, IFC and *Infrastructure Journal* recognized the south wharf concession at the Port of Cotonou as a "top 40 PPP" and with a "Bronze" award (among sub-Saharan African projects). The port earlier was awarded the gold prize of the International Association of Ports and Harbors Information Technology Award 2013 for systems modernization financed by the compact.
  - While the program faced challenges in improving land rights in urban areas, it was able to make significant progress in rural areas, securing 72,000 parcels and issuing 650 land certificates, a process which has continued post-compact. For example, Benin's Parliament passed an important land code supported by the compact in January of 2013.



- The Access to Financial Services Project strengthened supervision of microfinance institutions and provided cost-sharing grants to support microfinance and entrepreneurship.
  - The Access to Justice Project reformed court processes and a new code of administrative procedure, supported construction of five courts and training of judges and clerks and established a public legal information center and additional one-stop shops for business registration.
  - One impact evaluation and three performance evaluations are being done to understand the impact of these four projects.
- **In Ghana**, the \$547 million compact ended in February of 2012.
    - The most visible component of the compact was the rehabilitation of a 14-kilometer urban highway in downtown Accra that has reduced travel times from one hour to less than 20 minutes while almost doubling traffic volume on the primary artery linking the country's primary port, the international airport and the major agricultural regions.
    - The compact also sought to increase the productivity of high-value cash and food staple crops and enhance the competitiveness of Ghana's export base in horticultural and other traditional crops. Nearly 67,000 farmers were trained in commercial agriculture, over 5,700 rural land parcels were surveyed and nearly 1,500 of those were formally registered. Investments in post-harvest infrastructure have resulted in 10 packing facilities being installed.
    - In addition, more than 350 kilometers of feeder roads were completed in rural areas, linking them to markets and social service networks.
    - 134 rural banks across Ghana have been connected to the national payment system through a satellite-based wide area network.
    - 250 school blocks were rehabilitated, increasing enrollment by close to 10 percent.
    - 392 water points, including boreholes, pipe extensions and small-town water systems, were constructed to improve health, reduce the incidence of illness and loss of productivity due to unsafe drinking water and decrease the time and effort spent fetching water. The average distance a person has to walk to fetch potable water now has been cut in half from 1,190 meters to 522 meters.
  - **In El Salvador**, the \$461 million compact ended in September of 2012.
    - The largest of the compact's components, the Transportation Project, has helped unify El Salvador's Northern Zone with the rest of the country, enabling new economic opportunities for rural households, lowering transportation costs and decreasing travel times to markets. This east-west highway in the north stretches close to the borders with Guatemala in the west and Honduras to the east, and the improvements are anticipated to reduce travel time by 50 percent, from 12 hours to six hours.
    - Over 33,000 households benefited from a connection to the electricity network.
    - More than 7,000 households benefited from clean water and sanitation services.

- New educational opportunities were afforded through the construction, rehabilitation and/or equipping of 22 educational facilities, with 30,632 students participating in MCC-supported educational activities.
- The compact assisted about 17,500 producers by providing training, seeds, equipment, and technical assistance; supported work to improve 25,400 hectares under production on which producers have planted short-season vegetables and fruits and improved pasture lands; and granted 44 loans to small- and medium-sized businesses in the Northern Zone to develop new projects in agriculture, tourism and handicrafts, amounting to more than \$7.5 million.
- Based on the preliminary findings of an independent impact evaluation, within one year of receiving assistance, dairy farmers increased their annual productive income by an estimated \$1,850 on average compared to those who did not receive assistance.

▪ **Impacts**

The ultimate result MCC is committed to producing—and being able to attribute to our investments—is increased incomes among poor people in developing countries. We want to know if incomes went up because of our investment, what worked best to increase incomes and if the increases were achieved in a cost-effective way.

Where the potential to learn is greatest, MCC uses impact evaluations to answer these questions, often comparing results from the people who participated in MCC-funded programs to those who did not. This indicates whether gains were the direct result of MCC's investment. Independent firms conduct the evaluations to ensure objectivity, and results are made public to help foster accountability and learning. MCC also uses performance evaluations to answer qualitative questions, like how a project is being implemented and whether expected results are occurring.

Last year, MCC completed and released our first set of independent impact evaluations, which used rigorous statistical methods to measure changes in project participants' farm and household incomes in five countries. According to a World Bank study, there were only three impact evaluations using rigorous experimental designs in farmer training anywhere in the world between 2000 and 2009. MCC has now done five, and more are on the way.

In El Salvador, the evaluators found that dairy farmers doubled their farm incomes. In Ghana, northern region farmers' annual crop income increased significantly relative to the control group, over and above any impacts recorded in the other zones. And in Nicaragua, project participants' farm incomes went up 15 to 30 percent after two to three years of project support.

**Learning and Sharing Lessons on Effective Development**

MCC is committed to evidence-based development by honestly testing assumptions, adding to a stock of evidence about what does and does not work, contributing to new thinking about monitoring and evaluation, and sharing findings and data from our independent

evaluations. Even when the findings are not all positive, this helps us improve the design and evaluation of future projects as we continue to learn and hold ourselves and our partners accountable. And it helps our partners in the development community maximize their effectiveness.

By releasing the recent evaluations, MCC demonstrated its commitment to transparency, accountability and sharing lessons. The evaluations underscored the need to test assumptions about commonly used approaches. Take, for example, the case of starter kits. Starter kits are packages of seeds, fertilizers, and/or equipment designed to complement farmer training. Starter kits have been a favorite for donors and country partners for years, and are still very common. In fact, we have used them in a number of our farmer training projects as well. However, there is limited evidence available on whether or not provision of starter kits actually drives behavior change, and exactly what should be included in starter kit packages.

The evaluations of farmer training programs in Ghana and El Salvador suggest that the starter kits do not always drive behavior change in farmers the way we expect. We want to understand why, as does the broader development community. Rigorous evaluations are central to this kind of learning, and improving our practice.

To summarize, MCC is a small agency with big impact. In the words of former Secretary of State and MCC Board Chair Hillary Rodham Clinton:

MCC's model showcases some of our best thinking about how to do development for the 21st century, and has helped to set the stage for the Administration's approach for development, because at a time when we must look for the way to maximize the impact of every dollar that we spend on development, we often turn to MCC for information and inspiration.

Working with the State Department, USAID and our other development partners, MCC is combatting poverty, creating incentives for good policy performance, working to open up business, investment and trade opportunities for American companies, measuring results, advancing learning, and improving accountability.

Ms. ROS-LEHTINEN. Thank you to both gentlemen for excellent testimony. And I thank Chairman Royce and Ranking Member Engel for calling this important and timely hearing.

Once again, we are having this hearing amidst the backdrop of economic uncertainty, both here and abroad. But here, it is incumbent upon us to be responsible stewards of the tax dollars of hard-working Americans. We want to ensure that these hard-earned dollars are spent wisely and strategically, while advancing our national security interests and addressing our foreign policy priorities. Which brings me to the administration's request of \$370 million for West Bank and Gaza assistance.

With Prime Minister Fayyad's resignation casting a greater shadow in the future makeup of the PA and with the knowledge that corruption is rampant within that body, Dr. Shah, do you believe that the PA possesses adequate internal controls to effectively deliver any U.S. aid? And what assurances have we received that no money will be diverted to Hamas and other terrorist organizations?

In addition, Dr. Shah, I continue to be concerned over the administration's attempts to cut much needed democracy programs to the Cuban people. Forty pro-democracy activists remain on hunger strikes in Cuba to call attention to the dozens of Cubans who are being detained by Castro's state security forces. These brave heroes are risking their lives, yet we are cutting their support, which is not prudent, especially at a time when the crackdown by Castro's thugs is actually on the rise on the island.

And Mr. Yohannes, with the Millennium Challenge Corporation, we must ensure that the founding principles of the MCC continue to be upheld and do not fall under the trap of providing more and more assistance without an end in sight. Instead, we have got to focus our efforts on economic growth and the graduation of countries away from being dependent on our assistance.

As chairman of the Subcommittee on the Middle East and North Africa, I note that the MCC compact with Jordan is coming to an end this year and I wanted to know if you would comment on that. We will be meeting with the leaders of Jordan later today. Also, Morocco continues to be an important ally to the United States and is a strategic partner in the region. We must further seek ways to reiterate the strong bonds that tie our two nations and promote our shared values and vision for stability in that region.

With that in mind, and shifting to another region, Mr. Yohannes, I am concerned about the MCC's attempt to seek a second compact with El Salvador. American investors continue to have problems accessing their assets. There is a lack of public-private partnerships and endemic corruption issues are still prevalent in El Salvador. According to reports, the current Presidential candidate for the FMLN celebrated the terrorist attack on 9/11 and burned an American flag. So I believe that the MCC compact should not be used as a political tool as Presidential elections draw near. I would urge the MCC to wait until after the elections before proceeding with that compact.

So, Dr. Shah, if you could address the PA assistance issue and the Cuba issue.

Mr. SHAH. Certainly. Thank you. And thank you for your strong leadership on the range of issues here. On West Bank/Gaza, the goals of our effort there are very specific. They are about creating economic opportunities to underpin a peace process to support basic social services and we have been able to reach more than 200,000 people with food and more than 75,000 connected to improved water systems and some core humanitarian priorities as needs arise.

We do have very strict controls in how any specific transfers to the Palestinian Authority are conducted and we are confident that that will continue to go forward as we have run it in the past, very strict.

Ms. ROS-LEHTINEN. Thank you. And on Cuba?

Mr. SHAH. And on Cuba, again, the goals there are support for civil society and democracy with some small humanitarian efforts and we have worked closely with our partners. We believe the President's budget of \$15 million reflects an appropriate investment that they have the capacity to implement. We recognize and take some faith in the fact that GAO reviewed our approach to implementing this program and very strongly commented on the effective reports we put in place to have a clear and compelling implementation strategy for this effort.

Ms. ROS-LEHTINEN. Thank you. And Mr. Yohannes, I have not left you much time for Morocco, Jordan, and El Salvador, but maybe you could reply in writing. I don't wish to rush those answers because they are important. Thank you very much.

I am pleased to yield 5 minutes to our substitute ranking member for the substitute chair, Mr. Sherman.

Mr. SHERMAN. Thank you and thank you, Chairman Emeritus, for your questions particularly with regard to the Palestinian Authority and democracy in Cuba. I want to associate myself with your concerns.

NGOs just are there to try to provide relief for development. USAID focuses also on our foreign policy objectives.

Administrator Shah, how do you coordinate with the State Department to get—to have our foreign policy and a foreign policy and national security objectives affect what you do?

Mr. SHAH. Well, thank you, Representative Sherman. I guess I will offer a general point and a specific one. In terms of coordination, I think under the Obama administration, under Secretary Clinton, and now under Secretary Kerry, it has been both very transparent and much improved. We develop country assistance strategies for each country. They are carefully vetted through USAID and State. We jointly approach the priorities and define them in a specific way and then measure results and make those outcomes as public and transparent as possible.

We have implemented a foreign assistance dashboard that has excellent data from USAID, from State, and from MCC that meets our International Aid Transparency Initiative commitments and I believe that has been very strong coordination. One important example of that, I think, that speaks to your opening comment, is Syria. We have worked hand in glove to make sure that we provide now nearly \$400 million of humanitarian support inside of Syria. Sixty-five percent of that reaches opposition-controlled areas. We

are reaching 2.4 million people with critical services and doing that—

Mr. SHERMAN. Administrator, I am going to have to go on to a few other things and ask you to supplement your answer for the record, although the fact that the flag is not on the bag in Syria is of great concern to me.

I would like you to, for the record, describe what regulations or policies you have for your people in the field as to when they must emphasize that the aid is coming from the United States, literally put a big flag on the bag of food, etcetera, and when they are allowed to depart from those policies.

I would also like you to provide for the record some key studies or examples to illustrate what is the difference in cost between a local sourcing on the one hand and U.S. sourcing, U.S.-flag carrier delivery on the other. I am sure that there will be a wide variation in the differences in costs depending upon where the aid is going.

As to Pakistan, we have provided \$2.8 billion in nonmilitary assistance since 2009. The Islamabad Government has its own objectives, but we need to win over all of the people of Pakistan and I focused my attention on the Sindh Province. To what degree does Islamabad determine where our aid is focused within Pakistan? And then in writing maybe you could provide a description of what we are doing in the Sindh Province. Who picks the projects and the locations, you, or the Pakistani Government?

Mr. SHAH. Thank you. Let me just say with respect to Pakistan first, and Sindh, in particular, we have very important partnerships. We design them together. We absolutely retain the capacity and authority to both select projects and oversee their implementation. One example is we made a commitment to help them produce 1,200 megawatts of energy. We have already seen through and successfully produced 800 megawatts and that has been seen as a tremendous success.

Second, we have invested quite a lot of effort in a comprehensive branding strategy for anywhere in the world. Pakistan, I think, is a good example where, as a result of our efforts, we have data that shows that the awareness of American assistance efforts in Pakistan has gone up three-fold. There have been 3,000 locally placed—

Mr. SHERMAN. I am going to try to sneak in one more question, but please give us that analysis of what is going on in Sindh. I am somewhat concerned that the administration request cuts aid to Armenia. I think you ought to increase that instead. And if you are looking for a source of funds, you could look at U.S. aid of all types to Azerbaijan, which is thwarting our development efforts for the area by threatening to shoot down civilian aircraft that go into Stepanakert's new airport.

I have talked to Mr. Yohannes about the Javakheti region of Georgia. We provide very substantial aid to Georgia and I hope, as I have discussed with him, and now I have a chance to discuss with you, that a significant part of our aid would go to that otherwise neglected region.

And I will ask, if I have got a chance, Mr. Yohannes to describe what is the status of our second compact with Georgia, and will Javakheti be a strong focus if that compact is concluded?

Mr. YOHANNES. The investment proposal is proceeding extremely well and should be presented to the board sometime in June of this year. And Mr. Congressman, please know that there is some funding set aside for Armenian language and also for a number of schools in that region.

Ms. ROS-LEHTINEN. Thank you very much, Mr. Sherman.

Mr. Smith is recognized.

Mr. SMITH. Thank you very much, Mr. Chair. Five minutes and so many questions to ask but let me just ask you, Dr. Shah, 2 days ago Dr. Frieden testified before my subcommittee. Of course, you work very closely with CDC and he does head up that very important agency. We focused on superbugs and the parasites as well as antimicrobial resistance, and how this is becoming more and more of a problem.

I would just ask you, if you could to speak to the issue of tuberculosis. MDR and XDR TB is becoming, it always has been, but even more of a problem. I know it is probably OMB, but there is a cut of \$45 million in the budget. Hopefully, that can be restored and maybe even enhanced because it is so important.

And on the issue of malaria, we had a great discussion, disturbing discussion, that artemisinin resistance in Southeast Asia portends a very dangerous possibility of that expanding into Africa and we also know that bed nets and all the rest of the efforts that have been Herculean in combating malaria need to be renewed, new bed nets provided. There are 104 malaria-endemic countries. You might want to speak briefly to that and more so for the record.

Secondly, before you came out, we talked about the issue of child survival and the vital importance of ORT, 1,000 days, immunizations, all of the important things to save lives. You had indicated you had just been in India and you might want to speak to the issue.

A new documentary film was released yesterday. It is entitled, "It's a Girl." It notes a U.N. figure that there are 200 million missing girls on the planet directly attributable to sex selection abortion, and to a lesser extent infanticide. China and India are the two most egregious violators. These are gender crimes, extermination of a girl child in the womb or at birth has not only in and of itself led to this destruction of girls, but it led to more sex trafficking and that has sky rocketed in India and in China, in particular. But you did talk about the nexus with child survival with some of the health ministers and if you could speak to that very quickly.

Mr. SHAH. Thank you, Chairman Smith, and thank you for your strong leadership on these issues for decades in child survival in particular.

With respect to child survival, last year we pulled together partner countries from around the world to get everyone to make a commitment to end preventable child death worldwide. The United States signed the pledge, as did others, and today, there are more than 150 countries producing data-driven report cards and score cards tracking progress. There are about 7 million children under the age of 5 who die every year. As the President noted in the State of the Union address, we are committed to taking that down to as close to zero as possible within two decades.

In India, in particular, I think it is a good example of this public/private partnership model of work coming together. We have private companies making investments to track data and report on outcomes. We have private companies expanding zinc mining precisely to create zinc syrups and other products that can be helpful to children who would die otherwise of diarrhea. We know these efforts are generating results as these ministers came together to brief me on their progress, but also to describe how it is correlated with the sex selection problem to which you speak and how that needs to be incorporated into the approach.

Let me just say on that though, I think the most amazing thing is we are not driving this process through big, new investments of American taxpayer dollars. It is really American leadership and a focus on science and technology and measurement and results that is allowing us to partner with others to achieve that kind of an outcome.

With respect to tuberculosis, I appreciate your comments and we are very focused on multi-drug resistant and also XDR TB which I am sure Tom Frieden spoke about. He is one of the world's experts on that for many decades now.

There are three foreign assistance accounts that provide our tuberculosis support so we have limited some of our funding in one account. We are expanding our efforts in HIV-related TB and in using the Global Fund for AIDS, TB, and Malaria to make sure that our investments crowd in resources from other donors and allow for more sustainability over time.

Finally, to your point on malaria, I think this with your strong leadership, has been one of the big success stories America can take great pride in. Independent evaluations by Boston University and others have shown that there are, as a result of this annual investment we make of less than \$700 million, as many as 200,000 children under the age of five who don't die every year in sub-Saharan Africa because we have an evidence-based, clearly measured, targeted approach and it serves as the basis for our efforts to further reduce preventable child death in that region. So thank you for your leadership.

Ms. ROS-LEHTINEN. Thank you so much, Mr. Smith.

Mr. KENNEDY is recognized.

Mr. KENNEDY. Thank you, Madam Chair.

Ms. ROS-LEHTINEN. I am so sorry. I am out of touch.

Mr. Cicilline.

Mr. KENNEDY. I appreciate the thought though.

Mr. CICILLINE. I would yield to Mr. Kennedy, of course.

Ms. ROS-LEHTINEN. Mr. Cicilline is recognized.

Mr. CICILLINE. Thank you, Madam Chairman. I am not sure whether the proper way to address is Ambassador or Administrator or Doctor. I am not sure which of those is best, but I think Ambassador is what I will use.

I want to first thank you for your great leadership at USAID. And the issue I would like to hear a little bit more about is that we have seen, and I have certainly learned about, the decline in personnel at USAID over the last 20 years or so and kind of the breaking up of some of the functions with different agencies within the government and the on-going use of contracting services. The



impact that that has had, I think, has been detrimental to our development and aid efforts around the world and I think you have recognized that in your forward AID initiative.

And so I would like you to sort of talk a little bit about what is the end goal of that, where you are in the implementation of that, and whether or not there are things that we can do on the legislative side to protect that kind of rebuilding of both budgeting policy, and personnel capacities of USAID, which I think is reflective in some of the questions that people are asking about: People understanding what role we are playing in aid and development around the world.

So I will stop there and you can go first with that question.

Mr. SHAH. Thank you, Congressman, and thank you for your leadership and that accurate reflection of the situation that emerged over 15 years. Between 1990 and 2005, our staffing was reduced by more than 40 percent, the policy and budget activities ceased to exist, and the Agency did engage, in my view, in quite a lot of no-bid contracting with very little oversight, often in war zones where that can lead to all kinds of unintended consequences. So in response to that, we launched USAID Forward. And it was basically an Obama administration effort to help USAID rebuild as America's premier development humanitarian entity. With your and Congress' strong support, we have been able to hire 1,100 new officers into the Agency during my tenure. Those officers have helped us fill a 40 percent staffing gap in Africa.

We have, in fact, cut a large number going from almost 800 down to 520 specific programs around the world so we could focus our efforts in those places where we deliver the best results. We have reshaped and repositioned our staff, closing more than 14 missions around the world in order to advance the focus and selectivity we think is critical to delivering results.

USAID Forward has three major components: A partnership component that says we should be working efficiently and effectively with partners that can create the conditions where aid is no longer needed. And we released a detailed report about 1½ months ago that shows we have in a thoughtful and rigorous way been able to expand our engagements with local partners by more than 50 percent over the last few years. We have a focus on innovation and science and technology. Last year, we opened, in partnership with seven American universities, development innovation laboratories. Those laboratories are producing new technologies and insights like a Cell Scope that Chairman Smith would be interested in, I am sure, but it takes an iPhone and connects to a plastic microscope. It allows you to take essentially a photograph of a blood smear and then run a software algorithm to diagnose malaria and hopefully some day tuberculosis. Taking laboratory diagnostics out of treatment and care in the context where we work would be a major cost reducer and would allow us to add to the list of success stories in terms of serious disease reductions in difficult parts of the world.

And finally and most importantly, there has been an effort that really attempts to focus on delivering real results. So today, you can, as I noted, download an application that would show you all of the evaluation data that we put forward. We actually produce annual reports on our Feed the Future program, on our child sur-

vival efforts, and on our malaria program. That just came out a few days ago. And we think it is important to be transparent with the American people because the capacity to support this work, I think, is much stronger when people see clear direct results and they are now able to do that.

Mr. CICILLINE. Thank you. I am also very pleased that this budget reflects the administration's commitment to political, economic, social, and cultural equality for women and girls and I would just ask you, maybe in written response, to tell us a little more about the progress that you are making with respect to those issues and particularly how investing in gender equality is helping to reduce poverty and create development opportunities around the world. I am particularly interested in learning more about our efforts to reduce violence against women all over the world and I know that that is work that is ongoing and would like to hear more about that in written response.

And just for my last 7 seconds, I wanted to say to Mr. Yohannes, thank you for second Millennium Compact for Cape Verde which is helping the country improve water delivery and sanitation. I know very well the great success that they are having in Cape Verde and thank you again for your leadership in that area. And I yield back the negative 10 seconds I have.

Ms. ROS-LEHTINEN. Thank you very much, Mr. Cicilline.

Mr. Chabot of Ohio is recognized. He is the chair of our Asia Subcommittee.

Mr. CHABOT. Thank you, Madam Chair. Mr. Sherman has already raised the issue, but I want to emphasize something that he said, which is the fact that the U.S. is the most generous country on earth, by far, in providing aid around the world. I find it particularly annoying that we oftentimes have to hide the source of that aid which is the American taxpayer because we might offend some people who, let us face it, hate America. We should proudly and prominently display and, in fact, trumpet the generosity and the goodness of the American people. If this offends someone and they turn the aid down, fine. We will give it to somebody else who would appreciate it.

Now, as chair of the Asia and Pacific Subcommittee, I have a couple of questions; one on Indonesia, one on China, and one on Vietnam.

Mr. Yohannes, I believe the Millennium Challenge account, the sustainability, economic growth mission is how all of our foreign assistance should be modeled because in a number of cases it is proven to be far more successful than many of the foreign assistance programs administered through USAID.

In 2006, Indonesia was named eligible for the MCC threshold program which seeks to reduce corruption by bolstering several key anticorruption institutions including the Supreme Court and the Anti-Corruption Commission. Last year, Indonesia's ranking on the corruption perceptions index unfortunately fell from 100 in 2011 to 118 out of 176 countries polled. Relative to other countries polled, Indonesia remains in the "cluster of countries with significant corruption problems."

Considering the MCC has been in Indonesia for a few years now, could you discuss how the MCC has helped fight corruption and

some of the challenges you are confronting in meeting your program goals? I also understand in this particular case, Indonesia has been a reluctant partner in implementation which questions the sustainability of the program once the MCC leaves. Can you discuss this particular issue and how MCC is working to address the problem? Thank you.

Mr. YOHANNES. Thank you, Congressman. Corruption is a major obstacle to economic growth and we have absolutely zero tolerance for corruption. Let me say that all of the countries, including Indonesia, were selected because they passed our corruption indicators. We look to see if, in fact, corruption is institutionalized. We know that despite efforts to cut down on corruption, corruption exists, not only in Indonesia and in a lot of our partner countries, but we also know that corruption exists in developed countries. But we look in terms of is it institutionalized? Do they honor contracts? Do they abide by the rule of law? Are the judges independent from the executive branch of government? Are they creating the best environments for businesses to succeed?

We look for trends to make sure that they are creating a very friendly environment for businesses to succeed. Part of our \$600 million compact is to help that country to fight corruption primarily by helping open procurement opportunities in their countries. In fact, they had to do a special decree to set up an MCC affiliate in that country because previously all aid was funded directly from the government. We don't even only give a dime directly to the government. In fact, after the President decreed this new MCC entity, it had to be approved. This was the first time it was ever done in the country.

Mr. CHABOT. Thank you. Let me cut you off there just because I have two other quick questions I would like to present to Administrator Shah. One is on China. USAID has requested \$4.5 million in economic support funds for China. Right now they own an estimated \$1.7 trillion of U.S. debt and they hold over \$3.25 trillion in foreign cash reserves. How do you justify this, particularly when we have a \$16.8 trillion debt?

Finally, relative to Vietnam, we had a staff codel over there last month. Their human rights record, unfortunately, is not good. And unfortunately, many would argue is getting worse. It has been requested an \$18 million increase over the past year. How do you justify that? And you have got 15 seconds to answer both questions.

Mr. SHAH. Thank you. With respect to China, we don't provide any support to the Government of China. The \$4.5 million is specifically to help Tibetan communities improve livelihoods, promote sustainable development and preserve cultural traditions and is absolutely no correlation or flow to the Chinese Government whatsoever.

With respect to Vietnam, I would note that compared to the Fiscal Year 2012 real number, the Fiscal Year 2014 request is an overall 12 percent reduction in our investment there. And our focus there is to maintain our support for the PEPFAR HIV/AIDS effort as well as to support civil society and in particular, people with disabilities in addition to the dioxin remediation activities that have been an ongoing commitment of the United States.

Mr. CHABOT. Thank you.

Chairman ROYCE [presiding]. Thank you. We will go now to Mr. Eliot Engel, our ranking member on the committee.

Mr. ENGEL. Thank you, Mr. Chairman. I would like unanimous consent to insert my statement into the record, but I want to just talk about some things. In this difficult fiscal environment, some reflexively turn to the foreign assistance budget as the first place to make cuts and I think that is regrettable. I really wanted to say that because I think it is important.

I want to commend the administration for its food aid reform proposal. Our current food aid programs waste millions of taxpayers' dollars and often harm agricultural markets in the countries we are trying to help. The Secretary of Agriculture has said this reform initiative will have little or no effect on American farmers. So I would like to, after I say a few more words, I would like to ask Dr. Shah to comment on the administration's plans to restructure our food aid programs to make them more efficient and affordable.

I want to say in terms of global health, I was pleased to see the small overall increase in funding for global health programs at USAID, especially for PEPFAR. I think that is very, very important.

Mr. Yohannes, I think it is a testament to MCC that many of the reforms being pursued by USAID and the State Department are based in large part on the MCC model. I think that is very, very good. But I am interested in hearing your thoughts on how MCC can address my longstanding concern about how we work with countries that lack data on their respective score cards. As you know, I have been very disappointed in MCC's handling of Kosovo, a country recognized by the United States, but not a member of the U.N. because of MCC's dependency on U.N. agencies for much of the data it uses. Kosovo was left with multiple, empty failed boxes on its score card, essentially keeping it from competing for a compact or threshold program. I thought this was very unfair to Europe's newest country. And while I recognize MCC's willingness to accept supplementary data, it is unclear at best how MCC uses this information to calculate a country's scores and unlike the rest of MCC's process, there is nothing transparent about this approach.

So, I really hope MCC addresses this problem so that future countries in Kosovo's position will be evaluated and able to compete the same way as all of the countries. And the last point before I ask both of you to answer the questions is that Congress has been appropriating unprecedented sums for the Palestinians and the Palestinian Authority for the past several years. This is important for maintaining a semblance of stability in the West Bank in Israeli-Palestinian relations as well for humanitarian reasons. But it is no coincidence that this increase in U.S. assistance has occurred during Salam Fayyad's tenure as prime minister, a man who won great respect for his emphasis on budget transparency and other aspects of good governance. Fayyad, unfortunately, in my opinion, resigned last week and we anticipate a replacement will be named soon.

And I wanted to take this opportunity to urge President Abbas of the Palestinians in considering Fayyad's replacement to appoint someone who can continue the positive aspects of Fayyad's ap-

proach. Without continued budget transparency, further U.S. assistance for the Palestinian Authority will not be possible.

So I am wondering, first, Dr. Shah, we have met many times and you know I am an admirer of yours. I support the administration, like Chairman Royce. I support the administration's plans to restructure our food aid programs to make them more efficient and affordable. So could you elaborate for us the potential taxpayer savings this plan will generate? Do you believe it will have any impact on American farm income? And has DoD signaled their concerns about the proposal in regard to its impact on military readiness and deployment capacity?

Mr. SHAH. Thank you, Mr. Ranking Member, and thank you for your leadership across the range of these issues and for the extra efforts you have put in to help us do our work better and more effectively.

With respect to the food reform proposal, it is geared around the absolute intention to reach 4 million additional children without spending additional resources. We recognize these are very difficult budget times and the Fiscal Year 2014 request is actually in total 6 percent lower than the Fiscal Year 2012 request.

With respect to what is happening right now, why this is urgent, because of the incredible commitment to Syria, Syrian refugees, and the food needs in that context, what limited flexibility we have had in this program has been absorbed in that context. As a result, there are many other parts of the world—post-famine Somalia, the DRC, Pakistan—where we are reverting kids from programs that have been supported through the more flexible local and regional procurement program back to the more restrictive Title 2 program. And in the context of doing that, we are having to reduce services to hundreds of thousands of beneficiaries.

We believe we need the flexibility embedded in the proposal and have studied carefully the impact on American agriculture. The truth is over the last decade this program has been shriveling up because of the changing cost structure of the effort. We used to ship 5.5 metric tons, now we ship 1.8 million metric tons. As Secretary Vilsack has noted, this is less than  $\frac{1}{2}$  of 1 percent of the total value of U.S. agricultural exports and we are only proposing a diminishment from 85 percent to 55 percent in terms of tied U.S. commodities as part of the program. There have been more than a dozen studies that have validated the efficiency gains of taking this approach in a number of respects and we believe this will help us renew the partnership between American agriculture and American humanitarian communities to maintain American food security and hunger leadership around the world. Thank you.

Mr. ENGEL. Thank you. And if the chairman will indulge me.

Mr. Yohannes, I mentioned that it is really a testament to MCC that many of the forms being pursued by USAID are doing it in large part based on the MCC model because clear metrics and transparent benchmarks should be the hallmark of all of our foreign assistance programs, so I commend you for that.

I would like your comments on Kosovo. It has been a long-stranding frustration of mine.

Mr. YOHANNES. Congressman, thank you. When Kosovo became independent in 2008, it presented a different challenge for us. We

simply did not have a lot of the indicators from the indicator companies, but since 2008 we have worked very closely with all the indicator organizations that provide us with that information. And today, we have more information about Kosovo than we ever had in the past. The only agency that is not providing this information is the United Nations, but we have been able to get supplemental information directly from them. We have been actively engaged. I sent one of my best economists to that country last year and today, they only passed 8 out of the 20 indicators.

Having said that, we are working with them very closely to make sure that they understand what needs to be done. And the good news and the bad news, Congressman, is that they have graduated to the higher income bracket in the last 2 years and if they continue to make that progress, they may not be eligible for our program. But we work with them and I would be more than happy to work with you, Congressman, on what we need to do in the future in cases like this one.

Mr. ENGEL. Thank you. I want to work closely with you on that. And finally, before I relinquish, I would like to just add my voice to Mr. Smith's comments about cutting TB funding by \$57 million. It is really extremely short sighted. And I really think that we have to sufficiently fund our efforts to treat and eliminate tuberculosis. And I just wish you would take that into consideration. Thank you very much. Thank you, Mr. Chairman.

Chairman ROYCE. Thank you, Mr. Engel. I wanted to go just for a minute to this issue of food aid reform. And Ambassador Shah. I am very encouraged by this reform proposal. It is one that had been made in the prior administration as well or had been suggested. And I remember talking to Andrew Natsios about your predecessor in your position about some of the challenges that he had and his feeling that both hands were tied behind his back. As he shared with us at one point when we had a devastating food crisis in Africa and in Asia, he said food aid often gets there after everyone is dead. He was clearly very, very perturbed by the circumstances and the delays.

And one of the things that he said is that people can't eat shipping costs as he was commenting on the reality of the burdensome way that the system operated. When it takes months for food aid to arrive or when you have a situation where you have seen the United States dump food into markets that undermine local production, and drive the population into deeper poverty, it really gives you pause in terms of our current method of operation.

When I chaired the Africa Subcommittee, we had the President of Mali here. This was probably about a decade ago. He testified how it was undermining his farmers and how agricultural subsidies were undermining his society. There is a negative impact our western agricultural subsidies have on African farmers and we need to be responsible here. And the framework for your proposal, I think, has been found to save time, money, certainly lives, and I think it promises to reduce the deficit going forward over the next 10 years by about \$½ billion.

I was going to ask you a question and this goes to the issue of aid to refugees from Syria. I understand that the requirement of

a U.S. ship recently delayed a food shipment to Syria and I was going to ask you about that, Mr. Shah.

Mr. SHAH. Thank you, Mr. Chairman. And thank you for your very strong and effective leadership on this topic in particular.

The Syria crisis has, in fact, precipitated an urgency around the need for this reform because, in opposition-controlled parts of Syria traditional food convoys would be targeted. We have had more than 150 deaths across humanitarian workers in that context and because, as we have used what limited flexibility we have had in and around Syria and it has been effective in that context, we have eliminated our capacity to use that same flexibility in places like Somalia and the DRC.

So all of the basic points you have made, I think, are the core rationale for this effort and we know that we can get a 30 to 50 percent cost reduction on natural product purchases. We know there is an 11- to 14-week shipping delay in pursuing the traditional model. We know that shipping costs have increased by a factor of more than three over the last decade, which is, in part, why the metric tons of food that we buy and ship have fallen from 5.5 million metric tons to 1.8 million metric tons. And as a result, American leadership on this issue around the world has also fallen. And today, we service less than half of the beneficiaries we did when President Bush and Andrew Natsios made a version of this proposal 10 years ago.

I also want to validate and highlight the challenges of the practice of monetizing food assistance. When we try to support a wonderful partner like CARE or World Vision or Catholic Relief Services in the Democratic Republic of Congo by shipping food from here to there, giving them the food, asking them to sell it in precisely the markets where they are then turning around and using the cash to help farmers produce value, they both create strong disincentives and frankly lose 50 percent of the value in that case of the resource compared to what we spent buying the food on this end of the world. So there is a strong consensus around a data-driven approach here and we are trying to put this proposal forward in a way that manages and maintains the important coalitions required to renew American leadership on hunger.

Chairman ROYCE. Let me bring up one other issue. I am deeply concerned about the growing number of land seizures taking place in the Philippines. Property rights are essential to an individual's personal and economic security, but it is also essential in terms of economic growth.

And Mr. Shah, I see the request for development assistance in the Philippines includes an increase up \$6.6 million for a total of \$87.7 million. Will any of these funds be directed toward securing and protecting property rights and if not, why not?

Mr. SHAH. Our intention is to ensure that we work on the range of those types of issues in the context of these programs. I would have to provide more specific details perhaps in writing.

Chairman ROYCE. I will be in consultation with you afterwards.

Mr. SHAH. Thank you.

Chairman ROYCE. Mr. Yohannes, MCC has \$434 million in its compact with the Philippines and that is nearly 2 years into implementation. And I appreciate your commitment to raising the land

seizure issue with the government there. Is this not an issue of commitment to rule of law that is central to your mission?

Mr. YOHANNES. Mr. Chairman, it is very important, the rule of law. And we have communicated our concerns to the government. I think it is also extremely important for economic growth, and I know they are very committed in the fight against corruption. But also, they need to do something different on this one; and based on the conversations we have had with them, they understand the problems and they are willing and committed to finding solutions for this problem.

Chairman ROYCE. Mr. Yohannes, thank you for your efforts. And Mr. Shah, we appreciate it. We are going to go now to Dr. Bera.

Mr. BERA. Thank you, Mr. Chairman. And thank you, Dr. Shah, and Mr. Yohannes, for being here.

As a doctor, I recognize the important work that USAID does in global health including seeking to prevent child and maternal death through the transmission of AIDS, particularly in the Global Health Initiative and through their PEPFAR funding, very important programs that have really relieved human suffering.

Obviously, one of the goals of both the MCC and USAID is to help the countries that we are interacting with become self sufficient. That is always one of our goals. In my conversations with the Government of India and with the State of California, as we are looking at the issue of food security and helping India feed its own population, I was astonished at the amount of food loss that occurs in India. It is upwards to 40 percent of the food gets lost in a nation where hundreds of millions go to bed hungry every night. A lot of this is around issues of cold storage and issues of lack of infrastructure for taking the food and moving it to market.

I would be interested in hearing from either one of you on some effort working with the Government of India to improve both the storage issue and then the movement issue.

Mr. SHAH. Thank you. I will just address a few of those points. I think with respect to food security in India, when President Obama visited during his state visit, he launched a Partnership for an Evergreen Revolution with Prime Minister Manmohan Singh. And that partnership was really designed to have both countries partner along technical and other lines as opposed to having the United States make significant investments in India because India has plenty of resources in its agricultural sector. As a result of that, three things have happened. One is there has been a much expanded technical exchange across universities, some from California, like Davis, along with partner universities in India, many of which we had a strong role in helping to develop decades ago.

Second, the Indian Government has tried to pass legislation to allow for American companies like Wal-Mart and others to be involved in essentially professionalizing the food chain and creating and bringing the technologies and logistics capabilities of those companies to address exactly the issues you raise like cold storage and reducing post-harvest losses. We have been a technical partner in that effort and between USAID, USDA, and the Government of India that is moving forward.

So those types of activities have been very important.



The third and final thing I would note is there are a range of technology partners in India that have joined this effort and are now actually partnering with the United States, investing their own resources in tackling hunger in sub-Saharan Africa through our Feed the Future partnership. And we think that is emblematic of a new model where India places a larger role bringing some of its technology and businesses to partner with us on this challenge in sub-Saharan Africa.

Mr. BERA. Mr. Yohannes, would you like to respond?

Mr. YOHANNES. About 40 percent of MCC's investments are tied primarily to help many of our partner countries become food secure. So for example, in agriculture, we not only are training farmers how to become self sufficient, but also providing them with a lot of opportunities. We are building roads so that communities will have access to markets. We are building cold storage facilities for the foods that have been produced by those farmers are not spoiled before they ship overseas. And last year, we just completed five impact evaluations with five of our countries, which relate to farmer training. And we are seeing great results.

In the past, most development agencies measured outputs and outcomes as a result of farmer training. But what we are learning is to take this one step further. For example, in El Salvador, dairy farmers doubled their income as a result of our investments. In Nicaragua, they increased their income by 30 percent. In Ghana, they increased their income significantly, by 40, 50 percent. And what we do next is we know it is very difficult to see if our investments are increasing household incomes, which is very difficult to do, but we will know more in the next 2, 3 years. But we have seen great results from our investment with the program.

Mr. BERA. Great. Well, Dr. Shah, Mr. Yohannes, I think that is exactly what we should be doing. As we help people become—and countries become more self-sufficient, obviously we help save lives or governments. We help promote our democratic values. It also is good business sense. Dr. Shah, as you pointed out, we have technologies. The university to university partnerships that are occurring with my home university at UC-Davis, as well as with our entrepreneurs and innovators, certainly we can take what we are doing here and export that and help other countries. So I look forward to working with both of you. I yield back.

Chairman ROYCE. We will go now to Mr. Rohrabacher of California.

Mr. ROHRABACHER. Thank you very much, Mr. Chairman. Let us before we can have an honest discussion about this, people need to face the reality of what our fundamentals are right here in the United States. Dr. Shah, do you know what the proposed level of deficit spending is by the administration in their budget? Not foreign aid, but the overall, no, you don't.

And Mr. Yohannes, do you know? Well, we are going to at least expend \$1 billion more than we are taking in and we have been doing this for 5 years. If that is not corrected within a very short period of time we won't be able to do any of these noble things that you are talking about. So in order to do our responsibility here, we need to be confronting that basic truth. And so how do we do that?

Yes, it is a trillion, not a billion, excuse me. A trillion, billion, billion.

So before every expenditure that we are talking about, we need to put in front of this, is this worth the United States borrowing this money from China in order to expend it; wherever we are going to do it. Because that is what we are talking about. We are talking about borrowing money from a foreign power, probably China or Japan, in order to give it to someone else. And if we can't answer, honestly answer that, we should not be doing that project. That is for sure.

I personally believe that we need to restructure aid considering this so that our aid is no longer developmental aid. And Mr. Yohannes is doing a great job in that; he is insisting on, with his organization, changes in the fundamental status quo that has created the hardship in those countries, rather than just giving aid which will then not do any good at all because if they are not changing the status quo in the way you do things, it will go right back to what it was. But we need to basically restructure our whole concept into developmental aid; it is no longer our responsibility because we can't afford it. Borrowing from someone else in order to help another country develop is not right. And our aid should be basically emergency humanitarian aid in cases of natural disasters. That is what we can afford. That is it. Maybe that is worth borrowing from another country in order to save people who are in a desperate situation. Otherwise, we are going to put our own people in a desperate situation.

A couple questions on specifics about your request this year. Dr. Shah, you visited China last week. We were involved in a new working group on climate change that was announced, that U.S. was going to cooperate in developing these new technology, clean technology projects. We have been borrowing money in order to give to China for these technologies. Is that over or does your announcement mean we are going to continue giving aid to China that we are actually borrowing from China?

Mr. SHAH. Thank you, Congressman. Just to clarify, sir, I was not in China and I am certainly not a part of that.

Mr. ROHRABACHER. Thank you.

Mr. SHAH. But I would also highlight that our request with respect to China is solely focused on Tibetan communities and it is the——

Mr. ROHRABACHER. Okay, thank you very much. Good answer. Let me just announce right here that we should not be giving aid to countries that are hostile to the United States or can be seen that their governments have committed actions that have supported international terrorism.

That is why, Mr. Chairman, I would announce today that I plan to offer an amendment to whatever foreign aid bill comes to the floor that suggests that Pakistan should get not one penny of support for anything until Dr. Afridi, the man who helped us bring to justice Osama bin Laden, is freed from a Pakistani dungeon. The American people need to be outraged that Pakistan is holding Dr. Afridi in the first place after giving safe haven to Osama bin Laden, the murderer of 3,000 of our citizens. But for us then to give them aid on top of that is absolutely unconscionable and so,

Mr. Chairman, I will be offering an amendment. And until Dr. Afridi is freed, we shouldn't even consider giving them one penny. There are other countries that are hostile to us and we should not be giving money to those countries while their governments are hostile to the United States. Thank you very much.

Chairman ROYCE. Thank you, Mr. Rohrabacher. Now we go to Ms. Lois Frankel from Florida.

Ms. FRANKEL. Thank you very much. I want to just first of all thank the panel for being here. I want to preface my remarks first by saying that I do believe that foreign aid is a good purchase when it is spent correctly. And so with that said I do want to talk to you about Afghanistan because from what I have read and what I have heard, is that much of the aid that we have given, and I am not even talking about military now, has just been very wasteful. It has lined the pockets of bad actors. It has been used for bribery. It has made folks there more reliant on the United States and less reliant on themselves.

In that regard, I would like you to comment on that, but I want to ask you some questions to go along with that that you could also comment on. Who is in charge of development in the world? You can use Afghanistan as the example. Is it the military, who seems to be doing similar functions? Is it USAID? Is it the State Department? What do you measure your outputs, if you build a school, do you actually determine whether anybody is getting educated? And how would you avoid the kind of waste that we have heard about in Afghanistan in the future?

Mr. SHAH. Thank you, Congresswoman, and thank you for your preface because foreign aid is less than 1 percent of our budget and for that we believe we deliver critical and national security results and economic opportunities that sustain American leadership around the world and will for decades.

With respect to Afghanistan, I just want to step back for a moment and articulate that I believe the collective development investment in Afghanistan has created some basic conditions that allow our troops to come home and allow us to aspire for a stable and secure country that is not a terrorist threat to us in the future. We have seen annualized rates of growth of 9 to 10 percent over the last several years. We have seen a more than tripling of electricity access due to large part because of our specific investments, including helping the Afghan utility company use mobile payments to increase their own generation of revenues by more than 300 percent. We have helped build 1,900 kilometers of road that has contributed directly to improve economic activity and business investment. And today, there are 8 million kids in school, including 3 million girls, when there were zero girls in school under the Taliban. The fastest and most significant reductions in child death and maternal death during childbirth anywhere in the world over the last decade have been in Afghanistan, have been verified by independent studies that were released last year, and create a basis for some degree of stability as we look ahead.

That said, sustaining these gains in the context we are in and fighting corruption are absolutely our priorities. I was on the call earlier this week with General Dunford and we have a very close, tightly integrated, civilian-military plan. And we need to have that

kind of tight integration. The military has matched any civilian development investment and far exceeded that investment. So doing it together is critical to being able to deliver those results and being able to fight corruption.

We last year brought together the international community to pledge sustained support for Afghanistan, but also to implement what we created as the Tokyo Mutual Accountability Framework. And if Afghanistan does not meet clear criteria on free and fair transparent elections on fighting corruption and recovering assets from the Kabul Bank crisis, on efforts to provide rights for women and girls, including the 25 percent quota for women in the Parliament, then we will pull back our aid and assistance and we will do that in concert with more than a dozen other international partners. And it is that kind of serious conditional accountability framework that we believe is the best way to make sure that we sustain the gains, allow our troops to come home, and recognize that 2 percent of the total Afghanistan investment that is represented by development will ultimately play a much larger percentage impact on whether there is a stable future for that country and a terrorist threat to us.

Ms. FRANKEL. Thank you and I yield, Mr. Chair.

Chairman ROYCE. We go to Mr. Ted Poe of Texas.

Mr. POE. Thank you, Mr. Chairman. Thank you, both, for being here.

Dr. Shah, after sequestration took place, the administration notified the military that they were going to cut the military tuition assistance program. Congress rectified that in the Continuing Resolution. The military assistance tuition program, as you know, helps military who are currently on active duty to finish their education. It helps them. It helps the military, and of course, it helps the state of readiness. But at the same time, after sequestration took place, USAID notified Congress that \$41 million would be sent to Pakistan to help pay for scholarships for Pakistani students. So it just seems to me, we don't have money to help our own military go to school because of sequestration, after sequestration takes place. We do have the money to help Pakistani kids go to school. I can tell you that has not sat well for a lot of folks.

Can you walk me through this decision and why it was made and if we are still going to help those students in Pakistan?

Mr. SHAH. Thank you. Thank you, Representative, and I appreciate your comments and leadership on these issues and on transparency and results reporting in our portfolio work as well.

I will just say that sequestration has affected USAID and foreign assistance as severely as any other part of the budget. And we are recognizing and feeling that every day. There has been more than \$70 million reduction to our food aid and assistance, more than \$400 million reduction to our economic and development assistance, and nearly \$470 million reduction to our operating expenses. And we, like many other parts of the government, are putting in place strict measures to achieve those forced and required savings in the context where 75 percent of our staff are in international context.

Mr. POE. Excuse me, Dr. Shah, I understand sequestration has affected USAID, but zero in specifically on the money we are send-

ing to Pakistan for their students to finish their education. If you could just zero in on why that decision was made?

Mr. SHAH. I would have to go back and get you a specific answer, but my understanding would be that the Fiscal Year 2013 budget has been reduced significantly in Pakistan, in fact, far more than the sequester amount, as well as in many other parts of the world. I would presume that that was well before maybe Fiscal Year 2011 or 2012, but let me come back to you on that, sir.

Mr. POE. I would appreciate that. As you know, Dr. Shah, I filed a bill called the Foreign Aid Transparency and Accountability Act. What it does is have us, the government, USAID, evaluate foreign aid to see if it is actually working. I was surprised to learn until I filed that legislation that generally over the years of foreign assistance we have never evaluated programs that work and help and programs that don't work and are still not working. But we are still giving them money, in some cases because none of this has been evaluated.

The legislation did pass the House last year. The Senate blocked it. It didn't come up for a vote before the end of the year.

Could you weigh in on transparency, maybe the bill, maybe not, but the whole concept of Americans sending money to other nations, Americans want to see if the money that we are sending to NGOs and governments, etcetera, is working or not working. Would you just weigh in on that whole concept of transparency and accountability?

Mr. SHAH. Absolutely, sir. It is essential and I want to congratulate you on your leadership on that and also express our very strong support for the bill and in particular the version that passed in the House.

The administration has made the first ever commitment to the International Aid Transparency Initiative and Daniel and I are leading the charge to ensure that all of our assistance is very transparent in that context. Both of us publish all of our financial data on the Foreign Assistance Dashboard, which is an online Web site. The MCC this year published a series of very important impact evaluations. We at USAID put more than 180 high-quality evaluations on a site where you can download it on an app and look at the projects. In both cases, the data shows real, significant, important results in many cases and in some cases show the programs did not work. In our case, more than 50 percent of the programs were adjusted based on the initial evaluation data and I know the MCC has the same kind of learning approach that allows us to be better and more effective in how we do our work. And so we are all very supportive of this move. This administration has tried to lead in this space and I think we have used modern technology to help to be more transparent than any prior administration ever has on development and humanitarian investments.

Mr. POE. Thank you, Dr. Shah. Mr. Yohannes, I was going to have you weigh in on that, too, but my time is up. So thank you. I yield back, Mr. Chairman. Thank you.

Chairman ROYCE. Thank you. We are now going to Mr. Schneider of Illinois.

Mr. SCHNEIDER. Thank you, Mr. Chairman. Thank you, Dr. Shah and Mr. Yohannes, for joining us and sharing with us your experience, insights, and priorities.

Let me add the emphasis of the importance of the work you do, the fact that you are focused on mission, the selectivity in deciding where to apply our resources, and the accountability. It is very much appreciated.

One of my areas of concern we see in the Middle East, the region is having a lot of challenges, in particular between the Israelis and the Palestinians with the announced resignation of Prime Minister Fayyad, which in many ways is related to the support and aid we give.

Moving forward, as Mr. Fayyad moves on or wherever he goes, I would be interested in your sense of the impact that is going to have in our aid in the region.

Mr. SHAH. Well, thank you for that question. Secretary Kerry spoke to this specifically and indicated that we are moving forward with a process that he believes can deliver a positive outcome over time and our aid and assistance in this region is very tied to that process. Currently, the priorities are building the kind of public/private investment partnerships that can create economic activity and some hopefulness in an alternative path forward for many in the region.

We continue to pursue both humanitarian assistance in the West Bank, as well as support for the Palestinian Authority. The way we structure that program has very careful partner vetting, so we know who we are giving resources to and who we are not. It has a very specific degree of financial flows that Mr. Fayyad help put in place with us where the resources essentially go to Israeli Bank and first pay off debts that the Palestinian Authority has with those Israeli banks. So we have a high degree of confidence, but we will be vigilant about making sure that the protections we built with Fayyad continue on and, of course, that will continue to be a condition on our continued assistance there.

Mr. SCHNEIDER. What is the plan moving forward with Fayyad moving on? The institutions he has started to build, the frameworks that we are going to provide for potentially a future state, that those continue to get the development support they need in the ways you outlined holding people accountable?

Mr. SHAH. Absolutely, and in fact, while we do have a lot and have had a lot of confidence in Fayyad specifically, these have been institutional efforts. Every year we go through a very rigorous process to ensure that these institutional checks are in place, that we are building these institutions in a rigorous way, and that we can track and trace our resources. So it is important that his replacement abides by those principles and stands for those principles, but if they can't, then we won't be able to go forward with what we do. But we have every reason to believe that this focus on building strong, transparent credible institutions, paying off debts that are accrued, and doing it in a transparent way will continue to be the sort of hallmark of this relationship.

Mr. SCHNEIDER. Great. Thank you. Shifting gears, Mr. Yohannes, I am going to my colleague's former question because what you are doing with MCC, the emphasis on accountability, help us under-

stand a little more the impact that is having and looking forward how we will make decisions to maintain effectiveness in the high return on the investment you guys are making?

Mr. YOHANNES. Our approach to development is like a business. We use evidence-based, decision-making processes for how we select countries, how we do constraint analysis, how we make investment decisions; we primarily invest in those countries that really accept American values. And also the investment I expect to have the best return for American taxpayers.

And once investments are made, we have the most rigorous evaluation and monitoring to make sure that the investments are producing the desired results. In addition to what has been done traditionally by most aid agencies, we go one step further and do a very thorough impact evaluation by independent parties. That tells us if, in fact, the investments that have been made have increased income. And we have seen a lot of successes. We have also seen what needs to be changed as a result of what we have seen from the independent impact evaluations.

I think the most beautiful part of the whole process is we are learning and building evidence about what needs to be changed and what is working; what is not working informs in terms of how we should design and implement future programs as a result of these rigorous impact evaluations, we are learning, and we hold our partners accountable. All the programs are country owned. We only have two American hires on the ground. They are responsible. They want to replace aid investment with the private sector. We help them to become self sufficient.

And let me tell you, I was in Tanzania last week and I saw many of the works that have been completed. Even by American standards, those are very complex projects. But you know what? They have been done on time and they want to prosper. And we are creating commercial and investment opportunities because these countries are also creating an investment climate that is very conducive for American companies to invest in those countries.

So they are great partners and they are the future. And investments in those countries also will be able to help here at home for American companies to create more jobs, and they are our future. Thank you.

Mr. SCHNEIDER. Great. Thank you very much. I yield.

Chairman ROYCE. Go now to Mr. Tom Marino of Pennsylvania.

Mr. MARINO. Thank you, Chairman. Gentlemen, thank you for what you do. You are both extraordinary men. I appreciate that.

Doctor, if I could for a moment, as a prosecutor handling cases, my theory was follow the money. And it always ended up in convictions. Would you explain to the taxpayers how specifically you follow the money to see how it is spent? Because there is a perception out there that we wire millions of dollars over to the government into their account and then we do not see it any more.

Mr. SHAH. You know, I very much appreciate both your prosecutorial background in that question because I think it is very, very important. The United States, when I started, the amount of money we provided to foreign governments was 9 percent of our total expenditure. That compares to all of our peer organizations

around the world where they are somewhere between 60 and 80 percent in terms of how they do that.

We have since moved up to 14.8 percent, still orders of magnitude behind other partners, but in a more direct and specific way.

When we do that, we do very careful assessments of countries that are receiving resources. Often the assessments will result in us not being able to move forward with partnering directly with the country. But even more importantly most of the resources we provide are provided on what we call a "fixed amount reimbursement agreement," which means countries have to implement a program, invoice the costs they incur, and send the invoices in. We do a third-party monitoring of "has the activity been conducted effectively?" And then pay the bill for it per an initial agreement we may have made.

In addition to that, in some difficult to work in settings like Afghanistan or elsewhere, if we do that, we will also use geospatial monitoring and data and third party monitoring to further verify that the resources are being shepherded in an effective way.

I would also point out because I think there is a misperception that we provide a lot of direct assistance to the Governments of Afghanistan and Pakistan. In Afghanistan, almost the great majority of our investment that is labeled that way goes to a World Bank trust fund called the Afghan Reconstruction Trust Fund that has been studied by any number of partners including Harvard and MIT and found to be very, very effective at both tracing and tracking resources and ensuring that it delivers real results.

Mr. MARINO. Mr. Yohannes, I know you touched on that a little bit. Do you care to elaborate on that, please, for me?

Mr. YOHANNES. A couple of things. Number one, we don't transfer a single dime to the government directly. And all payments are made directly to vendors. We have international procurement agents. We have international fiscal agents, and we pay the vendors after all the projects have been completed.

We are very careful with American taxpayers' money. We don't want to spend even a dime on corruption or on corrupt practices. So we do have a workshop that we teach to a lot of our affiliates on how to detect fraud and corruption, and we have an open line, an anonymous line, that comes directly to the IG if, in fact, they smell some kind of corruption. But we have control after control to make sure that American taxpayers' funds are not spent on corruption or corrupt practices.

Mr. MARINO. And Mr. Yohannes, I believe I read or through a conversation learned that you have a process whereby you inform the respective countries or entities that there is a time period by which the proceeds or the aid may stop because there is not improvement and because there is not an initiative on the part of the government. Would you explain that a little bit, please?

And Doctor, if I have time, I am going to ask you to touch on that, please.

Mr. YOHANNES. We hold our partners accountable. A lot of the commitments are made for 5 years. And if they don't get it done within 5 years, then definitely they lose the funding. But during that 5 years, we expect partners to continue to commit to good eco-



conomic governance, continue to be committed to democratic governance. And in some cases, for example, in Malawi, about 1½ years ago, they did not abide by the same commitment that helped them to qualify for a compact and the project was suspended.

Mr. MARINO. Good.

Mr. YOHANNES. And after the new President came in and she complied with many of our requests, including the request from her constituencies, the Board lifted the suspension.

Mr. MARINO. Thank you. I am going to move on to the Doctor. Does USAID have such a program?

Mr. SHAH. Absolutely. We have actually increased suspensions and debarments of partners of all kinds by more than fivefold relative to the prior administration. We have been very, very focused on accountability in that context and in fact, just this past weekend, we pulled together all of the international partners for Afghanistan to use the Afghan accountability framework to make joint judgments about should we be continuing to invest or pulling back some resources if the Afghans do or don't do a certain number of things. And we think that is a hallmark of good aid effectiveness.

Mr. MARINO. Thank you, gentlemen. I yield back.

Chairman ROYCE. We will go to Mr. Ted Deutch of Florida.

Mr. DEUTCH. Thank you, Mr. Chairman. Dr. Shah and Mr. Yohannes, thanks for being with us today and answering all these questions.

Dr. Shah, I want to thank USAID and State as well for the vital and often underappreciated role of providing humanitarian relief to the Syrian people. I agree that the administration should remain focused on helping those in need and protecting our aid workers. Obviously, and you have heard here today, the concern about extremist organizations is growing and there is some frustration that despite our efforts we still hear that the Syrian people don't always feel that the U.S. with them.

I would point out the article that sparked much of this debate included some other important details that haven't been getting that much attention: The feeding of 210,000 people a day by flour purchased by the United States, which has helped resolve the acute shortage of bread. Extra food rations have been distributed to more than 400,000 people. One hundred sixty-eight thousand people sleep under U.S.-provided blankets. One hundred forty-four field hospitals funded by the United States—this is something we should be proud of. It is the right thing to do. Can you tell us how you are working to strengthen our relationship and enhance our reputation with the Syrian people?

Mr. SHAH. Thank you. Thank you very much for asking that question and referencing that data and information that I think is critical.

We are addressing those needs in three primary ways. First, we do try to brand and make visible our humanitarian assistance wherever possible. In fact, in this context, and one thing the article did not capture is, we have actually worked with the Syrian Opposition Council to create television content and radio content that we use and communicate throughout opposition-controlled areas, highlighting the efforts. We are not at all concerned about high-

lighting the extent to which America is providing this assistance. In fact, we are seeking to do that.

What we are trying to do is avoid consequences and attacks on our humanitarian partners. Many of these NGOs, including people like Syrian-American trauma surgeons, are taking tremendous personal risks and we know they are being targeted. Bakeries in opposition-controlled parts of Aleppo are targeted. There have been 143 deaths among medical personnel in and around hospitals who are trying to provide surgical support to people that have been harmed because of the brutality of the Assad regime. There have been other deaths of U.N. workers and others. So with that safety consideration in mind, we are doing absolutely everything we can.

Furthermore, Secretary Kerry announced this past weekend an acceleration of our direct support to the Syrian Opposition Council of \$250 million. That investment is designed to help the SOC with our co-branded partnership deliver basic services in opposition-controlled areas: Provide everything from garbage and trash removal to helping to restart electricity grids and provide generators and fuel. And those are the types of things that we also believe ought to be co-branded so America is recognized as standing with people in opposition-controlled areas in Syria.

Mr. DEUTCH. Absolutely, right. I appreciate your highlighting that. In the short time I have, it gets frustrating sometimes, frankly, to hear some of the criticism of foreign aid, this false choice that we are given, that we can invest in schools abroad or we can invest in schools here. We can invest in infrastructure abroad; we can invest in infrastructure here. It is a false choice. You rightly pointed out that our entire foreign aid budget is less than 1 percent of the overall budget. Both of you, Mr. Yohannes, you are a good example, too. You work with the poorest countries in the world, right? Dr. Shah, you are involved—I went to that app that you referenced and the thousands of projects all around the world. Tell me in the short time I have left, put the papers aside, why do you do this? Why does it matter so much for us to be engaged the way we are every place in the world?

Mr. SHAH. I will just say very briefly, this is in our core national security interest and we have seen this over and over again. It is in our national security interest in Pakistan which is a nuclear power about to go through what we believe will be the first civilian election and hopefully peaceful transition of power. They have experienced post-independence. It is in our national security interests in Afghanistan where it brings our troops home. And as Daniel has spoken about, it is in our national interest in Africa—

Mr. DEUTCH. Dr. Shah, I am sorry, I only have a couple of seconds left.

Mr. Yohannes, speak to that, please.

Mr. YOHANNES. The same thing. It is in our national interest. If you look in terms of many of the countries that were assisted by us, whether South Korea, Thailand, and Taiwan, they have now become our major trading partners. We are doing the same thing. Many of the countries that we are helping today are going to be our major trading partners in the next 15, 20, 30 years. It is about creating jobs here. It is also about increasing the dividends, at that same time also helping those countries and really creating the best

trading partners for us in the future. So it is in our national interest. It is about our security. It is about our prosperity.

Mr. DEUTCH. Thank you, both. Thank you, Mr. Chairman.

Chairman ROYCE. Let us go to Mr. Yoho of Florida.

Mr. YOHO. Thank you, Mr. Chairman, and I appreciate you gentlemen being here. Thanks for your input. My question, I guess, is coming from a representative of the people of the 3rd Congressional District of North Central Florida and I appreciate Mr. Deutch's comments, that it is only 1 percent.

When I go back to the district, you know, I come from a district that has 85 percent of the people say they want to end all foreign aid period. I have got to sell this to them and I can tell them it is only 1 percent. What difference does it matter? When I have the mother struggling to send her child to school at a university, or they have to pay out of state tuition and she says they can't do it and we have got \$41 million going to Pakistan, it is a hard sell. To ask people in this time and this economy in our country that we are going to give this aid to them, but yet, you are getting laid off because of sequestration in our country.

I think of the words of Ronald Reagan, "Unless a nation puts its own financial and economy house in order, no amount of aid will produce progress." We have been doing this—I don't want to say a game—but our policies have been going on for over 30, 35, 40 years, longer than that, but I have been paying attention to that. And I see some improvement, but I see a lot of stuff going in the wrong direction. When you see countries and I kind of resonate the words of Mr. Chabot that we send aid, but yet we don't want to tell it where it is coming from. I stand with him in putting a big red, white, and blue flag on any aid that goes over there, whether it is a bushel of wheat or a bushel of corn. That says this product was produced by, paid for by, and sent by the American people. Because to go down the path that we are going down it is a hard sell when I go back and face the people at home.

I know you guys are doing a job that you talk about and you are putting forth the effort to expand economic development. You were talking about the economic development in El Salvador, it is growing 9 percent, or in Nicaragua, yet our economic development in this country is not going really well. I am reverberating the frustration that I hear at home.

And you talk about the transparency and the accountability in these programs and you were saying, Mr. Yohannes, that you run your organization like a business. And Dr. Shah, you talk about how you are at the top of your organization. Who holds the person at the top of those accountable when we come up with the fraud, the waste, or the abuse? Who answers to that? That really wasn't a question that you can answer. It is more of a rhetorical. I guess my question is, what direction do you see the American Government going as far as foreign aid? And what should our role really be? Are we looking at economic development or are we looking at just giving foreign aid that becomes more of a foreign welfare in which case it does no good?

Mr. SHAH. I believe and the President has spoken about this very consistently and this budget reflects that these are tough times. We

have presented a budget that is 6 percent lower than it has been for that purpose.

We also believe that foreign assistance should be about creating the conditions where aid is no longer needed. This pathway from dependency to self sufficiency and dignity should be at the core of what we do. The single most important reflection of that principle in this budget that has been sent to Congress by the President is the food aid reform proposal. It has bold and important reforms embedded in it to allow us to reach 4 million additional people while also achieving \$500 million of mandatory budget savings. It allows us to actually expand the effectiveness of our effort, saving more lives and difficult situations, while moderating and having as Secretary Vilsack has noted, no significant perceptible impact on American agricultural produce and value.

We know that we can do a better job and when we can, some of these programs are six decades old, we want to work with you to have a reform approach that allows us to be more effective and efficient because I think we all want to be able to go back to the American taxpayer and say, however, we conducted our mission, our priority was getting the most value for money we possibly could.

Mr. YOHO. I am going to cut you off there and I appreciate that. I do hope you pare those programs down. And Mr. Yohannes, if you can jump in there for the next remaining few minutes, seconds?

Mr. YOHANNES. My colleague Raj and I have two different purposes and we both promote U.S. Government interests worldwide. We work with countries that are poor, but well governed, countries that have embraced American values, countries that have taken responsibility for their own growth.

These are countries, we believe, that will be our future trading partners because they want to replace aid with the private sector. Countries that are really committed to reform, which is very difficult to do, but countries that are creating the best investment climate that will help American businesses in the long term because we need some trading partners. Like I said earlier, many of the countries that we supported in the past are now our major trading partners. With South Korea, we do over \$100 billion in trade investment-related activities.

Mr. YOHO. I appreciate your time. My time has expired and I will yield what time I don't have back. Thank you.

Chairman ROYCE. Okay, we will go to Ms. Karen Bass of California.

Ms. BASS. And thank you, Mr. Chair, for holding this hearing today. I appreciate it very much. And I want to thank both of you for your excellent work from your organizations. I wanted to take issue with my good colleague from California who says that we shouldn't use tax dollars for development, but only for emergency aid. And both of you, I think, have been doing a great job today explaining the work of your organizations, but I am going to ask you in a minute to give examples of specific projects instead of the 10,000-foot level.

I disagree with the part that says that we should only focus on emergency aid because I believe that the work of both of your organizations really leads to us—well, really leads to preventing the type of emergencies that take place. And I think that Mr.

Yohannes was just referencing that and I think the example of Korea is a wonderful example. And I see that future in Africa.

Dr. Shah, I would love for you to talk about Feed the Future and Africa's long-term goal, our long-term goal.

And Mr. Yohannes, I first want to thank you for sending Cassandra Butts to Los Angeles. She did a wonderful job speaking with small businesses in my district about how this is about business relationship between the United States and Africa. So if you could both give an example of how the work of your organization leads to us in the long term not needing to have the level of foreign aid that we do now, how development leads to that with a specific Feed the Future example.

And then Mr. Yohannes, if you could talk about Benin and the port and regional integration in Africa.

Mr. SHAH. Thank you. With respect to Feed the Future, this was a program that President Obama asked us to create and implement in order to move people from dependency to self sufficiency using agriculture to address extreme poverty. We have implemented the program in 19 countries. We have actually focused our efforts to cut and eliminate agriculture programs in 23 other countries. In each country we work in, they adhere to a set of commitments and reforms, some of which are to increase domestic expenditure on agriculture by 10 percent, some of which are to avoid export bans in the sector so that there can be more trade in investment.

As part of this effort, last year at Camp David, President Obama brought together the American industry along with this and said what we can do to accelerate the partnership with private investment and get companies to commit \$3.5 billion of agricultural investment to these countries. And today, we are seeing the results. In Ethiopia, in a partnership with USAID and DuPont and the people of Ethiopia, we are doubling maize yields and significantly improving access to improved crop varieties.

Ms. BASS. Thank you. I saw an example in Kenya of U.S. companies that were essentially lending their scientific expertise as well as products that was helping Kenya move forward.

Mr. Yohannes?

Mr. YOHANNES. Thank you, Madam Congressman. About 70 percent of our investments is concentrated in the continent of Africa. We are building the infrastructure for those countries. We are building the roads, the bridges. Like in Benin, we were able to spend about \$180 million to expand the port. That port has been able to get additional investment from the private sector for \$20 billion. That port is a lifeline for Benin and for many of the countries in that region. And as a result of our investment in Benin, we have seen commerce increase significantly in the region.

I just came back from Tanzania where we inaugurated a major road that links Tanzania with Kenya. The same road has also been used by other countries in the region that are simulating trade and investment activities. So unless you build the infrastructures of those countries, the water, the energy, the roads and so forth, it becomes extremely difficult for some of those countries to compete globally. And they are competing today. And again, we are working with my good friend Raj to help some of those countries to become food secure.

To give an example, in Senegal, where we are building the infrastructure for irrigation, USAID is providing the training. In Ghana, where we are building many, many schools, the teacher training is also being provided by USAID. So we are working in partnership to make sure that many of those countries become self sufficient, wending my way from aid to major policy reforms by creating the best environments for businesses to be invested in those countries.

So we are complementing AGOA. I know, Madam Congressman, you have been very much involved in AGOA, and we are a good complement for AGOA. Without infrastructure, it is very difficult for many African countries to take advantage of the opportunities that exist.

Ms. BASS. I appreciate that and we actually just had a breakfast earlier this morning talking about AGOA. And one of the things we consistently hear from African countries is that they want to move beyond aid. It is about trade. To the extent that the countries are developed around the world, that is more business for our companies in the United States. Thank you very much.

Chairman ROYCE. Thank you, Ms. Bass. We now go to Mr. Cook of California.

Mr. COOK. Thank you, Mr. Chairman. A previous question was asked about the corruption of Afghanistan. I went on a visit over there and I was impressed with actually the military, impressed with the Afghan Army and some of the aid programs that had been done. Corruption is a big problem and I know there is kind of a wink-wink, nod-nod when you start talking about the poppy and the drug situation, which is almost analogous to Colombia. I am kind of a cynic on this and I am very surprised the way things have turned out in Colombia.

Because of the political situation there and this variable, can you address that, the poppy? Because they are talking about this year is going to be a bumper crop over there again and whether money that might be intended for other programs is going to go to support that underground economy, which is obviously very, very successful.

Mr. SHAH. Thank you. Thank you for your visit to Afghanistan and for taking the time to engage with our USAID team and look at those projects. This is part of an important shared civilian-military effort to help establish a degree of stability, both economically, socially, and from a military perspective to allow our troops to come home and to reduce the long-term national security threat.

Poppy is a huge challenge. We have seen big ups and downs. The core drivers and we have learned this, from Peru, from Colombia, from other areas where we have had successful alternative agriculture or alternative development programs, the core drivers of getting people out of that illicit economy into the licit one is making the opportunities in the licit economy more productive and more economically rewarding.

So one of our major areas of partnership and investment has been in agriculture in Afghanistan. We help with improving wheat yields, for example, bringing more high-value agriculture, working for export opportunities to the Gulf and to other countries in the area. And really one of the few things that has been really effective at getting people out of poppy and these other areas is creating

those market and economic opportunities that are safe and legal and financially, fiscally rewarding to small-holder producers and to small businesses there.

And we have seen some real progress in that setting, but it continues to be a major challenge.

Mr. COOK. And thank you for that answer, but can you also address the fact that, I was under the assumption, which is always dangerous, that the poppy was going to the Western countries, but now the big market or part of it is Russia and that avenue is somewhat open. If you could just address that very briefly, too.

Mr. SHAH. Sure. That is accurate and part of our approach is to help manage and bring much more transparency to—and fight corruption at trading posts and border crossings, both for combating poppy trade and revenue flow from that. But also just to help the Afghan Government collect real Customs revenue in a transparent way so they can have domestic revenue replace aid over time as they really take on the sustainability efforts on their own. So all those things go together and cause a real focus on regional trade and that brings you quickly to trade and Customs posts.

Mr. COOK. Thank you very much for answering my questions. I yield back.

Chairman ROYCE. We will go now to Gerry Connolly of Virginia.

Mr. CONNOLLY. Thank you. Thank you, Mr. Chairman, and welcome to both of our panelists. It is a great honor to be the very last questioner out of 18.

Mr. Shah, the Foreign Assistance Act was written in 1961. It is 52 years later. I heard you talk about the need to sort of revisit the way we do business. The goals that maybe were relevant half a century ago, but maybe less so today. I assume by extension from those remarks you would be amenable to a rewrite of that Act?

Mr. SHAH. Absolutely. Secretary Kerry in front of the panel also implied an enthusiasm to see new authorizing legislation go forward. We would be eager to work with you on that.

Mr. CONNOLLY. You are familiar with the effort our former ranking member and former chairman of this committee, Mr. Berman, and I undertook and in fact introduced legislation in the previous Congress.

Mr. SHAH. Yes.

Mr. CONNOLLY. And do I understand from your remarks that you are committing the agency and yourself to working with us on that reform legislation as we get ready to reintroduce it in this Congress.

Mr. SHAH. Yes.

Mr. CONNOLLY. We really want to work with you. We see it as something we hope will streamline efforts and more logically align the goals and directives. I have the privilege of, if you can call it that, having been one of the only surviving human beings who wrote the last foreign aid authorization bill that became law, 1986. I was a staffer in the Senate. If I were the aid administrator, I might like the existing law because there were over 250 objectives and priorities and goals and everything else because we just added to it over the 50 years. But I am not sure it is a good way to really go forward.

And so I very much welcome your statement because we want to make sure aid is part of the process; and it is my understanding that, in the past, aid has maybe been sidelined or stayed on the sideline. I don't want to see that. We are trying to be partners with you on the legislative end to enable the agency to go forward. So thank you.

Mr. SHAH. Thank you.

Mr. CONNOLLY. I look forward to working with you and your team as we move forward. We are getting ready to reintroduce the bill and I have already talked to the chairman about hopefully at least having some hearings perhaps about aspects of it and see if we can't try to do this on a bipartisan basis.

Let me ask, what is your understanding, Dr. Shah, and Mr. Yohannes, yours as well. You and I had a private conversation about this, but I have to admit I am not quite sure I fully understand the different missions between your two organizations. So very briefly if you can share that with us and then tell us how you coordinate. How do you make sure that if you are pulling out of a country, they are not getting in it, if there is a substantive reason for withdrawal and how do you make sure that we don't have resources competing against each other or contradicting each other in a structural way?

Mr. SHAH. Let me echo Secretary Kerry on this one. As Secretary Kerry has noted publicly and privately, we have the same mission. Our mission is to elevate the role of development and humanitarian assistance in the context of our foreign policy and in advancing our national security agenda. To do that, we have to have a broad range of tools and capabilities that can be applied in setting those as diverse as Cape Verde and Afghanistan. And so, the MCC, the broad range of capabilities that USAID has through different programs including Food for Peace, which has been an important part of today's conversation; OPIC, the Overseas Private Investment Corporation; the Export-Import Bank, which are playing a critical role on energy efforts in sub-Saharan Africa, are all important components of that and we all seek to work together toward that ultimate and singular and the exact same mission.

Daniel can speak to some really good examples where we have worked hard to make sure that we have an integrated approach in the field as well.

Mr. YOHANNES. We both work to promote the government's interest. We have a very specific, narrow mission, which is, we work with countries that are poor, but those that are well governed, countries that have embraced our American values, that are committed to good governance, economic governance, democratic governance, and countries that are committed to investing in their constituencies. These are countries we want to be the next emerging markets. So we have a scorecard system they have to pass—many of those scorecard indicators in three buckets—in order to be considered for our program.

In terms of coordination, Raj and I work very closely. We talk almost on a weekly basis. A lot of our people speak on a weekly basis, or daily, and many of our projects are well coordinated. Like I talked about earlier in Ghana, we are building a school, they are providing teacher training. And in some cases like in Jordan, the



water project that was begun earlier by USAID, is now a scale-up from what they have begun. Moldova, the same thing. We are doing the infrastructure for water and they are providing the department training. So, we work very closely making sure that we don't duplicate each other but rather complement each other.

Mr. CONNOLLY. Thank you, and Mr. Chairman, if you will allow me just 30 seconds since I am the last—

Chairman ROYCE. Mr. Connolly, I will allow you several minutes.

Mr. CONNOLLY. You are wonderful, Mr. Chairman. Thank you. Two points I would like to share with you, Mr. Shah. One is the enthusiasm expressed by the chairman and the ranking member for your Food for Peace reform, notwithstanding, a word of caution as somebody who has been writing and supporting foreign assistance for over 30 years. The coalition for foreign aid is very fragile. And there are political aspects to what you propose that with the best of intentions could actually damage that fragile coalition. And I strongly urge you and the administration to carefully vet that as you move forward because you may win the battle and lose the war. You heard on this committee people express well, we just can't afford foreign aid. I agree with Ted Deutch, it is a false choice, but there are lots of people here and back home, a lot of Americans are under the impression that we can balance the budget just by cutting foreign aid. You hear it all the time at town hall meetings.

It is a fragile coalition getting votes up here to support what you are both doing and we must be cognizant of the impact of reforms that may do good, but that also fracture that coalition.

And the second thing I would commend to you both is we have to have a better narrative on success. Surely we have more to talk about than Taiwan and South Korea after a half century, 60 years of actually making these investments. What works? What doesn't? Give us some success stories that we can talk about. That is why we have got to do it.

It isn't always self evident that it is in our national interest. We can repeat that, but there is certainly a strain of isolationism that has always been with us in the United States that does not accept that rationale. The more we can point to efficacy, "here is what we were able to do in reducing poverty and improving food production, extending lifespan and ending this disease or that disease and actually creating a market economy that is now a full-fledged member of the international community." Those are very important success stories, especially if we can tie them to the investments we make in your respective agencies.

Thank you, Mr. Chairman. I really appreciate your graciousness.

Chairman ROYCE. Thank you, Mr. Connolly. I will remind you it is only 45 percent of the Food for Peace account that they are talking about, so it is a compromise that these gentlemen are suggesting and that is in the budget, a compromise which will make that 45 percent far more costly to the overall budget. So again, your other point was those who are concerned about the cost, this is a reduction in cost, but those who are concerned about the humanitarian impulse here, it gets the aid there faster, more efficiently and does not depress the local markets that impacts the local farmers.

I just wanted to take a moment and thank both of our witnesses and indicate to you both we look forward to working together, not only on food aid reform, but also on greater transparency, greater effectiveness and we thank you again for your willingness to come up and testify and we stand adjourned.

[Whereupon, at 11:58 a.m., the committee was adjourned.]

# A P P E N D I X



MATERIAL SUBMITTED FOR THE HEARING RECORD

**FULL COMMITTEE HEARING NOTICE  
COMMITTEE ON FOREIGN AFFAIRS  
U.S. HOUSE OF REPRESENTATIVES  
WASHINGTON, DC 20515-6128**

**Edward R. Royce (R-CA), Chairman**

April 25, 2013

**TO: MEMBERS OF THE COMMITTEE ON FOREIGN AFFAIRS**

You are respectfully requested to attend an OPEN hearing of the Committee on Foreign Affairs, to be held in Room 2172 of the Rayburn House Office Building (and available live on the Committee website at <http://www.ForeignAffairs.house.gov>):

**DATE:** Thursday, April 25, 2013

**TIME:** 9:45 a.m.

**SUBJECT:** The FY 2014 Budget Request: U.S. Foreign Assistance Priorities and Strategy

**WITNESSES:** The Honorable Rajiv Shah  
Administrator  
U.S. Agency for International Development

The Honorable Daniel W. Yohannes  
Chief Executive Officer  
Millennium Challenge Corporation

**By Direction of the Chairman**

*The Committee on Foreign Affairs seeks to make its facilities accessible to persons with disabilities. If you are in need of special accommodations, please call 202/225-5621 at least four business days in advance of the event, whenever practicable. Questions with regard to special accommodations in general (including availability of Committee materials in alternative formats and assistive listening devices) may be directed to the Committee.*



COMMITTEE ON FOREIGN AFFAIRS  
MINUTES OF FULL COMMITTEE HEARING

Day Thursday Date 4/25/13 Room 2172

Starting Time 9:49 a.m. Ending Time 11:58 a.m.

Recesses 0 ( \_\_\_ to \_\_\_ ) ( \_\_\_ to \_\_\_ ) ( \_\_\_ to \_\_\_ ) ( \_\_\_ to \_\_\_ ) ( \_\_\_ to \_\_\_ ) ( \_\_\_ to \_\_\_ )

Presiding Member(s)

*Chairman Ed Royce, Rep. Ros-Lehtinen*

Check all of the following that apply:

Open Session

Executive (closed) Session

Televised

Electronically Recorded (taped)

Stenographic Record

TITLE OF HEARING:

*The FY 2014 Budget Request: U.S. Foreign Assistance Priorities and Strategy*

COMMITTEE MEMBERS PRESENT:

*See Attached Sheet*

NON-COMMITTEE MEMBERS PRESENT:

HEARING WITNESSES: Same as meeting notice attached? Yes  No

*(If "no", please list below and include title, agency, department, or organization.)*

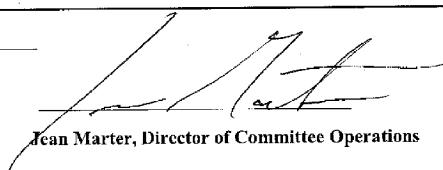
STATEMENTS FOR THE RECORD: *(List any statements submitted for the record.)*

*SFR - Rep. Engel*

TIME SCHEDULED TO RECONVENE \_\_\_\_\_

or

TIME ADJOURNED 11:58 a.m.



Jean Marter, Director of Committee Operations

**HOUSE COMMITTEE ON FOREIGN AFFAIRS**  
 “The FY 2014 Budget Request: U.S. Foreign Assistance Priorities and Strategy”  
 April 25, 2013

| <i>Present</i> | <i>Member</i>            |
|----------------|--------------------------|
| X              | Edward R. Royce, CA      |
| X              | Christopher H. Smith, NJ |
| X              | Ileana Ros-Lichtinen, FL |
| X              | Dana Rohrabacher, CA     |
| X              | Steve Chabot, OH         |
|                | Joe Wilson, SC           |
|                | Michael T. McCaul, TX    |
| X              | Ted Poe, TX              |
|                | Matt Salmon, AZ          |
| X              | Tom Marino, PA           |
|                | Jeff Duncan, SC          |
| X              | Adam Kinzinger, IL       |
| X              | Mo Brooks, AL            |
| X              | Tom Cotton, AR           |
| X              | Paul Cook, CA            |
| X              | George Holding, NC       |
| X              | Randy K. Weber, Sr., TX  |
|                | Scott Perry, PA          |
|                | Steve Stockman, TX       |
| X              | Ron DeSantis, FL         |
|                | Trey Radel, FL           |
|                | Doug Collins, GA         |
|                | Mark Meadows, NC         |
| X              | Ted S. Yoho, FL          |
|                | Luke Messer, IN          |

| <i>Present</i> | <i>Member</i>             |
|----------------|---------------------------|
| X              | Eliot L. Engel, NY        |
|                | Eni F.H. Falcomavaaga, AS |
| X              | Brad Sherman, CA          |
|                | Gregory W. Meeks, NY      |
|                | Albio Sires, NJ           |
| X              | Gerald E. Connolly, VA    |
| X              | Theodore E. Deutch, FL    |
|                | Brian Higgins, NY         |
| X              | Karen Bass, CA            |
| X              | William Keating, MA       |
| X              | David Cicilline, RI       |
|                | Alan Grayson, FL          |
|                | Juan Vargas, CA           |
| X              | Bradley S. Schneider, IL  |
| X              | Joseph P. Kennedy III, MA |
| X              | Ami Bera, CA              |
| X              | Alan S. Lowenthal, CA     |
|                | Grace Meng, NY            |
| X              | Lois Frankel, FL          |
| X              | Tulsi Gabbard, HI         |
|                | Joaquin Castro, TX        |

**RANKING MEMBER ELIOT ENGEL**

**OPENING STATEMENT**

“The FY 2014 Budget Request: U.S. Foreign Assistance Priorities and Strategy”  
April 25, 2013

Dr. Shah and Mr. Yohannes, as Ranking Member of the Foreign Affairs Committee, I would like to welcome you to the Committee today to testify on the US Agency for International Development and Millennium Challenge Corporation budget requests for fiscal year 2014.

In this difficult fiscal environment, some reflexively turn to the foreign assistance budget as the first place to make cuts.

Regrettably, these efforts are often based on gross misconceptions about our development and humanitarian assistance programs.

Many people erroneously believe that we spend 20% or more of the federal budget on foreign assistance. The reality is that we spend less than 1% of the budget on those programs. In my view, that's a good investment.

As Secretary Kerry testified last week, diplomacy and foreign assistance are key elements of our national security, and a much more cost-effective way of preventing instability than putting boots on the ground.

Marine General James Mattis, Commander of the Central Command, testified before the Senate that, quote “If you don't fund the State Department fully, then I need to buy more ammunition.” Certainly the same can be said of USAID and MCC.

All federal agencies have been forced to tighten their belts, and I'm pleased to see that USAID is continuing the process of rationalizing its overseas presence by withdrawing from certain sectors in some countries, downsizing posts, and closing some missions. We must concentrate our scarce resources in countries and sectors where we can do the most good and achieve truly meaningful results.

I would also like to commend the Administration for its food aid reform proposal. Our current food aid programs waste millions of taxpayer dollars, and often harm agricultural markets in the countries we are trying to help. As former Chairman of the Western Hemisphere Subcommittee, I saw first-hand how these programs – while well-intentioned – had a devastating impact on Haiti’s ability to feed itself.

The Secretary of Agriculture has said this reform initiative will have little to no effect on American farmers, and the Pentagon has made clear that it will have no impact on our military readiness. I look forward to working with Chairman Royce as our Committee examines this proposal in the context of the upcoming Farm Bill.

On the issue of reform, Dr. Shah, I encourage you to continue the reforms begun under USAID Forward, the agency’s signature modernization effort. While these reforms may not get much attention, I believe they are critical for building capacity in partner countries and making USAID a more effective and transparent organization.

Turning now to global health, I was pleased to see the small overall increase in funding for global health programs at USAID, especially for PEPFAR. PEPFAR owes its existence to the vision of President George W. Bush, and has been authorized twice by both Republican and Democratic-controlled Congresses. It is hard to think of a single foreign assistance program that has historically enjoyed such broad bipartisan support and done so much good around the world. While I am disappointed by the proposed decrease in funding for tuberculosis programs, I hope the Congress maintains its commitment to eliminating the global scourge of HIV/AIDS and other treatable diseases, and provides adequate funding for these life saving programs.

Finally, Mr. Yohannes, it’s a testament to MCC that many of the reforms being pursued by USAID and the State Department are based in large part on the MCC model. Clear metrics and transparent benchmarks should be the hallmark of all our foreign assistance programs.



I'm interested in hearing your thoughts on how MCC can address my longstanding concern about how we work with countries that lack data on their respective scorecards. As you know, I have been very disappointed in MCC's handling of Kosovo, a country recognized by the United States, but not a member of the UN. Because of MCC's dependency on UN agencies for much of the data it uses, Kosovo was left with multiple empty, failed boxes on its scorecard – essentially keeping it from competing for a compact or threshold program. I have felt this was very unfair to Europe's newest country. While I recognize MCC's willingness to accept supplementary data, it is unclear, at best, how MCC uses this information to calculate a country's scores – and unlike the rest of MCC's process, there is nothing transparent about this approach. I look forward to working with MCC to address this problem so that in the future countries in Kosovo's position will be evaluated and able to compete in the same way as all other countries.

One last point: As you know, Congress has been appropriating unprecedented sums for the Palestinians and the Palestinian Authority over the past several years. This is important for maintaining a semblance of stability in the West Bank and in Israeli-Palestinians relations, as well as for humanitarian reasons. But it's no coincidence that this increase in US assistance has occurred during Salaam Fayyad's tenure as prime minister, a man who won great respect for his emphasis on budget transparency and other aspects of good governance.

Fayyad resigned last week, and we anticipate a replacement will be named soon. I want to take this opportunity to urge President Abbas, in considering Fayyad's replacement, to appoint someone who will continue the positive aspects of Fayyad's approach. Without continuing budget transparency, further US assistance for the Palestinian Authority will not be possible.

Mr. Chairman, I want to thank you for holding this important hearing. I look forward to the testimony.



**Questions for the Record**  
*Submitted by Chairman Edward R. Royce*  
*To the Honorable Rajiv Shah*

**Question 1:**

**How much of the \$819.5 million in Operating Expenses would be used for the third phase of overseas comparability pay? How much has been provided already? How can you justify a pay raise for Foreign Service Officers while other federal employees are subject to a pay freeze and now face furloughs? Why is this spending a priority?**

The FY 2014 Operating Expense budget request includes \$21.5 million for the third phase of overseas comparability pay (OCP). Funding of \$43 million for the first two phases has already been provided and is included in the FY 2014 request.

Locality pay in the United States is a pay adjustment that addresses disparities in Federal and non-Federal salaries in a given locality. When locality pay was created by Congress in 1990, it applied only to positions in the continental United States.

Locality pay differs substantially from allowances and differentials, which are provided to employees for service at places in foreign areas where conditions differ substantially from those in the continental United States. They compensate for higher prices, deficient and/or unavailable local goods and services, difficult and unhealthful conditions and, in the case of danger pay, incentivize service at places in foreign areas with extremely high crime rates, civil insurrection or wartime conditions which threaten physical harm or imminent danger.

Overseas Comparability Pay (OCP) is intended to close the gap created by locality pay when Foreign Service (FS) personnel work abroad. Congress began authorizing OCP for FS personnel serving overseas in August 2009. At present, the first two of three phases have been authorized, with OCP paid at 16.52 percent of base salary. This authorization has been continued in subsequent appropriations bills.

The locality pay for Washington, DC, is 24.22 percent; thus, when FS personnel go abroad, their pay is reduced by 7.7 percent. Without the current, two-thirds OCP authorization, FS personnel going abroad would receive an immediate 24.22 percent pay cut.

The pay reduction lowers contributions to Social Security and the Thrift Savings Plan, since these are based on pay plus locality pay.

Locality pay is based upon surveys conducted by the Bureau of Labor Statistics. The "basic locality rate," for locations outside of defined metropolitan areas is referred to as the "Rest of U.S." and is set at 14.16 percent. This is significantly higher than that received abroad in the absence of OCP.

It is worth noting that, the intelligence community pays full Washington, D.C. locality pay, plus allowance and hardship pay, to their employees who are stationed abroad, and has since 2003.

Eliminating the OCP would have an immediate and negative impact on retention and morale, particularly at critical mid-levels.

**Question 2:**

**In the FY2012 State, Foreign Operations Appropriations, Congress directed USAID to conduct a pilot program to support development and implementation of a partner vetting program to ensure that USAID funds would not go to terrorist organizations. As of March 2013, the pilot had not yet begun. What is the status of USAID's partner vetting pilot project? When do you expect it to be completed and findings made available to Congress?**

In conjunction with the U.S. Department of State, USAID has begun implementation of the Partner Vetting System (PVS) pilot program. USAID's PVS team has completed training on the PVS system and program policy and procedures for the five pilot missions. We have also continued to regularly update and receive input from Congress and USAID's Implementing Partners. USAID's PVS Acquisitions Rule, which makes vetting applicable to contracts, became effective in March 2012. USAID's proposed PVS Assistance Rule, which makes vetting applicable to grants and cooperative agreements, has been submitted to the Office of Management and Budget (OMB) and is expected to be published in June. Once published, USAID's Implementing Partners, the general public, and other agencies will have the opportunity to formally comment on the PVS Assistance Rule.

USAID expects to commence vetting under the pilot program once rulemaking is complete.

Once vetting begins, USAID anticipates that the pilot program will last for at least one year in order to collect sufficient data to inform future Agency decisions regarding future vetting. USAID will provide a report to Congress after the pilot is completed.

**Question 3:**

**It is critically important to know where aid is being delivered so that U.S. development efforts do not overlap with and duplicate the efforts of other donors. USAID has not publicly committed to joining the World Bank's Open Aid Data initiative, which collects the spending and location of aid projects globally. When will USAID commit to the Open Aid Data Initiative? What percentage of USAID projects have geo-locators so that you know precisely where they are being implemented? How, if at all, is USAID supporting participation in the Open Government Partnership (OGP), of which the United States is a member?**

Providing transparent aid information enables host countries to better manage the aid that they receive. As part of that transparency effort, geographic coding of information is helpful in visualizing in-country aid distribution, but is most effective when paired with other kinds of information to determine whether something that is co-located is complementary or duplicative. For example, geocoded information could show the U.S., World Bank and Australia working on the same school because the U.S. is providing textbooks, the World Bank is funding the physical infrastructure and Australia is training the teachers – all necessary and non-duplicative inputs to provide access to quality education.

The World Bank Institute's (WBI's) Open Aid Partnership (OAP) seeks to build an aid information platform to enable each country to manage its aid. The WBI and the OAP are not data repositories nor does either collect spending information. The OAP only organizes geocoded data collection for host countries. It is through the International Aid Transparency Initiative,

OECD-DAC Creditor Reporting System, and [Foreignassistance.gov](http://Foreignassistance.gov) that USAID and other USG spending is reported in a comparable, machine-readable format, which enables partner countries to integrate into their budget and financial systems.

At present, the best available estimate is that approximately 40 percent of eligible USAID activities have been geocoded. USAID has been working collaboratively with the partners in the OAP to make geocoded data available in its pilot countries and extend the partnership's reach by using USAID's resources to build complementary in-country platforms in countries where the OAP is not operating. USAID has undertaken due diligence to assess the OAP and the WBI from a legal and fiduciary perspective in order to determine how best to formalize this collaboration, which it expects to do in the future.

Launched by President Obama in September 2011, the Open Government Partnership (OGP) is a voluntary, multi-stakeholder international initiative. The original eight founding governments (Brazil, Indonesia, Mexico, Norway, Philippines, South Africa, United Kingdom, and the United States) have since been joined by 50 additional members.

In FY2011, USAID joined seven other international donors (Hewlett Foundation, Omidyar Network, Open Society Foundations, Norway, the Philippines, South Africa and the United Kingdom) in providing funds to the Open Government Partnership (OGP) Support Unit. The OGP Support Unit promotes the OGP's guiding principles and coordinates official relationships with OGP member countries and core OGP partners. USAID's \$200,000 contribution represents approximately 10% of the OGP Support Unit's annual budget. Inspired by the OGP, USAID has also developed a \$45 million Grand Challenge for Development, Making All Voices Count. This grand challenge is a four year public-private partnership to support innovation and harness new technologies that help grow the global movement for open government, transparency and accountability.

**Question 4:**

**The foreign assistance dashboard, where USAID has planned to disseminate aid data, is not fully populated. When will USAID upload its data in a usable format to the dashboard? While spending data is a start, it is perhaps even more critical to have data on the development impact of USAID's efforts. Will that be posted? When? Where?**

USAID is committed to providing usable data to the public on the Foreign Assistance Dashboard. The Agency is working to post disaggregated information on obligations, disbursements, and implementing mechanisms as quickly as possible.

When uploaded, the expanded data set will populate most of the data fields required by OMB Bulletin 12-01, Guidance on Collection of U. S. Foreign Assistance Data. USAID expects to be the first USG agency to report this disaggregated data to the Dashboard.

USAID has taken the first step in making data on development outcomes available through the innovative "Dollars to Results" pilot project ([www.results.usaid.gov/](http://www.results.usaid.gov/)). The site displays

quantitative information on performance indicators by aid sector against USAID's FY 2011 investments in those sectors for 20 recipient countries.

In addition, USAID's evaluation policy commits the Agency to making all evaluations public within three months of completion. In the past year, the Agency has posted 335 evaluations on the Development Experience Clearinghouse (DEC).

**Question 5:**

**What is USAID doing to advance Internet freedom and access? Is USAID helping countries gain Internet access? If so, is it linking that with a commitment to Internet freedom and a multi-stakeholder approach to internet governance?**

USAID is the key agency to help the United States assist developing countries' governments, organizations, and individuals utilize a free and accessible Internet as a conduit to maximize economic and human development. USAID's work on Internet freedom and governance is building momentum, while USAID has a long history of working to increase Internet access in developing countries.

USAID's programs that contain Internet freedom components deal primarily with information security and improved digital hygiene in potentially risky environments.

For example, the Information Security Coalition (ISC) provides mentoring and assistance to vulnerable groups in repressive environments (like Syria and Belarus) so that they may remain safe, resilient, and free online. ISC also provides technology grants to help make Internet freedom and information security tools more user-friendly and readily available, as well as coordinates knowledge sharing and learning from various types of actors in the Internet freedom space. ISC will begin enhancing the capacity of civil society to better advocate and inform lawmakers on the importance and intricacies of Internet freedom and Internet governance. In addition, other USAID Bureaus support Internet Freedom initiatives.

The Media Support Initiative supports the legal environment for media development in Central Asia, including issues related to digital/online media, and produces and distributes high-quality, socially-oriented television programming aimed at youth, with topics on safe Internet usage.

USAID's projects concerning Internet access primarily relate to enhancing rural Internet access. For example, USAID promotes Internet access in rural areas in Azerbaijan via self-sustainable information centers, which are particularly important for young women since cultural sensitivities preclude them from visiting regular Internet cafés.

USAID's Global Broadband and Innovations (GBI) program focuses on improving access through extending affordable telecommunications infrastructure into rural locations with an emphasis on broadband.

GBI engages national governments to help refine strategic and tactical plans for or launch/improve existing Universal Services and Access Funds (USAFs). A USAF is a

government-managed fund of carrier "fees" which redistributes funds, usually as subsidies, back to the carriers to cover the discrepancy between high costs for rural operations and low revenues. USAFs greatly contribute to extending access to rural areas through market liberalization; increased wireless mobile, voice and broadband solutions; fiber backhaul; capital subsidies; enhanced venture capital orientation; enhanced national broadband plans; and increased content and services. To date, GBI was worked with the governments of Kenya, Nigeria, Ghana, Colombia, and Indonesia.

The GBI program is also working with Microsoft, one of several U.S. technology firms expanding awareness, developing new innovative solutions, and promoting the use of White Space for expanding rural broadband. Project-level discussions are underway in several countries, including the Philippines, Kenya, and Peru, with several other countries also being considered.

USAID will also soon be supporting the emerging Alliance for Affordable Internet, a coalition of private sector, public sector, and civil society organizations which are coming together to advance the shared aim of affordable access to both mobile and fixed-line Internet in developing countries.

USAID does not directly help countries access the Internet, *per se*, as countries are already connected to the Internet; however, through program's like GBI's Technical Leadership Program, USAID provides legal or technical experts from U.S. Government Agencies like the Department of State, Federal Communications Commission, and National Telecommunications and Information Administration, to assist willing governments in areas of Internet-related policy such as spectrum licensing, market liberalization, national broadband strategy, etc.

USAID's work with governments on Internet access and policy does not link to a commitment to Internet freedom and a multi-stakeholder approach to Internet governance.

USAID's continued efforts to build internal awareness of the importance of Internet freedom, access and governance for international development, coupled with increased interagency participation on these issues and the success of the current projects is paving the way for additional bandwidth to better assist governments and their citizens access and freely take advantage of the full power of the Internet.

**Question 6:**

**USAID, MCC, the Trade and Development Agency (USTDA), the U.S. Trade Representative (USTR), the Department of Commerce, the Department of Agriculture/Foreign Agriculture Service, and the US Patent and Trademark Office all reportedly play a role in trade capacity building, or "Aid for Trade." What U.S. agency has the lead on trade capacity building? How, specifically, does USAID coordinate with other agencies on trade capacity building? How much is being spent by the USAID and the USG on trade capacity building? What is the strategy?**

USTR leads the coordination process for trade policy related issues. USAID works with USTR to identify TCB related activities which complement U.S. trade policy goals. USAID is also part of the country team in U.S. embassies around the world. USAID works within the country team and with host country counterparts to identify and implement country specific trade capacity building activities consistent with the partner country's development plan.

In the Presidential Policy Directive (PPD) on Global Development, the President laid out a modern architecture to raise the importance of development in our national security policy-making and to generate greater coherence across the U.S. Government. The PPD highlighted that "through existing policy mechanisms (e.g. trade policy through the United States Trade Representative's Trade Policy Review Group, etc.), an assessment of the "development impact" of policy changes affecting developing countries will be considered." USTR chairs the interagency coordination process through the Trade Policy Review Group and the Trade Policy Staff Committee. USAID has been using its position as a statutory member of this interagency process to inject the development impact and "on the ground" input from USAID field personnel into the trade policy decision making apparatus, which includes discussions on the need for trade capacity building interventions.

Based on the most recent data, the U.S. Government provided slightly under \$1 billion in support for trade capacity building (TCB) activities in FY 2012, supporting activities in more than 120 countries, customs territories, and regional groupings. With funding for TCB at \$418 million in FY 2012, USAID was the largest funding agency. The Millennium Challenge Corporation was second at \$351 million.

Through "aid for trade," the United States focuses on partnering with countries, particularly those countries that are least integrated into the global trading system, on training and technical assistance needed to: inform decisions about the benefits of trade arrangements and reforms; implement obligations to bring certainty to trade regimes; and enhance countries' ability to take advantage of the opportunities of the multilateral trading system and compete in a global economy. These goals are articulated in USAID's strategy document "Building Trade Capacity in the Developing World."

USAID works closely with USTR to identify U.S. trade policy priorities and to align USAID activities in support of those trade policy objectives. For example, USAID has implemented significant TCB programming to directly support implementation of U.S. trade agreements (CAFTA-DR, Peru, Colombia, Jordan, and Morocco) and to increase utilization of trade preference programs such as the African Growth and Opportunity Act. USAID is currently providing support to countries related to implementation of U.S. supported areas of the proposed WTO agreement on trade facilitation as well as supporting more effective implementation of the WTO Agreement on Technical Barriers to Trade. In addition to working closely with USTR, USAID determines the need for trade capacity building for individual countries through a Country Development Cooperation Strategy (CDCS) process that includes input from both U.S. and host country stakeholders and regional strategies that are developed through a Regional Development Cooperation Strategy (RDCS) process.

**Question 7:**

**It is notoriously difficult for the private sector to engage with USAID, even after the creation with the Global Development Alliance. What can USAID do to improve the ability of the private sector to learn about USAID's overall goals for countries, how to partner, and how to procure?**

We have launched a Private Sector Engagement initiative focused on increasing the Agency's proactive engagement with the private sector and making it easier for private sector partners to work with USAID. We are in the process of implementing several concrete actions:

1. **Improved web presence and online resources:** We have enhanced our [usaid.gov](http://usaid.gov) web presence to enable potential private sector partners to more readily identify partnership opportunities, search procurements, and submit unsolicited proposals. The improved site will help prospective private sector partners locate information on partnership opportunities in multiple ways – by country, sector, and type of engagement. In addition, we are specifically developing new Private Sector Engagement pages which will provide greater detail as well as examples on the formal and informal ways in which USAID and the private sector can collaborate (e.g. public-private partnerships, partial credit guarantees, sharing our field knowledge and technical expertise). We are also developing a series of online trainings, to be posted later this year, designed to answer some of the most frequently raised questions from organizations interested in partnering with USAID. These trainings will help organizations better understand how the procurement process works and how to identify and build partnerships, including Global Development Alliances, with USAID.
2. **Network of private sector points of contact in every Mission and Bureau:** We have established an agency-wide network of points of contact to handle new inquiries from the private sector, enabling the Agency to be more accessible, responsive, and accountable when handling external requests. Utilizing this network will help us to improve our customer service and the 'felt experience' of companies by incorporating best practices and lessons learned from across the Agency. In addition, we have designated specific Bureaus as leads on each key private sector industry (agribusiness, extractives, etc.), further improving our ability to respond appropriately and promptly to requests.
3. **A central "Front Door" Team** to help route new inquires to the right part of USAID: To ensure that private sector entities receive responses to their questions, we are establishing a dedicated central "Front Door" team that will monitor and track new inquiries and uphold customer service standards. This team will work with our newly established agency-wide network of points of contact to assist the private sector in navigating the agency, both in Washington and at individual Missions.
4. **Global Relationship Managers:** We are piloting a Global Relationship Management initiative to create a dedicated Relationship Manager (RM) within the Agency for companies with which USAID has a track record of partnering. The Relationship Managers will strengthen our connections with these key corporate partners and expand



opportunities to identify strategically aligned partnerships. The RMs will serve as a central coordination point both for the partner and for USAID to have a full picture of the current and potential partnership opportunities throughout the Agency, to work with the agency-wide points of contact to connect the partner with the right part of the Agency, and to assist with coordinating the Agency's engagement with the partner at a global level.

**Question 8:**

**Will enacting the proposed food aid reforms through annual appropriations bills be sufficient, or should they be institutionalized through a binding legislative framework? Are new authorities required to make lasting changes to U.S. food aid programs? If so, what new authorities are needed? What authorities would no longer be needed?**

No legislative action beyond a movement of funds from the Agriculture Appropriations Act to the State Foreign Operations Appropriations Act is required to carry out the food aid reform proposed by the President. With a movement of food aid funding, the authorities of the Foreign Assistance Act of 1961 suffice. However, authorizing legislation could be used to institutionalize and formalize what is proposed. There are various forms this could take and, should Congress choose to move in this direction, USAID staff would be happy to work with Congress on this.

**Question 9:**

**The President's proposal includes a \$25 million subsidy for the Department of Transportation's Maritime Administration (MARAD) to promote the maintenance of militarily-useful vessels and the retention of U.S. mariners. Is this subsidy necessary? How many wholly American owned shipping lines are likely to be impacted? At what point would this subsidy be phased out?**

The U.S. Government believes the subsidy is necessary, as it should mitigate the potential loss of U.S. merchant vessels currently supporting military operations worldwide and provide employment opportunities for mariners impacted by the reduction in food aid volumes. According to MARAD, the Maritime Security Program is currently funded at \$186 million and subsidizes 60 U.S. flag vessels.

USAID expects approximately five ocean carriers to benefit, based on available information on MARAD's website. The extent of the impact will also depend on how MARAD disburses the subsidy. MARAD could raise the subsidy per vessel, increase the number of vessels in the program, or expand the scope of the program to incorporate additional activities benefitting parties affected by the reform proposal.

Because the President's proposal does not extend beyond FY 2014, USAID cannot say with certainty whether it will be included in future years.

**Question 10:**

**In December, the Administration released the Action Plan for Children in Adversity to help increase coordination between 7 agencies and 30 offices on international programs working with children. What is the Administration doing to ensure that there is an implementation**

**plan in place by the required 180 days? Which agency will take the lead in implementation? How and where is the Action Plan reflected in the budget?**

In accordance with the Action Plan and the legislative requirements set forth in Public Law 109-95, agency- and department-specific implementation plans are due within 180 days of the Action Plan's launch, which is June 20, 2013. These forward looking plans will specify how each U.S. government entity will work to achieve its objectives. Also, the consolidated plans will be included as a web-based appendix in the annual report to Congress on PL 109-95, due June 20, 2013.

The U.S. Agency for International Development (USAID) is the lead agency and the home of the U.S. Government Special Advisor on Children in Adversity. To better coordinate a whole-of-Government approach, USAID recently established a Center of Excellence on Children in Adversity within the Bureau for Global Health. The center harmonizes USAID's technical experts – at the Missions and in Washington – and is complemented by coordination with experts throughout the U.S. Government who are leading our response to the world's most vulnerable children.

Working in more than 100 countries, U.S. Government international assistance to children in adversity is funded through seven departments and agencies – the U.S. Departments of Agriculture, Defense, Health and Human Services, Labor, and State; the Peace Corps; and USAID. With its significant investments in international development, technical expertise and research capabilities embedded within key agencies, and diplomatic outreach, the U.S. Government is well positioned to lead and mobilize a strategic global agenda for children in adversity. The Special Advisor works with interagency partners to ensure that all U.S. Government activities under the Action Plan are implemented by the appropriate U.S. Government departments and agencies, integrated into relevant U.S. Government foreign policy initiatives, and enhanced through engagement with partner countries and nongovernmental organizations.

**Question 11:**

**In the next year, Mali is expected to hold national elections and conduct “national reconciliation” talks to address ethno-regional tensions and fully transition from military rule. What activities is USAID conducting, or planning to conduct, to support Mali’s political transition and national reconciliation process? Has USAID continued to implement assistance intended to counter violent extremism in Mali? How are CVE activities reflected in the budget? How have the legal restrictions on U.S. aid to Mali affected USAID’s activities in Mali?**

Mali's return to a democratically elected government, characterized by stability, peace and reconciliation, will require the active participation of all Malians and development partners. USAID is contributing to several aspects of the transition from military rule as well as the promotion of national reconciliation.

USAID is providing \$ 7.6 million in election assistance to secure the political transition back to democracy. This includes training and technical assistance to government institutions, particularly election management entities.

National reconciliation is a cross-cutting programmatic theme that spans the range of activities related to Mali's democratic transition as well as those related to peace and security. USAID is providing assistance aimed at national reconciliation in Mali by: (i) facilitating dialogue among civil society actors and community members and (ii) providing support to 300 community radio stations with the goals of promoting tolerance and understanding. Although suspended because of the coup, USAID is also re-engaging in countering violent extremism as part of an interagency effort under the Trans-Sahara Counterterrorism Partnership (TSCTP). USAID plans to re-engage its TSCTP programming over the next few months, using USAID/Mali's FY 2012 budget allocation of \$2.5 million for these activities. USAID/Mali's Congressional Budget Justification request for Peace and Security funds is \$2.5 million per year for FY 2013 and FY 2014.

These programs are critical in assisting with the political transition; helping to rebuild confidence between the Government of Mali and its people; promoting tolerance among various ethnic groups; and countering violent extremism. USAID will continue to implement these programs in accordance with post-coup legal and policy restrictions consistent with section 7008.

**Question 12:**

**The African Growth and Opportunity Act (AGOA) removes tariffs on key goods made in eligible countries, while USAID funds trade hubs to support AGOA implementation. However, the hub activities are inconsistent. What more can be done to ensure that best practices are utilized at trade hubs? What more can USAID do to help African businesses utilize AGOA?**

USAID is actively reviewing the performance of the trade hubs to ensure that our programs, communications, and monitoring and evaluation efforts are aligned and effective. This has included regular meetings in person and remotely to discuss areas of potential collaboration and sharing and adoption of best practices. Areas of progress include approaches to association and trade show support, for example, all three trade hubs currently collaborate in their partnership with the African Cotton and Textile Industries Federation to organize an annual pan-African trade show; and standards for monitoring and evaluation. This ongoing review is intended to inform significant changes in the next generation trade hubs to be developed.

To expand support for African businesses to use AGOA with limited existing resources, USAID is working to ensure that information on AGOA opportunities is broadly available through collaboration with local partners as well as focusing significant efforts on sectors with the greatest export potential such as cotton, textiles and apparel, footwear, and home decor. Understanding and using AGOA to export to the United States requires governments and companies to fulfill a variety of conditions, including rules related to required documentation. To help interested firms understand these requirements, USAID has partnered with local organizations to serve as resource centers. USAID has supported the establishment of AGOA resource centers in 15 countries in West Africa alone. USAID is also helping expand the number of firms and individuals benefitting from AGOA by working with competitive sectors and firms to improve the quality and value-added of their product offerings.

**Question 13:**

**In late 2011, the Obama Administration announced that it would “pivot” or “rebalance” its diplomatic and strategic emphasis toward the Asia-Pacific region. Much of the new programming in the region appears to be focused on capacity building, conferences, and training. How will you measure impact and sustainability?**

The Administration’s strategic rebalance to the Asia-Pacific region has provided an opportunity to redefine development activities in the region. For example, USAID recently supported historic reforms in Burma by opening a Mission in Rangoon. USAID is expanding trade and investment ties with the Association of Southeast Asian Nations (ASEAN) through the Expanded Economic Engagement initiative to build capacity of ASEAN members to join high-standard trade agreements such as the Trans-Pacific Partnership. USAID is also strengthening Thailand as an emerging donor partner, and opening opportunities to leverage its expertise and resources to address development challenges sustainably.

USAID’s Regional Development Mission for Asia, based in Bangkok, Thailand, incorporates sustainability analysis in every new project design. Activities in fields such as health, the environment, and trade undergo mandatory evaluation. Examples of USAID’s measurement of impact and sustainability include:

- Percentage of capacity building efforts being promoted by local or regional providers;
- Average percentage change in organizational capacity among our direct local NGO implementing partners as measured by a defined organizational capacity assessment tool;
- Tracking the impact of public-private initiatives for connectivity, such as the establishment of national universal service funds to increase broadband accessibility.

Another substantial example of the rebalance to Asia is the Lower Mekong Initiative (LMI), which has made significant progress with the Lower Mekong countries (Burma, Cambodia, Laos, Thailand, and Vietnam) to bridge the development gap within ASEAN. Some of the main areas that USAID is targeting through the LMI include:

- Combatting transboundary disease such as malaria and HIV/AIDS
- Combatting emerging pandemic threats such as the recent Avian Influenza H7N9
- Combatting illegal wildlife trafficking
- Increasing adaptation capacity to the negative impacts of climate change

Each LMI project supported by USAID has its own unique set of development outcomes. USAID tracks results through regular data collection conducted by implementing partners and reported to the Agency. In accordance with USAID’s monitoring and evaluation policy, monitoring data are supplemented with independent mid-term and/or final program evaluations. Some examples of key indicators are:

- Under USAID’s LMI Avian Influenza project, the objective of which is to reduce the threat of emerging pandemic threats, we track the number of confirmed deaths of Avian Influenza A/H5N1 and the number of individuals trained as a part of the rapid response training.

- Under USAID's climate change adaptation project, the objective of which is to increase adaptation capacity to the negative impacts of climate change, we track the number of activities implemented by communities to reduce gender-specific vulnerability to climate change and the number of regional platforms created or strengthened.

**Question 14:**

**In August 2012, USAID reopened its mission in Burma after its closure 24 years ago due to the military government's violent suppression of nationwide democratic protests. Will the priority of the reopened USAID mission be to provide support for further political reform of the nation's two year old quasi-civilian government, or the alleviation of its widespread poverty, particularly in the nation's ethnic minority states? How will assistance be monitored and evaluated in Burma? What performance benchmarks and risk-mitigation measures will be incorporated into USAID programs there?**

The U.S. recognizes Burma's recent reform efforts as the most significant opportunity in decades to engage with the people of Burma and the government in pursuit of democracy, peace, and human rights. The priority of the reopened USAID mission is to support Burma's democratic transition; the overarching document guiding the mission's work is the U.S.-Burma Partnership for Democracy, Peace, and Prosperity announced during President Obama's November 2012 visit to Burma. Working under the core principles of inclusivity, transparency, accountability, and local empowerment, USAID is implementing activities that: 1) strengthen democracy, human rights and rule of law; 2) promote transparent governance; 3) advance peace and reconciliation; 4) meet humanitarian needs; and 5) provide economic development that can improve the health and livelihoods of the people of Burma.

In order to minimize the risks to a peaceful political transition and overall development success, USAID programs address: 1) conflict: ethnic, cultural, and resource disputes; 2) vulnerable populations that are at increased health and economic risk as a result of food insecurity, natural disasters, and climate change; and 3) minority groups that have been historically excluded, disabled populations, and women and children.

All USAID activities are reviewed and evaluated against the U.S.-Burma Partnership principles of inclusion and local empowerment. By targeting activities both geographically and for broadest participation, USAID promotes inclusive development across sectors. USAID/Burma has utilized technical expertise from USAID's Office of Conflict Management and Mitigation to review and design 'conflict-sensitive' programs across all sectors to ensure that no assistance exacerbates existing conflict dynamics in Burma. As a result, USAID has initiated a comprehensive training program for community-based organizations, local NGOs, and national staff working in INGOs to gain specialized skills and awareness of conflict free approaches.

The USAID mission is flexible and enterprising to quickly adapt as conditions change, proactively seeking opportunities to broaden and deepen U.S. engagement across the Burmese polity/society, and leverage resources (e.g., other donors, the private sector, and universities) to achieve sustainable and broad-based transformational change. For example, in April 2013, to build connectivity and increase access to information across the country, USAID partnered with Cisco and local universities to launch four networking academies in Burma. In addition, USAID is working with premier American technology firms (Cisco, Microsoft, Google, Hewlett-Packard, and Intel) to help accelerate affordable Internet access, strengthen transparent and

effective government, provide Burmese youth with world-class training in technology, and expand digital literacy within Burma.

Current implementation is primarily through existing regional and central programs. New activities are following procedures for competition. Project monitoring is accomplished through robust engagement with implementing partners, site visits, and establishment of performance measures. The mission is developing its larger performance management and evaluation plan including metrics and benchmarks to measure development impact.

**Question 15:**

**Does the FY2014 request include any assistance for North Korea, including for food aid, humanitarian assistance, or global health?**

While humanitarian assistance is not broken out by country, but rather allocated based on need, there are no plans currently for any health or humanitarian assistance to North Korea in the FY 2014 budget request.

**Question 16:**

**While other countries in South East Asia have made notable strides toward democracy and greater respect for human rights, the communist government of Vietnam continues to backslide. Peaceful dissidents perceived as a threat to the government's power are imprisoned, tortured, or worse. Yet development assistance for Vietnam has been raised \$16.8 million to \$34.8 million. With its continuous backsliding on human rights, what are we getting out of the U.S. investment in Vietnam? Are we rewarding bad behavior?**

- NOTE: The increase in Development Assistance account funds primarily reflects a shift between accounts. The DA FY 2014 Request level of \$34.8M should be compared to FY 2012 DA and ESF levels that total \$33M. The increase in DA funds is matched by an offset of a \$15 million reduction in the Economic Support Fund account. Those resources will continue to support dioxin remediation activities and assistance to people with disabilities. PEPFAR assistance is also reduced in comparison to FY 2012. Overall assistance to Vietnam has decreased from the FY 2012 to the FY 2014 Request, from \$100M to \$88M.
- U.S.-Vietnam relations continue to expand and deepen. Following a successful year as ASEAN Chair in 2010, Vietnam has emerged as an important and influential partner in the region. Vietnam has welcomed the U.S. rebalance toward Asia and believes the United States plays a constructive role in maintaining stability in the region and in promoting a principled, peaceful approach to South China Sea disputes.
- For the bilateral relationship to reach its full potential, Vietnam will need to improve its human rights record. While human rights conditions in Vietnam are troubling, our continued engagement and investments allow the U.S. government to press the Vietnamese to reverse this trend.
- Additionally, our efforts over the past decade have supported the growth of U.S. exports to Vietnam to increase by more than 700 percent, creating jobs and furthering economic progress here at home.

**Question 17:**

**The Administration has requested \$370 million for West Bank and Gaza cash transfer assistance and programming. With Prime Minister Salam Fayyed relegated to a caretaker status, the future of U.S. Assistance to the Palestinian Authority is very much in doubt. When Prime Minister Fayyed actually leaves his post, do you believe that the Palestinian Authority—given the rampant corruption within the highest levels of that governing body—actually possesses the adequate internal controls to effectively deliver U.S. and other international assistance?**

The Palestinian Authority has made tremendous strides in revitalizing the Palestinian economy, reforming its institutions, and combating corruption to better serve the Palestinian people. We look to all Palestinian leaders and the Palestinian people to continue these reform and revitalization efforts, and we are committed to moving forward with economic and institution-building efforts in the West Bank. The aspirations of the Palestinian people and the work of the Palestinian Authority are bigger than one individual.

Assistance to the Palestinian people is an essential part of the U.S. commitment to a negotiated two-state solution for Palestinians and Israelis, promoting a comprehensive peace in the Middle East. All U.S. assistance to the West Bank and Gaza is delivered through US, international, and local implementing partners and is subject to stringent controls, audited annually and assumes no acceptable level of fraud. The cash transfer assistance provided periodically to the Palestinian Authority is used only to pay down debt to commercial suppliers and banks holding Palestinian Authority debt to commercial suppliers.

It is in the interest not only of the Palestinians, but of Israel and the U.S. as well, to ensure these efforts continue as they help to build a more democratic, stable, prosperous and secure region.

**Question 18:**

**The FY2014 request includes \$30 million for the Office of Middle East Partnerships (OMEP), of which \$10 million is identified for OMEP programming – double the FY2013 level. What additional programming do you envision this with this funding? Will any of these funds be used in the West Bank or Gaza and if so, can you elaborate on the types of programs that will be funded? If these programs are “development” in nature, why are you requesting increased authorities under the MENA-Incentive Fund? Do you anticipate that you will use OMEP programs to train police or conduct border security?**

The FY 2014 \$30 million request for USAID’s Middle East Regional Program encompasses: 1) new and continuing activities previously funded under the Office of Middle East Programs (OMEP), 2) the Middle East portion of the previous Asia/Middle East Regional Program, and 3) funding for programs in Libya. The \$30 million request for a stand-alone Middle East Regional Program reflects USAID’s need for a strengthened, consolidated, and more focused approach to critical issues common to the countries of the MENA region. The FY 2014 request for programs managed by OMEP is \$10 million, which represents a \$5 million increase from FY 2012. The \$5

million increase will allow USAID to enhance regional impact in three sectors critical to the MENA region (Water, Economic Growth, and Democracy/Governance). OMEP will focus on critical trans-boundary issues, and improved cooperation among regional institutions to address cross-cutting development issues. The additional funding will enable OMEP to support, among other things, a new program area—trade and investment—which will help address slow economic growth and high unemployment across the region.

Under OMEP, USAID is funding a number of activities in the West Bank and Gaza to combat corruption and improve governance. To strengthen civil society in combating corruption, USAID is partnering with Transparency International to engage civil society organizations and media professionals in the West Bank and Gaza to promote access to information as the basis for good governance and public accountability, and with the International Center for Not-for-Profit Law to provide capacity building to civil society organizations to improve legal frameworks on freedom of association. In addition, USAID partners with the International Center for Journalists on a regional program, which includes participants from the West Bank and Gaza that provides multimedia skills training for journalists and citizen journalists. USAID expects to continue similar regional efforts with FY 2014 resources. OMEP will also have implementation responsibility for a new MENA regional trade facilitation project to increase trade among countries in the region, including the West Bank.

Countries in the MENA region face daunting social, economic, and political challenges. Past experience has shown that radical political and economic transitions often require billions of dollars to support a positive outcome. At present our ability for nimble response and long-term positive impact is severely constrained. The MENA Incentive Fund (MENA IF) capitalizes on opportunities presented by the Arab Spring, providing much needed flexibility for the United States to respond to emerging crises and opportunities as they arise.

MENA IF resources are intended to meet three types of needs: short-term immediate transition/stabilization support, long-term investments/incentive reform plans, and regional program platforms. The first two types of programs will utilize the increased authorities we are requesting under the MENA IF. The third, regional program platforms, including the MER and OMEP, will rely on existing authorities.

- **Short-term Immediate Transition/Stabilization Support:** A significant portion of funds will be available for short-term support for newly transitioning countries, including short term economic stabilization, support for elections, humanitarian assistance, short-term security sector support, weapons abatement, and deployment of additional staff.
- **Long-term Investments/Incentive Reform Plans:** Notionally, the majority of MENA IF funding will be focused on longer-term governance, security/justice sector, or economic reform. The entry-point for accessing these resources would be public reform plans, supported by U.S. resources for high-impact projects and activities, with mutual commitments and conditions for support with cooperating governments (e.g., tying the fund to public reform commitments).
- **Regional Program Platforms:** Resources would support base funding for the Middle East Partnership Initiative (\$65 million) and USAID's new Middle East Regional



Program (\$30 million, of which \$10 million is allocated for OMEP). These programs were previously funded by the ESF account.

The USAID Middle East Regional Program and OMEP does not currently implement programs to train police or conduct border security. There are no plans to implement this type of programming in the future.

**Question 19:**

**To what extent do you view Tunisia as a good partner for U.S. foreign aid efforts? How have negative security trends impacted your ability to implement and oversee aid programs? What types of assistance is being provided to support Tunisia's political transition, and what role is USAID playing in these efforts? Will USAID programming address property rights and labor laws? How are interagency coordination and donor coordination ensured?**

While recent developments in Tunisia indicate that the political transition is encountering challenges and not progressing as smoothly as the Tunisian people would hope, we believe that continuing U.S. foreign assistance to Tunisia is critical to its long-term success. The Government of Tunisia has been a strong partner in USAID's foreign assistance efforts.

For example, the successes of USAID's ICT Competitiveness Project in Tunisia highlights the Government of Tunisia's commitment to economic reform. Tunisia's Foreign Investment Promotion Agency (FIPA) mapped current conditions and developed a draft road map for business regulatory improvement. The Agency for the Promotion of Investment and Innovation and FIPA prepared a draft report on key investment climate reforms as a basis for engaging counterparts to agree on action plans for implementing changes achievable in the short term. Working with USAID, the Government of Tunisia removed minimal capital requirements for business registration; this requirement had been removed by law, but remained in implementation. Moreover, the Government of Tunisia is moving ahead now with the development of streamlined business registration processes and a One Stop Shop.

Because of the security situation, USAID has been limited to one American staff position at Embassy Tunis – the USAID Office of Transition Initiatives country director. In addition to the OTI program, USAID's portfolio in Tunisia currently includes eight distinct projects managed by three contractors and six grantees. Several Washington-based USAID officers with strong technical expertise are actively managing all programs and travel to the region to meet with U.S.-based implementing partner staff to review performance and make adjustments to programs.

Since Tunisia's January 14, 2011 revolution, the United States has committed more than \$350 million in foreign assistance resources from various funding sources to support three key areas: ensuring a secure and peaceful Tunisia, enhancing economic stabilization and opportunity, and supporting a transparent, inclusive, and credible transition that lays the groundwork for the consolidation of democratic reforms. The total funding USAID has provided since the revolution is \$186 million. USAID programs are focused on increasing government

accountability and transparency and supporting civil society and civic participation, and on supporting broad-based economic growth and job creation. Specific projects include:

**Budget Support**

- USAID provided the Tunisian government with a critical \$100 million cash transfer in FY 2012 to help meet its immediate fiscal needs and to allow the government to spend an equal amount on priority economic growth and job creation initiatives. USAID's budget support helped the government to be able to borrow from international equity market sources at extremely low interest rates.
- In addition to the cash transfer, USAID provided \$30 million in FY 2011 funds for loan guarantees to the Tunisian government to promote private sector development. As a result, the government was able to negotiate a significantly lower interest rate on the bonds it issues and to meet critical post-revolution budget demands.

**Economic Growth**

- USAID will provide funding for the Tunisian-American Enterprise Fund (TAEF) to promote the development of the Tunisian private sector with a particular focus on small and medium-sized enterprises (SMEs). It will be funded with an initial grant of \$20 million in FY 2012 funds, which will be administered by USAID, the majority of which will be used to make loans and private equity investments. The Administration has planned an additional \$20 million for the TAEF in FY 2013 and intends to further capitalize the TAEF over the next several years, and the fund will seek to leverage private capital for investments as well.
- Through its ICT Competitiveness program, USAID assistance provided skills training that reached 3,089 youth and generated over 629 jobs, as well as developed partnerships with two anchor firms: Microsoft and TELNET, one of the largest companies in the Tunisian IT services market.
- USAID was also able leverage its own resources to create a \$3.3 million public private partnership with Hewlett Packard and the United Nations Industrial Development Organization to provide entrepreneurship training and expert capacity building assistance in four interior governorates.
- Tunisia-Morocco Center for Entrepreneurial and Executive Development, a \$2.9 million initiative with the Small Enterprise Assistance Funds for a new Global Entrepreneurship Program in Morocco and Tunisia, will create a center for management and entrepreneur training in Tunis. The project will also provide small grants to North African Partnership for Economic Opportunity Board approved activity applications in both countries to identify, train, connect, and sustain local entrepreneurs.
- The Tunisia SME Project is a joint effort between USAID and the U.S. Trade Representative's Office. Specifically, the project is focused on capacity building and training for 24 existing Tunisian small business centers located throughout the country including the interior. The first objective is to train and certify SME counselors in the small business development center (SBDC) model to improve SME growth, training and employment, and link the Tunisian Centres d'Affaires to SBDCs in the U.S. The second component will implement export-ready trade training seminars for export-ready SMEs in selected sectors to be identified by Tunisia and the U.S. The objective is to assist SME exporters to participate more actively in international trade and establish external markets in the U.S. and regional partners, in order to boost exports, support employment and growth.

**Democracy, Rights and Governance and Transition Assistance**

- The USAID Office of Transition Initiatives program continues to support inclusive participation in the political transition and has funded over 140 activities valued at over \$19 million since May 2011.
- USAID provided over \$4.5 million in support of Tunisia's historic 2011 elections, including support for nationwide voter education campaigns aimed at getting youth to vote, and a nationwide campaign targeting women voters.
- USAID also supported the recruitment and deployment of approximately 2,000 Tunisians to observe the Constituent Assembly elections and ensure that all operations related to voting were consistent with international standards for democratic, honest, and free elections.
- USAID implementing partners conducted trainings for newly emerged political parties and for civil society organizations to promote political participation. Over 1,000 representatives from 15 parties participated in these USAID-funded training events.
- USAID will support domestic election monitoring, including a Parallel Vote Tabulation, for the forthcoming elections in 2013 with a \$1.5 million grant.
- USAID continues to work in support of the professional implementation of the country's new Decree on Associations, and to enhance the capacity of civil society organizations to maintain and advocate for their rights.

While USAID is not currently supporting rule of law programming, property rights or labor issues remain high development priorities for the Tunisians.

The Department of State's Office of the Special Coordinator for Middle East Transitions convenes the interagency and Embassy Tunis for the purposes of coordination on a weekly basis in Washington. In Tunis, the Ambassador chairs regular country team meetings to ensure adequate field level coordination, including assistance coordination. On the donor coordination front, USAID's Middle East Bureau staff participates in regular coordination meetings of the Deauville Partnership (G-8) countries.

**Question 21:**

**USAID recently notified Congress that it intends to transfer \$19.5 million to the State Department's Bureau for Educational and Cultural Affairs in order to fund Fulbright Scholarships for Pakistani student pursuing graduate degrees in the United States. Additionally, USAID notified Congress in January of their intent to transfer \$21.5 million to State to support undergraduate scholarships for Pakistani students, including a number of Humphrey Fellowships at a cost of \$83,000 each How much is included in the FY2014 request for scholarships? What has been the impact of these scholarships? Have these programs ever been evaluated?**

Civilian assistance, including support for educational scholarships, is a critical long-term investment in a more stable, prosperous, tolerant, civilian-led Pakistan that has a constructive relationship with the United States, a goal that is in the long-term national security interest of the United States.

The congressional notifications described above totaling \$40.95 million consisted, first, of a transfer of \$21.45 million of FY 2012 Economic Support Funds (ESF) to the Department of State's Bureau for Educational and Cultural Affairs for a range of exchange and English language programming, including \$18.275 million in ESF to fund Pakistanis participating in the following programs: the Humphrey Fellowship program, the Global Undergraduate Exchange Program (UGRAD), the Study of the United States Institutes for Scholars (SUSI), the Community College Initiative Program, and the U.S.-Pakistan Professional Partnership in Journalism. The actual cost per participant for a Humphrey Fellow in Pakistan is \$64,883 (for a period of approximately ten months), not \$83,000. The remaining \$3.175 million will be used by the State Department for implementation by the Public Affairs Section in the U.S. Embassy Islamabad to offer training and support to strengthen civil society in Pakistan, including non-governmental organizations, universities, and youth. The second congressional notification of \$19.5 million of FY 2012 ESF is to fund scholarships for Pakistani students using the Fulbright Program for the 2013-2014 academic year.

The FY14 allocations of ESF for exchange programs have not yet been established as FY13 levels are currently being worked out.

The expanded U.S. investment in people-to-people exchange programs that provide education, training, and professional development to Pakistanis is now in its fourth year and is making a significant impact on the lives of the participants and their communities, as well as in the ability of U.S. government personnel to engage with people throughout Pakistan. We now have a cadre of Pakistanis with a deeper knowledge of the United States and a constituency for stronger U.S.-Pakistan partnership. Their experiences in the U.S. enable them to better understand the American perspective and facilitate collaboration between Americans and Pakistanis. This has real implications for the bilateral relationship – for instance, 27 individuals elected to the National or provincial assemblies on May 11 were alumni of U.S. exchange programs.

The nation-wide network of Pakistan exchange program alumni has over 12,000 active members. This network also connects multiple levels of Pakistani society from leaders of rural communities seeking vocational training to the top scholars in the country pursuing professional degrees and doctorates. The Pakistan-U.S. Alumni Network is rebuilding and expanding ties that provide an entry point into various professional and geographic communities throughout Pakistan. The alumni that become active members of this network are working with Americans on advancing the security, stability, and prosperity of Pakistan.

These programs are based on models that have previously been implemented successfully by the Bureau of Educational and Cultural Affairs and that have been evaluated globally. The Mission is currently working with a third party to carry out a performance evaluation on the Fulbright Program and the Final Evaluation Report is anticipated sometime in August. The evaluation will make recommendations aimed at ensuring the Fulbright Program continues to meet mission goals; maximizing the degree to which it contributes to achieving the U.S. government's strategic objectives; and helping USAID enhance the impact of its higher education interventions by prioritizing and balancing the portfolio of activities. The Pakistan Mission also has an evaluation of UGRAD underway, with completion also anticipated in autumn 2013.

Concurrently, Department of State colleagues in Washington and Islamabad in conjunction with USAID are consulting on a plan for additional evaluations of public diplomacy programs supporting policy initiatives in Pakistan.

**Question 22:**

**Afghanistan's domestic revenues do not cover total public expenditures, over 90 percent of which are covered by the United States and international partners. What donor coordination and verification mechanisms are we developing for the post-2014 time period? What arrangements do you see as the successor to the Tokyo framework?**

The Afghan government is currently dependent on foreign donor funding to sustain critical civilian and security services for its population, but has made significant progress on revenue generation over the last decade. That progress informed decisions by donors at the Chicago (security-related) and Tokyo (civilian-related) conferences held in 2012. The Tokyo Conference focused on planning an approach to bridging the gap between projected Afghan revenues and anticipated necessary public expenditures, with the goal of ensuring a stable transition to a more robust economy less dependent on foreign assistance.

In 2011/12, Afghan domestic revenue reached an estimated \$2.1 billion (11.3% of GDP), a 1000% increase over a decade with support from programs improving economic growth, trade, customs and mobile telephony. At that level, Afghanistan's domestic revenues currently cover 40% of current total public expenditures, while the remaining 60% is financed by donor funds.

At the July 2012 meeting in Tokyo, donors collectively pledged \$16 billion in development aid to Afghanistan through 2015. Together with earlier pledges of security funding, annual aid pledged from all donors to Afghanistan would amount to about \$8 billion through 2015—divided roughly equally between civil and security aid.

It was also agreed in Tokyo that, in order for donors to justify continued provision of assistance at these levels, progress would need to be made by the Afghan government on five key areas of governance and financial reforms described in the Tokyo Mutual Accountability Framework (TMAF):

- Representational Democracy and Equitable Elections;
- Governance, Rule of Law and Human Rights;
- Integrity of Public Finance and Commercial Banking;
- Government Revenues, Budget Execution and Sub-National Governance; and
- Inclusive and Sustained Growth and Development.

At the Tokyo Conference, the Afghan government committed to the TMAF. The goals and indicators laid out in the TMAF will require a concerted, long-term effort by the Afghan government. Under TMAF, USAID has committed to, by 2014, directly linking 10 percent of its funds to explicit progress on Afghan reforms, and 20 percent by 2024. Mutual accountability means predictable, aligned, on-budget assistance from donors with transparent progress on reforms by the Government – reforms critical to ensure both public support in donor nations and an effective enabling environment for providing assistance. The Tokyo Declaration and the TMAF apply through Afghanistan's Transformation Decade, which ends in 2024.

Progress toward TMAF reforms will be assessed at regular meetings between donors and the Afghan government. The first interim assessment is scheduled to take place at the Senior

Officials Meeting in Kabul in July 2013. Donors and the Afghan government agreed earlier this year on a set of interim benchmarks designed to facilitate progress on broader TMAF reforms which will be reviewed at the July 2013 Senior Officials Meeting.

In addition to periodic senior officials meetings on TMAF assessments, donor and government coordination on TMAF goals and related deliverables occurs on an ongoing basis in Kabul between donors and Afghan ministries. The Afghan Ministry of Finance is the central point of contact for these TMAF discussions.

**Question 23:**

**What measures are you considering to improve internal controls and oversight over U.S. funds and contracts for the post-2014 time period? Are we increasing training of oversight personnel and mandating the completion of pre-award risk assessments prior to providing direct assistance to Afghan government ministries post-2014? What plans have you developed for the transfer of data and broader database access?**

In response to the post-2014 environment, where we anticipate a more limited ability to visit project sites directly, USAID will implement a new business model to maintain oversight and accountability of development assistance funds, including those implemented through Afghan government systems.

***Monitoring and Oversight***

Based on lessons learned in Iraq, including the benefits of expanding the frequency of monitoring projects and monitoring multiple project elements simultaneously, USAID is seeking to ensure appropriate monitoring and oversight over U.S. funds through a variety of tools, such as increased use of third-party monitoring and maximizing the use of technology to enhance monitoring. The primary tool for these verification and monitoring activities will be third-party monitors, who will conduct site visits and interview beneficiaries, but will also likely include other methods such as cellphone-based surveys and analysis of satellite imagery for physical project outputs. A draft Request for Proposals for a mission-wide Remote Monitoring Project intended for implementation in 2014 and beyond was published for public comment on May 24, 2013 and can be viewed at [www.fbo.gov](http://www.fbo.gov). These efforts are intended to create multiple layers of oversight that help validate project performance and results. USAID is also focusing the geographic scope of our programs in such a way as to maximize our transition programmatic goals while improving adequate oversight and access given diminishing Chief of Mission (COM) field presence and reductions in COM personnel mobility resulting from military reposturing and drawdown.

***Assessment of Afghan Government Systems***

Direct assistance funding through Afghan government systems, subject to USAID's stringent accountability and oversight measures, strengthens service delivery; builds public confidence in government capacity; incentivizes needed reforms; and increases the sustainability of development projects. USAID will continue to conduct rigorous risk assessments of Afghan government institutions and incorporate risk mitigation techniques prior to and during program implementation. This includes pre-award and ongoing risk assessments required by USAID

regulations.

These risk assessments will continue to be conducted by USAID Office of the Inspector General (OIG)-approved accounting firms along with USAID Foreign Service National (FSN) staff embedded to facilitate communication and collaboration with Afghan government ministries. The objective of these assessments is to assist with the identification of public financial management weaknesses and areas that require institutional strengthening within a ministry or agency. This information assists USAID in determining what improvements in capacity are required pre- and post-award.

USAID takes action on multiple levels to mitigate risks before disbursing any funds in order to protect taxpayer money to the fullest possible extent. These measures may include, but are not limited to, requiring the Afghan Ministry of Finance to establish non-commingled, separate bank accounts for each project with USAID; disbursement of funds only after USAID has verified that the ministry has achieved a performance milestone or USAID has verified accrued costs; annual audits by an OIG-approved firm; substantial involvement and oversight by USAID staff in procurement processes; third-party management, monitoring and evaluation of services; and technical assistance to increase the capacity of ministries or agencies. All on-budget assistance requires compliance with USAID accountability and oversight procedures, including site visits by USAID staff or third-party contractors, as well as regular reporting.

USAID has initiated capacity building efforts at three key ministries to improve their public financial management systems and improve their internal controls. USAID plans to continue to work with other ministries to increase capacity and improve internal controls during the post-2014 time period.

**Question 24:**

**The military to civilian-led transition in Iraq could offer lessons for similar efforts in Afghanistan as the United States plans for five diplomatic sites and the future U.S. military presence is under negotiations. What is the estimated USAID footprint within the post-2014 enduring presence plans?**

USAID is an active participant in the interagency process that will determine USG civilian engagement in Afghanistan post-2014, including the determination of the size of our staff footprint. As part of this process, USAID is reviewing its operating model to ensure it is ready to meet the unique challenges presented by transition under any of the enduring presence scenarios currently under consideration.

As USAID considers options for the staff footprint in Afghanistan, our approach to programming is focused on ensuring sustainability and building Afghan capacity to maintain the gains made over the past decade. The approach has also focused on how to provide appropriate oversight and monitoring of our projects as international troops draw down.

Based on lessons learned in Iraq such as expanding the frequency of monitoring projects and monitoring multiple project elements simultaneously, USAID is seeking to ensure appropriate

oversight and accountability through a variety of tools, such as increased use of third-party monitoring and maximizing the use of technology to enhance monitoring. A draft Request for Proposals for a mission-wide Remote Monitoring Project intended for implementation in 2014 and beyond was published for public comment on May 24 and can be viewed at [www.fbo.gov](http://www.fbo.gov). These efforts are intended to create redundant layers of oversight that help validate project performance and results. USAID is also focusing the geographic scope of our programs in such a way as to maximize our transition programmatic goals while improving adequate oversight and access given diminishing Chief of Mission (COM) field presence and reductions in COM personnel mobility resulting from military reposturing and drawdown.

**Question 25:**

**Repeated assessments from the three Inspector General offices charged with monitoring U.S. non-military aid programs in Pakistan continue to document that USAID has not been able to demonstrate measurable progress in the implementation of U.S. assistance. What is your assessment of the success – or lack thereof – of our civilian and security assistance to date? When should Congress and the American people expect to see measurable results?**

We believe that evidence refutes the premise of the question, although we certainly acknowledge the USAID Office of Inspector General (OIG) has noted implementation challenges with the Pakistan assistance program. Learning lessons and improving oversight and accountability is a central priority of our efforts. OIG and U.S. Government Accountability Office auditors reinforce our determination to ensure U.S. tax dollars are used effectively and efficiently. We take their feedback seriously and work hard to implement needed changes they recommend.

Civilian assistance is a critical long-term investment in a more stable, prosperous, tolerant, civilian-led Pakistan and is a goal that is in the long-term national security interest of the United States. USAID's civilian assistance program in Pakistan has made measurable progress in the five priority sectors that represent joint U.S. government and Government of Pakistan priorities—energy, economic growth and agriculture, stabilization, education, and health - despite the dramatic ups and downs in the overall bilateral relationship during the course of the last three and a half years.

A constant area of strategic partnership has been our work with Pakistan on the civilian assistance program. USAID and the State Department meet regularly with our Pakistani counterparts to review and develop the portfolio. Through that regular contact and close collaboration, the civilian assistance program has evolved and matured into a streamlined set of programs that is delivering measurable results across sectors and the country, including in the Federally Administered Tribal Areas (FATA), and which is subject to strong oversight and accountability measures.

Since October 2009, U.S. assistance has:

- Added over 800 megawatts of power to the grid, benefiting more than one million households;



- Completed the construction of over 550 km of roads throughout FATA and KP, fostering economic development and stability by reconnecting vulnerable communities to markets;
- Trained 70,000 business women in finance and management to help them run their businesses more effectively and efficiently, increasing their incomes by an average of \$155 per year;
- Improved sales by over \$4 million across ten sectors of supported small and medium enterprises – including potatoes, fish and tourism – and increased revenues of 900 small and medium-sized businesses in Punjab by 600 percent;
- Helped decrease newborn deaths by 23 percent and increase the skilled birth attendance from 41 to 52 percent in 26 target districts;
- Built or upgraded over 500 schools, established new education degree programs at nearly 100 Pakistani colleges and universities, and trained more than 10,000 teachers and school administrators.

In the energy sector, USAID's goal is to increase power production by adding 1,200 megawatts (MW) to the national grid, benefiting more than 2 million households. Our goal in the economic growth sector is to irrigate one million acres of land and connect small farmers to major agribusinesses, increasing employment and incomes for 250,000 farmer households representing more than 2 million Pakistanis. We will also unleash Pakistan's economic potential by leveraging USAID funds on at least a 1:1 basis to create \$150 million of new investment in Pakistani small and medium-sized enterprises. Another goal is to connect the people who live along the Afghan border in the FATA and Khyber Pakhtunkwa (KP) province who are threatened by extremist violence and government and economic instability and diminish support for those who destabilize Pakistan. In the health sector, our goal is to save 190,000 lives through maternal and infant health programs. In education we will help 3.2 million children to read at or above grade level and provide 18,000 Pakistani youth with opportunities to attend college through scholarships.

During 2011, when U.S.-Pakistan political relations were strained, civilian assistance remained steady and helped lay the groundwork for renewed cooperation in 2012, after the reopening of NATO's transit routes to Afghanistan. We believe this helped preserve relationships with Pakistani leaders throughout this period.

Our security assistance programs focus on strengthening Pakistan's capabilities in counterterrorism and counterinsurgency, and on promoting closer security ties with the United States. Over the past few years, we have taken a closer look at our programs to ensure the level and type of assistance is commensurate with Pakistan's cooperation on our mutual interests. After a difficult few years, our military-to-military relationship is now on stronger footing and we are moving forward with a more realistic and narrowly focused program to promote joint action on areas of mutual interest.

We have seen measurable progress on areas of shared interest. The Pakistan Army's recent Tirah Valley campaign against Tehrik-e-Taliban Pakistan, who threatened to disrupt Pakistan's elections, is one example of our security assistance at work. In addition to PCCF-provided supplies, the Pakistan Air Force is using F-16s and enhanced precision strike capacities in direct

support of this and other operations targeting insurgents and promoting stability in Pakistan and the region.

With over 30,000 people killed since 2001, including medical professionals providing vaccines, teachers, military and innocent civilians, Pakistan has suffered greatly from terrorism. It is in Pakistan's clear interest to address terrorism and we will continue to work with Pakistan to eliminate the threats to make both of our nations more secure.

Now and in the future, Pakistan will remain an important strategic partner in the region and the USG must continue to be engaged through our assistance, stabilizing areas of Pakistan vulnerable to extremism, and supporting the nation's growth into a mature, responsible democracy.

**Question 26:**

**For several years now Pakistani officials have advocated a “trade not aid” strategy for U.S. development policy in that country. This sounds like a common-sense approach. Why haven't we wholeheartedly embraced that suggestion?**

The previous Pakistan People's Party-led Government of Pakistan (GOP) sought both civilian assistance from the US Government and trade agreements similar to those it has reached with the European Union. The US Government foreign and assistance policy has reciprocated the GOP's interest in civilian assistance and is also simultaneously pursuing a longer-term transition to a relationship based primarily on increased trade and investment, not aid.

There are two components to the transition to this vision for our Pakistan policy: increasing both bilateral trade and investment with the U.S. and regional trade. While increasing trade with the U.S. is important to Pakistan, much more important will be improved regional trade. By supporting Pakistan's interest in improving its capacity for trade, USAID is helping to reduce Pakistan's need for development assistance over time. Job creation and economic growth, in turn, promotes stability and advance our national security interests.

Improving Pakistan's trade with its immediate neighbors--Afghanistan, India, and Central Asia--is a central component of the U.S. vision for the region, as stronger economic ties will improve political ties and increase stability. USAID's flagship “Trade” project works at the legal, regulatory and institutional levels to improve Pakistan's terms of trade with its regional trading partners and the U.S. The Trade project results to date include:

- Assisted Pakistan's ratification of the Afghanistan-Pakistan Trade and Transit Agreement (APTTA) in 2010. The agreement was a major first step in helping the two countries harmonize customs practices, increase trade across the border, and expand commercial ties.
- Improved infrastructure upgrades, such as outdoor lighting, which have extended crossing hours at the border crossing, leading to increased truck crossings by 50% in the winter months at the Chaman crossing along the Afghanistan-Pakistan border.

- Helped reduce Afghanistan-Pakistan transit time from 43 days to 23 days through innovations at the Karachi port, including expanded competition amongst transit carriers.
- Partnered with major Pakistani and multinational companies e.g. Wal-Mart, Li & Fung, JC Penny, Target, & NISHAT to expand jobs in the trade sector, including giving 65 young women graduates (from nearly 900 applications) trade sector experience.

USAID is also rehabilitating roads at four key locations along the Afghanistan/Pakistan border, helping to support the transport of Pakistani goods to regional markets.

Several USAID projects are also supporting the expansion of trade by assisting small and medium enterprises (SMEs) through the provision of technical assistance and access to capital to improve their competitiveness and become more export-oriented.

- The new Pakistan Private Investment Initiative Program (PPII), currently in procurement, will focus on growth-oriented SME firms and expand their access to capital for expansion of operations and creation of jobs. The program is expected to leverage private capital on at least a 1:1 basis.
- The Agribusiness and Firms projects provide technical support to agricultural and manufacturing SMEs to ensure their exportable goods and products are more competitive. This includes helping 60 individuals and companies become GlobalGAP (Good Agricultural Practice) certified, allowing them to export their goods to the European Union and other high-value international markets.

With FY 2014 funding, USAID plans to help Pakistan take advantage of regional trade liberalization by engaging the private sector in support of trade liberalization and building capacity in Pakistani government agencies that support trade, such as the Ministry of Commerce, the Trade Development Authority of Pakistan, and the National Tariff Commission and Customs. Technical assistance would improve both the legal and regulatory framework for trade and the procedures and systems that manage the flow of goods across borders. With FY14 funds, USAID also plans to help develop the sectors of the Pakistani economy with the greatest potential to integrate Pakistan into the regional economy and raise employment and incomes.

With regard to trade between Pakistan and the U.S, USAID's activities complement the technical assistance other U.S. government agencies are providing to Pakistan in trade, including the Department of Commerce and U.S. Trade Representative Office's trainings on the Generalized System of Preferences. USAID also has an interagency agreement with the U.S. Department of Commerce, which has established several programs designed to strengthen United States-Pakistan trade and economic ties, and to promote the economic diversification of the Pakistani private sector. Some activities under this agreement include a Special American Business Internship Training program for Pakistani entrepreneurs and business development and legal training programs to promote investment and trade with the U.S.

**Question 27:**

**Pakistan's energy shortages are growing ever more acute and severely hamper that country's economic stability and growth. USAID has set a goal of adding 900 megawatts to Pakistan's national grid "by 2013." What is the status of that effort? Are there plans for any new energy-related initiatives in Pakistan, such as the Diamer-Basha dam project? Are U.S. investments in power generation in Pakistan sustainable?**

Helping Pakistan to address its energy crisis is a top priority for the U.S. civilian assistance program in Pakistan, given the serious problems in the sector that limit Pakistan's economic prospects and undermine stability. USAID's approach consists of high-impact projects aimed at increasing Pakistan's energy resources and helping power sector institutions reform to more effectively meet the country's energy needs.

As of March 30, 2013 USAID-funded projects have added more than 900 megawatts of power to Pakistan's national grid. This effort has generated enough electricity to benefit more than 2 million households throughout the country. The work includes helping Pakistan build new sustainable energy infrastructure and upgrade existing facilities and equipment. Thermal power plants in Punjab and Sindh are examples of increased power generation USAID and the Government of Pakistan have produced in partnership in Pakistan's two most populous provinces. The upgrades of these plants have added 575 megawatts to power over a million households. USAID's goal is to build on this progress and contribute an additional 300 megawatts, totaling 1,200 megawatts by the end of 2014.

The State Department and USAID are considering options on the feasibility of the Diamer-Basha Dam project, though no decision has been made to move forward at this time. We will continue to work on a number of existing hydro rehabilitation and due-diligence projects with the Government of Pakistan's Water and Power Development Authority and focus on capacity building for the governance of the country's energy assets.

USAID is working alongside the multilateral development banks and other bilateral donors to help Pakistan improve the management of the power generation and distribution systems. USAID plans to work with the newly elected government as it chooses how best to pursue the fundamental reforms required to achieve a sustainable energy sector.

**Question 28:**

**Azerbaijan recently shut down the "Free Thought University" without warning – a project to promote democracy and human rights that is partly funded by USAID. Some analysts have expressed concern that this may be an indication that the government there is cracking down on opposition groups in advance of this year's elections. What is your view of the government's decision to close the Free Thought University? What is the current status of negotiations with the government for its reopening? As \$11 million in ESF for Azerbaijan is included in this budget request, which includes democracy related programs, what guarantees do you have that these programs will be sustainable and not encounter similar interference?**

Azerbaijan is a valued partner to the United States. USAID's relationship spans a broad range of priorities including promoting trade and investment to benefit both of our economies and

improving democratic institutions and processes, including by increasing the participation of diverse actors and dialogue with civil society. Although our USAID Mission in Baku does not fund Free Thought University nor its activities, we have been disappointed to learn about the Government of Azerbaijan's decision to bar entry to the facilities of Free Thought University due to an ongoing investigation that appears politically motivated. It is our understanding that while Azerbaijan's prosecutor general has since removed his seal on the facility, the facility's landlord, has terminated Free Thought University's lease.

In this context, it is worth reiterating the comments of our Ambassador to Azerbaijan, Ambassador Morningstar, that "respect for peaceful protests, independent and transparent courts, and government engagement with citizens, especially its young citizens, to address their legitimate concerns are the best and most effective ways democratic governments can secure their fundamental stability." USAID assistance in Azerbaijan will continue to seek to foster peaceful and constructive engagement and dialogue of citizens and civil society with their local and national authorities on issues of democracy and good governance.

**Question 29:**

**USAID's Haiti budget request includes \$300.9 million – nearly 19.6 percent of the total Western Hemisphere aid budget. What monitoring and evaluation mechanisms have been built into USAID's Haiti programs? How are you ensuring that these investments will both deliver maximum impact and be sustained after donor assistance has gone?**

While the total U.S. Government budget request is \$300.9 million for Haiti, USAID's request for Haiti is \$164.2 million, of which \$139 million is Economic Support funds and \$25.2 million is Global Health Program funds. USAID uses a variety of monitoring and evaluation (M&E) tools and specialized analyses to inform budget and programmatic decisions. M&E tools include evaluations, portfolio reviews, financial assessments, surveys, and cost-benefit analyses. All projects in Haiti are required to report on indicators and targets on a quarterly basis as well as to conduct performance evaluations either at the midterm or end of the project. The following examples show how these mechanisms directly impact accountability and promote lessons learned in specific programs:

- In FY 2012, USAID evaluated its local governance program to inform the design of a follow-on program. Evaluation findings influenced how the follow-on will strengthen key local government functions, including recognizing the need for standard operating procedures for municipalities in coordination with the Government of Haiti's (GOH) Ministry of the Interior.
- USAID is using geo-spatial data as part of cost-benefit analysis of rural roads selected for potential rehabilitation. The data are being used to maximize potential impacts of road improvements on beneficiaries of USAID agricultural and watershed programs.
- USAID's M&E efforts in Haiti are complemented by increased oversight by a USAID Regional Inspector General (RIG) team. In addition in FY 2012, USAID established an

anti-corruption hotline so that anyone who witnesses potential fraud in any USAID program can pass information to the Regional Inspector General (RIG) for investigation.

Across the USAID/Haiti portfolio, we are designing and implementing investments with sustainability in mind. Since progress in Haiti will ultimately depend upon the quality of its institutions, improving the capacity of the both the Government of Haiti and civil society is a key part of our strategy.

Central to our efforts in Haiti is shifting from delivery through intermediaries to strengthening the ability of the GOH to deliver quality public services. In the health sector, for example, we are working with the Health Ministry to improve its capacity to better manage the health care system. We are assessing key government health offices to determine their level of readiness to receive and manage government-to-government assistance and have embedded an advisor to address weaknesses identified in past assessments.

Sound public accounting and local revenue generation are critical to sustaining donor investments. At the national level, the USG is supporting the expansion of a financial management system, managed by the Ministry of Economy and Finance, which will allow it to integrate its public accounting systems across ministries and further automate government expenditure processes. At the local level, USAID's municipal strengthening program is helping to improve tax collection, thus leading to better services.

**Question 30:**

**At a time when USAID is scaling back many of its programs in Latin America, USAID-Mexico is about to launch one of its largest Rule of Law programs in the world aimed at supporting the push for judicial reform in Mexico. To what extent is USAID-Mexico equipped to manage such a large program? If judicial reform efforts in Mexico stall, will USAID continue to support such a large program? USAID is also supporting municipal level crime prevention programs in Mexico for the first time. What lessons can be learned from similar efforts that have been going on in Central America for several years?**

1. USAID/Mexico has sufficient staffing and resources to manage the proposed new rule of law program, including a new U.S. Direct Hire position dedicated to rule of law programming that will be filled later this year.
2. The timeframe for completing ongoing criminal justice system reform in Mexico is based on a constitutional provision that requires that the transition take place by 2016. Twenty-two of the 31 Mexican states have now passed the required legislation, and at least some of the administrative reforms required to implement the new criminal justice system. The administration of President Peña Nieto has expressed its continued commitment to ensuring that this constitutional timeframe is met. Specifically, one of the actions announced by President Peña Nieto when he took office on December 1, 2012, was the development of unified criminal and criminal procedures codes that would support implementation of the new system. The Pact for Mexico, an agreement among Mexico's

major political parties on 95 reform commitments, also includes the implementation of the new criminal justice system nationwide.

USAID/Mexico is working closely with the Mexican government on the new rule of law program. USAID/Mexico also works closely with civil society leaders, academics, and reform advocates who oversee the process, and create political incentives to ensure that momentum does not stall.

3. USAID incorporates relevant lessons learned from security initiatives in Central America (CARSI) and the Caribbean (CBSI). As in Central America and the Caribbean, USAID supports the Mexican government and local communities to plan and implement community development strategies aimed at reducing crime and violence and providing youth with alternatives to crime. Merida's Pillar IV strategy and current programs draw on lessons learned from Central America, including the need to improve coordination and planning at the local level through the development of municipal crime prevention committees and plans, as well as the importance of community policing. In addition, USAID citizen security programming across the hemisphere benefits from lessons learned through a partnership with the City of Los Angeles, a leader in curbing gang violence and promoting youth development.

During the design of the Pillar IV strategy, USAID/Mexico and our counterparts benefited from the participation of USAID's CARSI crime prevention expert who was able to incorporate lessons learned and best practices. USAID/Mexico has also brought project managers and implementers from El Salvador to discuss concrete opportunities for engaging at-risk youth within crime prevention programming and reintegrating youth formerly engaged in criminal activity. USAID is also incorporating experience in crime data collection and analyses, as well as in establishing alliances with the private sector to reduce crime and violence. In addition to learning best practices from crime prevention programming in Central America, USAID programs in Central America are considering the impact of crime mapping and urban planning based on Mexico's experience.

**Question 31:**

**USAID has established an OTI office in Turkey to aid efforts with respect to Syria. What vetting procedures are we implementing with respect to OTI assistance programming? Is there an interagency coordination mechanism with respect to overall US government assistance to Syria? What programming will OTI be implementing as a result of the Secretary's recent announcement of additional assistance?**

USAID has set up formal vetting procedures that include the vetting of key individuals associated with organizations that are being considered for transition assistance funding. Under these procedures, USAID staff compares no less than eight biographic points submitted by our partners against information contained in intelligence and law enforcement databases. On a per activity basis, OTI in consultation with other offices within USAID, determines which key individuals of a proposed recipient organization will be vetted, to include at a minimum: principal officers of the organization's governing body; principal and deputy principal officer of

the organization; program manager or chief of party for the USAID-financed activity; and any other person with significant responsibility for administration of the USAID-financed activity. If any derogatory information is disclosed on a key individual, OTI in consultation with other appropriate offices in USAID considers the need for additional safeguards, risk of diversion and whether it still would be feasible to continue to work with the organization if the individual is excluded from the activity, or whether USAID cannot move forward with the activity given the position of the person in question.

OTI has not established an office in Turkey. Rather, OTI participates with the interagency in two primary USG mechanisms that have been established to facilitate interagency coordination with respect to USG assistance to Syria:

1. *Syria Transition Assistance Response Team (START)*: Operational since February 2013 and based at the U.S. Consulate in Adana, Turkey, the START brings together representatives from across the interagency into a single platform to coordinate activities, liaise with the Government of Turkey, and interact with the Syrian Coalition (SOC). An Assistance Coordinator leads the team, in which OTI participates along with representatives from USAID's Office of U.S. Foreign Disaster Assistance (OFDA) and Middle East (ME) Bureau; and the State Department's Bureau of Conflict and Stabilization Operations (CSO), US-Middle East Partnership Initiative (MEPI), Bureau of Population, Refugees, and Migration (PRM), and Bureau of Near Eastern Affairs (NEA).
2. *USAID Syria Task Force*: USAID has established a full-time Task Force on Syria to better focus its energy, synchronize internal processes, and provide a single point of entry for interagency partners in Washington to coordinate with USAID on the Syrian crisis.

In addition to internal USG coordination efforts, the SOC Assistance Coordination Unit (ACU) based in Gaziantep, Turkey, has established working groups for each of its thematic and geographic priority areas (Security/Justice, Peacebuilding/Governance, Aleppo Province, Damascus Suburbs, Idlib, Raqqa, and Der Ezzour). USG offices are represented in each of the working groups, which are the primary vehicles for reviewing activity proposals. USG interagency partners work with the ACU to determine priority activities and coordinate implementation.

The USG is providing \$127 million in non-lethal assistance to the Syrian opposition. OTI is implementing approximately \$35 million of this assistance to support Syrian efforts to build inclusive and accountable governance structures that reflect the will and needs of the Syrian people, along the following lines of effort:

- *\$10M - Emergency Assistance Fund*: Enables the SOC to address its highest order priorities: address dire suffering of the Syrian people, and support their partner Local Administrative Councils. This fund is reserved for SOC-received requests for assistance, and direct support for local efforts inside Syria. All resources are disbursed in-kind.
- *\$25.5M - Transition Projects*: OTI works with SOC counterparts to identify critical projects. Implementation approach for any specific activity or project depends on SOC priorities and analysis. Notable activities include:



- Liberated Areas Initiative (\$10M): OTI in close collaboration with the SOC ACU procures pre-identified equipment and supplies and stores them for prompt disbursement by the ACU to newly liberated communities.
- Local Governance Support: OTI works with Local Councils and other community organizations to increase their capacity to identify and respond to critical needs. Activities include city cleanup campaigns, civic journalism, psychosocial training for teachers, and provision of solar power systems at schools.

In addition to these ongoing USG assistance efforts, in April, Secretary Kerry committed to providing an additional \$123 million in assistance to the Syrian opposition and Supreme Military Council. Final allocation decisions for this new assistance have not been made and will depend on U.S. policy priorities, the situation on the ground, and the needs of Syrians. As these decisions are made, we look forward to working with Congress to ensure this assistance moves as quickly as possible.



**Questions for the Record**

*Submitted by Chairman Edward R. Royce  
To the Honorable Daniel W. Yohannes*

**Question 1:**

**The FY2014 request will not support compacts for each of the five countries selected as eligible by the Board in December 2012. Some have suggested that this will inject much-needed competition into the compact pipeline, while others have expressed concern that it will serve as a disincentive to countries previously working to become eligible. How has MCC messaged the inability to fund all of the compacts under development to partner countries? What has been the impact? How will funding be prioritized? Do second compact countries (Morocco and Tanzania) have a comparative advantage over first compact countries (Sierra Leone, Liberia, and Niger) because they have worked with MCC previously and already understand the rules of the game?**

The Board's decision to extend eligibility in FY14 to five countries that had made the disciplined and difficult policy reforms necessary to become MCC partners was another instance of the MCC Effect in action. We have discussed with those five countries the fact that our request, influenced by the highly constrained budget environment, will not fully fund compacts with all of them. MCC will now manage the competition for FY14 funds via three tools: (1) the timeline for signing compacts, (2) the size of the compacts themselves, and (3) leveraging opportunities for other donor, government, and private sector investments.

Regardless of whether a country is developing its first or second compact, countries must show a meaningful commitment to good policy performance and put together strong counterpart teams to undertake the economic and design work necessary to develop cost-effective, impactful compacts. As always, we will be working with our partner countries to ensure they come up with well-designed programs that address binding constraints to economic growth and provide a sufficient rate of return.

**Question 2:**

**MCC appears to be moving into an increasing number of energy projects, notably in Georgia, Malawi, Tanzania, and possibly in Ghana. What is your energy policy and how does it compare to other agencies?**

The MCC model is country-driven and focuses on the specific needs and constraints to economic growth in each partner country. Partner countries go through a consultative process to create proposals that address binding constraints to economic growth and provide a sufficient economic rate of return. Through these constraints analyses and other due diligence work, MCC responds to the specific needs of its partners by focusing on policy reform, sustainability, and creating opportunities for private sector investment in order to address the underlying, root causes of poverty and put a country on the path to self-sufficiency.

Reliable and affordable energy is increasingly emerging as a binding constraint to growth and private investment in our partner countries, particularly in Africa. This arises out of both objective economic assessments of constraints to growth and country priorities as articulated by businesses and political leaders. The development of affordable and reliable power, however, cannot be achieved solely through financial investments in hard infrastructure such as power plants and power lines. It also requires building the underlying policy, regulatory and institutional environment to support sustainable power systems and open the door to private investment (including from American companies, which are often more than willing to do business in emerging markets where MCC works). Because of this, MCC's energy projects focus substantially on sectoral reform. In Malawi, for instance, the government has made significant reforms in its electric utility practices and management, a condition we have established for moving forward on compact development.

**Question 3:**

**MCC has many of compacts that contain significant support for trade capacity building in AGOA eligible countries like Benin, Burkina Faso, Cape Verde, Ghana, and Mali. Is there any evidence that trade-capacity building elements in MCC compacts have led to increased or diversified exports?**

MCC's work, while not tied to AGOA directly, has helped a significant number of African countries realize the potential of AGOA by reducing poverty through sustainable economic growth. MCC is partnering with 14 African countries to improve their capacity for trade by removing internal barriers to trade; building institutional capacity in areas such as customs and national standards; developing business skills; and building the transportation, energy, and other infrastructure needed to enable trade and business expansion that can propel economic growth.

In Benin, for example, we worked to extend the port of Cotonou, a key trading hub for neighboring countries and the driver of economic growth in Benin. MCC funded \$188 million of port improvements, including a new south wharf, a sand-stopping jetty, enhanced intra-port transport, and strengthened port administration security and customs measures. A 25-year port concession will ensure that the new wharf is adequately financed and professionally operated over time.

The completion of this project has helped to attract an additional \$130 million investment from the private sector.

At the recent IMF-World Bank Spring Meeting, IFC and Infrastructure Journal recognized the south wharf concession at the Port of Cotonou as a "top 40 PPP," awarding it a "Bronze" award (among sub-Saharan African projects). The port earlier was awarded the gold prize of the International Association of Ports and Harbors Information Technology Award 2013 for systems modernization financed by the compact.

In Cape Verde, trade related projects included investments in the country's principal port, as well as trade-related roads and small bridges, improved transportation links to social services,

employment opportunities markets. Improvements to the port of Praia included wharf reconstruction, container facilities and new access roads.

This \$82.7 million infrastructure project integrated internal markets and reduced transportation costs by improving roads and bridges on the islands of Santiago and Santo Antão and by upgrading the port of Praia. An estimated 385,000 people will directly benefit from an estimated \$138 million in income gains over a twenty year period from the infrastructure improvements.

**Question 4:**

**To increase transparency, there are supposed to be quarterly status reports on implementation made publically available. To date, the most recent report is from December 2012. When can we expect the updated reports? When will MCC begin publishing these reports in a timely manner?**

Transparency is a hallmark of MCC. We are a leader among USG agencies in posting information to the foreign assistance dashboard, and we are currently ranked 9th of 72 donors around the world, and first in the U.S., on the Publish What You Fund Aid Transparency Index in 2012. We strive for timely updates on the progress of our programs. A country-driven approach to implementation, however, can prove challenging in the collection and verification of information. There is always at least a lag time of one quarter as we gather necessary information from the field.

Quarterly status reports, as of March 31, can be accessed at <http://www.mcc.gov/pages/results/qsrs>



**Questions for the Record**

*Submitted by Ranking Member Eliot L. Engel  
To the Honorable Rajiv Shah*

**Question 1:**

**Dr. Shah, like Chairman Royce, I support the Administration's plans to restructure our food aid programs to make them more efficient and affordable. Could you spell out the potential taxpayer savings this plan will generate? Do you believe it will have much of an impact on American farm income? Has the Defense Department made any statements with regard to the impact of this proposal on military readiness and deployment capacity?**

Food aid reform reduces current cost inefficiencies in at least three areas, allowing us to help more people with the same resources. We estimate that implementation of the FY 2014 Budget proposal would provide an estimated \$105 million to \$165 million in annual net efficiency savings that will be reinvested in food aid. These taxpayer savings will come from:

1. reducing the costs of buying and handling commodities (excluding shipping) by purchasing more food aid locally and regionally;
2. eliminating the requirement to monetize, or sell U.S. commodities to fund development food assistance programs, at an average loss of 25 percent on each dollar of monetized food aid; and
3. reducing shipping costs on food aid by modifying the requirement that USAID buy and ship only U.S. food.

In addition, implementation of the proposal would result in the allocation of \$250 million in efficiency savings over a decade to the Department of Transportation for additional targeted operating subsidies for militarily-useful vessels and incentives to facilitate the retention of U.S. merchant mariners.

In addition to these discretionary savings, the reforms will save an estimated \$500 million in mandatory spending over the next decade on Title II-related cargo preference reimbursements related to the higher costs of shipping Title II food aid on U.S. flag vessels. These savings will go towards deficit reduction.

From 2002-2011, the Food for Peace (FFP) program procured less than 1 percent of food that was exported from the United States. For the larger suppliers and consolidators, given the size of their business both in the United States and overseas, the impact of food aid reform will be minimal. Smaller suppliers will likely replace the tonnage they would have sold to the U.S. Government as food aid by responding to increasing global food demand, which is constantly rising.

Since 1954, when the Food for Peace Act was enacted, U.S. agriculture has transformed, and for over three decades agriculture has been the second most productive sector of the American economy. Fiscal 2013 agricultural exports are forecast at a record \$142 billion, \$6.2 billion above final fiscal 2012 exports. Fiscal years 2009-2012 represent the strongest four years in

history for agricultural trade, with U.S. agricultural product exports exceeding \$478 billion over these four years.

The Department of Defense (DoD) supports reform of the food aid program and has assessed that this proposal will not impact its ability to crew the surge fleet and deploy forces and sustainment cargo.

**Question 2:**

**Dr. Shah, though adequate HIV/AIDS funding is vital, it will not be possible to truly achieve an AIDS-free generation without sufficiently funding our efforts to prevent, treat, and eliminate TB. Beyond just its implications for those living with HIV/AIDS, the rise of multi-drug resistant TB and extremely-drug resistant TB poses huge challenges for the United States and the rest of the world. I think cutting TB funding by \$57 million is extremely short-sighted and would like to know the justification for this proposed cut, as well as its impact on existing programs currently being funded.**

The President's FY 2014 budget request includes \$6 billion for the President's Emergency Plan for AIDS Relief (PEPFAR) – the largest effort by any nation to combat a single disease. With FY 2014 resources, PEPFAR will continue to work toward achieving ambitious prevention, care, and treatment goals, while strengthening health systems and emphasizing country ownership, to build a long-term sustainable response to the pandemic and advancing the goal of creating an AIDS-free generation. The U.S. Government's financial commitment to tuberculosis (TB) has three main components – USAID Global Health funding, PEPFAR funding, and the annual contribution to the Global Fund to Fight AIDS, Tuberculosis and Malaria (Global Fund).

USAID has focused its TB efforts in high-burden countries to ensure that resources have the largest impact and are able to leverage funds from host countries and other donors. USAID bilateral TB funds are strategically programmed in a set number of countries to concentrate and focus TB prevention, diagnostic and treatment activities. By focusing on the most challenging and highest burden TB and multidrug-resistant TB (MDR-TB) countries, U.S. Government resources will be used in the most efficient way to diagnose as many cases as possible and put each on appropriate therapy. As countries scale-up programmatic management of drug-resistant TB, USAID technical assistance will be used to ensure high quality services and optimal treatment outcomes. In addition, USAID will continue working with developing countries to increase the amount of health funding within their national budgets.

The Global Fund provides a significant amount of funding for scaling up TB and MDR-TB programs, including funding for second-line drugs. USAID technical expertise is available to countries as they embark on the challenges of scaling up MDR-TB services with Global Fund and domestic resources.

In the countries with high TB/HIV burden, USAID works closely with PEPFAR to leverage common resources. PEPFAR takes the lead on TB/HIV co-infection, including TB screening of HIV patients and referral within the context of HIV and AIDS programs.

As these programs are implemented, USAID and the Department of State will continue working to enhance the integration of quality interventions with the broader health and development programs of the U.S. Government, country partners, multilateral organizations, and other donors. The response to global health problems is a shared responsibility that cannot be met by one nation alone

**Question 3:**

**Dr. Shah, previously under Secretary Clinton, this Administration placed great emphasis on aiding Haiti's post-earthquake reconstruction efforts. I would hope that you and Secretary Kerry continue this strong partnership with Haiti. In that regard, can you please update the Committee on the challenges the government and people of Haiti still face in rebuilding from the earthquake?**

USAID is the lead United States Government (USG) agency implementing over \$2 billion for Haitian recovery, reconstruction, and development. We are committed to working with the Government of Haiti (GOH) and Haitian people to realize a shared vision for Haitian-led development. Haiti faced significant difficulties before the earthquake, which exacerbated challenges in governance and rule of law, economic growth and food security, the provision of basic health and education services, and infrastructure. Building back from such challenges and destruction is a long-term proposition.

One of the biggest challenges has been to provide shelter to those who lost their homes. The earthquake initially displaced 1.5 million people and currently approximately 320,000 remain in camps. Additionally, issues with land tenure, which was largely undocumented in official records prior to the earthquake, have exacerbated the problem of identifying land for housing. Immediately following the earthquake, USAID provided shelter solutions—including transitional shelters, repairs to damaged houses, support to host families housing people displaced after the earthquake, and rental vouchers—to more than 328,000 individuals. USAID aims to provide housing in new settlements near employment opportunities in the Port-au-Prince, St. Marc, and Cap-Haitien Development Corridors.

To address governance and security issues, the USG is, among other things, committed to supporting peaceful, transparent and credible elections in Haiti. The GOH has committed to holding delayed parliamentary and local elections this year -- an important step towards rebuilding GOH capacity. The body charged with spearheading elections -- the Transitional College of the Permanent Electoral Council (CTCEP) -- was formally installed in April and is tasked with ensuring that elections are credible and transparent. USG funding to support the upcoming elections will support technical assistance to the CTCEP, domestic election observation, women's political participation, and activities to prevent and mitigate election-related violence.

Rule of law and the role of the judiciary need to be strengthened and USAID is supporting Parliamentary efforts to be more transparent and efficient. Three important pieces of legislation - an anti-money laundering bill, an anti-trafficking bill, and draft penal and criminal procedural codes -- are currently with Parliament. The passage of these bills would improve the rule of law,

empower the judiciary to address prolonged pretrial detention, and bring Haiti's regulatory framework on human trafficking and transparency in line with international standards.

Challenges to job creation and economic growth include inadequate infrastructure and a business environment that has too many barriers to obtaining credit or investment capital. To create jobs, USAID will focus resources on providing business development services and vocational training for micro-, small-, and medium-sized enterprises in sectors with high growth potential such as garments and textiles, construction and agribusiness. USAID is facilitating access to capital through Development Credit Authority guarantees, technical assistance, and equipment for financial institutions. USAID is working in concert with the GOH to modernize the electricity sector and expand the generation, transmission, and distribution of electricity in targeted economic corridors.

Environmental degradation in Haiti causes frequent flooding and erosion, thereby impeding the cultivation of fertile soil. Additionally, the cumulative effect of a drought, Tropical Storm Isaac, and Hurricane Sandy has been devastating, generating significant losses in agriculture production. In response, the USG is providing emergency response support to address food insecurity as well as help to repair damaged agriculture infrastructure including roads and irrigation canals. In addition, the USG has ongoing food security programs funded through Feed the Future that are helping participating farmers and communities by increasing agricultural productivity of both high-value and staple crops, and teaching effective and environmentally responsible farming techniques. The USG, through USAID, is helping farmers get high-quality goods to market by improving how they store and transport their harvested crops and by improving roads to reduce transport costs and spoilage.

The health sector in Haiti has been characterized by limited government capacity to provide services or to regulate the quality of private sector service provision. Even before the earthquake, the health care network was not able to meet basic primary care needs for Haitians. USAID's goal is to help build the GOH's future capacity to provide citizens with quality health care while ensuring that more Haitians receive the health care they need now. The USG, through USAID with funding from the President's Emergency Plan for AIDS Relief (PEPFAR), is building partnerships to provide integrated prevention, care, and treatment programs for persons living with HIV-AIDS, and to support orphans and vulnerable children. In partnership with France and the GOH, the USG is reconstructing and expanding the State University Hospital. The USG has renovated additional health centers in Cap-Haïtien, Quartier Morin, Caracol, Ouanaminthe, St. Marc, Cabaret, and Martissant.

Health activities also include training health workers, assisting the Haitian Government's efforts to strengthen the national health care system, improving care for persons with disabilities, and ensuring community-based health and prevention activities are in place. Beyond that, USG programs emphasize strengthening the capacity of the Haitian Ministry of Health to provide basic services, including those related to tuberculosis, maternal and child health, family planning and reproductive health, and nutrition. In addition, efforts will continue to treat cholera and reduce its spread.



With respect to the education sector, over 90 percent of primary schools are privately managed with little to no government oversight. Approximately 75 percent of teachers lack adequate training and annual school expenses account for about 40 percent of income for low-income families. In the face of these challenges, the USG will continue working towards the long-term goal of increasing access to quality primary education and following the GOH's lead in improving education programs. USAID's early grade reading program will provide more than 28,000 young children and 900 teachers with innovative, evidence-based reading curricula. Ultimately, this program will reach more than one million children nationwide, as the World Bank and other donors extend the use of reading curricula and training methods developed under USAID's program.

**Question 4:**

**Dr. Shah, how is the U.S. Government's response to the cholera epidemic in Haiti and the Dominican Republic (Hispaniola) progressing at the present time?**

On Oct 21, 2010, the Haitian Ministry of Health confirmed cases of cholera for the first time on Hispaniola in at least a century. Within a month, cholera had spread throughout Haiti and cases were being reported in the Dominican Republic. As of May 5, 2013, Haiti has reported 655,300 cases and 8,105 deaths since the advent of the epidemic. As of May 4, 2013, the Dominican Ministry of Health has reported 23,021 cases and 425 deaths.

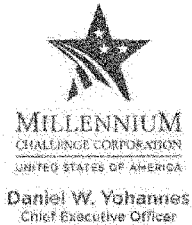
In the Dominican Republic, the USG is providing technical assistance to the Dominican government to control ongoing, yet limited cholera transmission. The USG is able to monitor the situation through the efforts of the Dominican Republic's Division of Epidemiology in the Ministry of Health, which is charged with responding when there are spikes in reported cases of cholera.

In Haiti, the epidemic has been severe. To date, the USG has committed \$95 million to respond to the outbreak. When the crisis hit in 2010, the CDC and USAID immediately began working with the Haitian Ministry of Health and the Pan American Health Organization to monitor the spread of disease, and decrease preventable mortality through training, and acquiring critical data to inform decision making. Since then, the USG has integrated a cholera response into its basic health programming. USG programs support improving access to safe drinking water, improving wastewater treatment, and increasing education on cholera prevention. With the onset of the rainy season, the USG has taken precautions by prepositioning cholera response commodities throughout the country. These steps will promote long-term solutions to the cholera epidemic in Haiti.

USAID's focus includes cholera prevention and strengthening the capacity of Haiti's health system. USAID's behavior change programming is helping to prevent the spread of the disease. The Agency's work with the Haitian Ministry of Health and Population is building government capacity to take over the long-term cholera response within existing clinics. CDC, with the Health Ministry and the National Directorate for Potable Water and Sanitation, focuses on the provision of technical assistance to sustain cholera treatment centers; revision of cholera treatment guidelines as needed; development of, and periodic improvements to the training

curriculum for medical professionals, and the cholera prevention training curriculum for health workers; provision of trainings and the dissemination of training materials to physicians and community health workers; monitoring and improvement of the national cholera surveillance system, efforts to improve and ensure access to clean drinking water; and support for the development of a National Plan for the Elimination of Cholera released in February 2013. Today the case fatality rate for cholera in Haiti is at 1%, which is at the international level of acceptance.





June 6, 2013

The Honorable Ileana Ros-Lehtinen  
Chairman  
Foreign Affairs Subcommittee on  
Middle East and North Africa  
U.S. House of Representatives  
2206 Rayburn House Office Building  
Washington, DC 20515

Dear Chairman Ros-Lehtinen:

Thank you for your consistent and strong support for the Millennium Challenge Corporation (MCC) and its mission to reduce poverty through economic growth. I am writing to respond to the questions you posed, but we did not have time to cover, during the April hearing on the President's fiscal year 2014 budget request.

During the hearing, you asked for more information about compact completion in Jordan, reinforcing the strong bonds that tie Morocco and the United States, and development of a second compact with El Salvador. I also want to address your comment about MCC continuing to uphold its founding principles and "not fall under the trap of providing more and more assistance without an end in sight."

Jordan's \$275.1 million compact program, scheduled for completion in December 2016, is designed to reduce poverty by increasing water availability for households and businesses, and improving the efficiency of water delivery and wastewater collection and treatment. The centerpiece of the compact is an expansion to Jordan's largest wastewater treatment plant (As-Samra) that leverages private sector funding through a build-operate-transfer arrangement. MCC and USAID collaboration ensures that U.S. investments in Jordan's water sector are mutually reinforcing, cost-effective, and sustainable.

Morocco will complete its \$697.5 million compact in September 2013. The compact program is designed to reduce poverty and stimulate economic growth through investments in fruit-tree productivity, small-scale fisheries, financial services, and enterprise support. Based on progress to date, the Moroccans will achieve most of the targets set for the program.

Morocco has continued to meet MCC's eligibility criteria, even after graduating to the more competitive lower middle income country category and in December 2012, MCC's board of directors (Board) selected Morocco as eligible for a second compact program. I believe that

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MCC's second compact with Morocco will continue to reinforce the strong bonds that tie our nations and further promote our shared vision for stability and economic security in that region. However, as I mentioned at the hearing, MCC's modest fiscal year 2014 request will not be sufficient to fund compacts with all of the countries that the Board selected as eligible in December. Morocco will need to compete with the other four newly selected countries for fiscal year 2014 funds.

You also had questions about a second compact with El Salvador, specifically regarding the government's commitment to both fighting corruption and creating a sound enabling environment for business. Throughout compact development and implementation, MCC ensures that partner countries remain committed to MCC's three policy priorities of *ruling justly*, *encouraging economic freedom*, and *investing in its people*. Control of corruption is a major criterion for country selection and countries must score above the median on the *Control of Corruption* indicator to be selected as eligible for MCC assistance. El Salvador is one of the best performers on the corruption indicator among lower middle income countries, scoring in the 81<sup>st</sup> percentile.

Engagement with the private sector is a critical component for encouraging economic growth and reducing poverty. I have expressed directly to President Funes the importance of the Government of El Salvador maintaining a constructive relationship with the private sector, including the need for evidence of progress. I consider last month's unanimous approval of the public-private partnership legislation by El Salvador's National Assembly to be a clear demonstration of the government's commitment to the principles underlying a potential second compact and a positive step toward improvement of El Salvador's climate for private investment.

After conducting an analysis with MCC and USAID economists of the major constraints to growth in the country, the Government of El Salvador has proposed three second compact projects that address concerns you raised at the hearing regarding the lack of public-private partnerships and corruption. The proposed compact will focus on (i) support for public-private partnerships to build or improve key infrastructure; (ii) streamlining bureaucratic processes cumbersome to investors; (iii) support for public investments to catalyze private investment and job creation; (iv) improving technical and vocational education and training; and (v) reducing high transport and logistical costs. As a result, Salvadorans will be better educated and trained to meet the demands of businesses and potential investors. Finalizing and signing the compact will include consultations with Congress and Board approval.

I also want to respond to your comments about MCC upholding its founding principles. MCC compact programs have a five-year term and this time limit is an important part of the MCC model. I want to assure you that MCC's engagement with partner countries is not open-ended and second compacts are not guaranteed to first compact partners. However, as first compacts close out, it has become apparent, in many cases, that the greatest opportunity for impact is in strengthening partnerships with countries that are currently or have been MCC partners. MCC's approach to development helps countries change their growth path away from aid dependence and toward greater reliance on private sector investment and internally generated revenue.

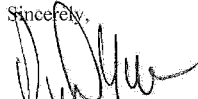
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MCC's Board is particularly selective when determining eligibility for second compacts. In addition to good policy performance, countries must show meaningful progress toward achieving first compact results before being considered for a second compact. In addition to requiring significant country resources in second compact development and implementation (no less than 15 percent of the total value of the compact for countries like El Salvador), there is an increased emphasis on (i) countries seeking partnerships with the private sector, other donors, and civil society; (ii) integrating social and gender analysis into compact processes; (iii) explicit application of lessons learned in first compact implementation; and (iv) a continued high standard for sustainability of outcomes from MCC-funded investments.

Countries that have successfully completed their first compact and continue to perform well present some of the best opportunities for MCC and partner countries to achieve sustainable economic growth and poverty reduction. By raising the bar for second compact eligibility and upholding its founding principles, MCC keeps incentives strong for countries to maintain good policy and implementation performance, while using the experience gained in each country to make more effective and innovative investments.

Thank you for the opportunity to discuss the MCC budget request at the hearing. I look forward to continued collaboration with you and your staff.

Sincerely,



Daniel W. Yohannes  
Chief Executive Officer  
Millennium Challenge Corporation



**Questions for the Record**  
*Submitted by the Honorable David Cicilline*  
*To the Honorable Rajiv Shah*

**Question 1:**

**What is the end goal of the USAID Forward initiative? How far are you with implementation, and is there anything we can do to protect that rebuilding of budgeting policy and personnel questions, especially with regard to the agency's historic reliance on contractors?**

USAID has institutionalized USAID Forward and foresees that the changes made will have a permanent impact. It is a comprehensive initiative aimed at making the Agency more effective by changing the way we partner with others, embracing a spirit of innovation and strengthening the results of our work.

Our ultimate goal is to establish a model that will leverage our efforts with those of responsible institutions including vibrant private sectors and thriving civil societies to increase the capacity of local systems.

USAID Forward has made significant progress since it was first announced in 2010 including:

- Establishing the Bureau for Policy, Planning and Learning which has published eight global policies and strategies to help guide our work, and facilitated the completion of 186 quality evaluations since 2011.
- Establishing an independent budget office that has provided a corporate development approach towards realigning resources effectively. The budget office ensures that our Agency plans better and makes smarter choices about where we should focus our development dollars to have the most impact.
- Launching four Grand Challenges for Development with more than 50 percent of applicants coming from the developing world.
- Launching six new mobile money initiatives.
- Expanding the funding we invest in local governments, businesses and NGOs over the past two years from 9.7% to 14.3%.

**Question 2:**

**I am very pleased that this Budget reflects the Administration's commitment to political, economic, social, and cultural equality for women and girls. Can you share more about the progress you are making with respect to those issues, particularly how investing in gender equality can reduce poverty and create development opportunities around the world? I am particularly interested in what we're doing to reduce violence around the world.**

As you rightfully recognize, gender equality and the empowerment of women and girls are widely viewed as key dimensions of human progress. The 2011 Quadrennial Diplomacy and

Development Review and the 2012 USAID Gender Equality and Female Empowerment Policy both called for accelerated efforts to improve the lives of citizens around the world by advancing equality between males and females, and empowering women and girls to participate fully and benefit from the development of their societies.

USAID has taken steps to strengthen its global leadership in promoting gender equality by creating new senior leadership positions devoted exclusively to gender equality and female empowerment; adopting a new suite of new gender equality policies and strategies; reforming budgeting and reporting requirements to capture gender equality results; and creating new incentive funds to promote women's leadership, reduce gender based violence, and accelerate investments in women peace builders, parliamentarians, agricultural producers, and owners of small and medium enterprises. We are already seeing these efforts lead to powerful changes within societies. A few illustrative examples follow below:

- In Pakistan, the Baluchistan Agriculture Project has assisted poor women farmers increase their incomes by improving crop and livestock productivity and marketing their goods more effectively. Women working in the wool trade have seen their revenues increase 80% after learning more creative and innovative marketing techniques. Through this project, women have also gained more control over resources, increased participation in household decision making, and are increasing their ability to access health care and educational services.
- Afghanistan's maternal and child mortality rates have been reduced markedly with the assistance of a USAID program established with the government's Ministry of Public Health (MoPH) to improve health care quality and access for mothers and children. USAID has undertaken multiple interventions in conjunction with the MoPH, but we have seen marked success in our efforts to train midwives and community health-workers. Over the past decade USAID interventions in this area have led to the training of over half the midwives in Afghanistan and the development of teaching methodologies that are used in 34 specialty schools and 32 provinces. In 2010 a government mortality survey reported since 2002 infant mortality rates have dropped by 57%, child mortality by 62% and maternal health by 22%. In addition to saving lives, the midwives' self-esteem and sense of empowerment has increased through their paid work and leadership in their communities.
- In Bangladesh, a USAID program designed to reduce malnutrition used women's empowerment interventions, along with the direct provision of food, sanitation and hygiene training and, activities to boost agricultural production to reduce childhood stunting by 28% between 2006-2010. Participants started small businesses and established savings groups to earn more income. Through these increased earnings and greater participation in household decision making and budgets, they provided more

nutritious meals for their children—the proportion of households with 3 square meals a day rose from 32 % to 74% over the four year life of the project.

With respect to gender-based violence (GBV), USAID has placed reducing GBV at the forefront of our programming efforts, recognizing that preventing and responding to GBV is a critical core element in achieving gender equality and promoting sustainable and inclusive development.

In August 2012, the United States Government released the U.S. Strategy to Prevent and Respond to Gender based Violence Globally. With efforts led by USAID and the Department of State, the strategy was accompanied by an Executive Order on Preventing and Responding to Violence Against Women and Girls Globally to further enhance the Administration's efforts to bring about a world in which all individuals can pursue their aspirations without the threat of violence.

Some examples where USAID field missions are implementing innovative cross sectorial programs include:

- In Benin, a USAID program to support girls' primary education integrated counter-trafficking awareness and advocacy activities into its project and targeted girls, parents, and communities. After four years, there was an estimated 63% increase in girls' school registration, an estimated 71% reduction in the dropout rate, and an estimated 76% increase in promotion from one grade to another.
- In Ethiopia, USAID's Integrated Family Health Program has worked to promote gender equity issues by engaging in the day-to-day activities of community and religious leaders. The program enhances their leadership capacity through the provision of training on gender-related issues and the implementation of sensitization and awareness creation workshops. The project, in partnership with regional women's associations, also supports existing marriage cancellation committees at the community level as a way to address early marriage and harmful traditional practices. As of March 2012, close to 8,000 early marriages had been cancelled. The IFHP is implemented in over 300 districts.
- In Jordan we are starting a program to protect vulnerable Syrian refugees--women, children, and female heads of households--in Jordanian host communities. The project will support the development of an awareness-raising campaign targeting the refugees and host population to reduce or prevent early marriage, human trafficking, child labor and gender-based violence within their communities.

These programmatic efforts are complemented by 4 new research projects that will contribute to the Agency's efforts to prioritize programmatic efforts and guide approaches used in GBV prevention and response interventions. These projects will:



- Evaluate an intervention that engages men and boys in GBV prevention efforts
- Examine the association between women's economic empowerment and experiences of GBV
- Identify successful GBV intervention programs that are scalable
- Identify how best to address GBV throughout the relief to development continuum

USAID's efforts to prevent and respond to gender-based violence are particularly salient in countries threatened by war, violence, and insecurity. As part of the US National Action Plan on Women, Peace, and Security, USAID is working to accelerate, institutionalize, and better coordinate government efforts to advance women's inclusion in peace negotiations, peace building activities and conflict prevention and enhance security and protection for women and men. Over the past year, the Agency has made targeted investments in new and catalytic activities:

- USAID created the Global Women's Leadership Fund to provide logistic and strategic support to enable women to participate in peace processes, negotiations, donor conferences, transitional political processes, or other high-level decision-making processes relevant to conflict prevention and resolution, democratic development, or human rights. The leadership fund is currently supporting work with women and women's organizations in Cote d'Ivoire, Libya, Burma, and the Afghanistan and Pakistan border region, and is engaging with Syrian women to support their participation in reconciliation and peace building efforts.
- In the Philippines, USAID is working in the Mindanao region to support the development of women's peace tables that will give local women a means of connecting with and feeding into formal peace talks. The project is also providing skills training in the areas of peace building, negotiations, and conflict analysis and management for women participants in peace panels and is supporting the rollout of the Philippines' National Action Plan on Women, Peace, and Security via information campaigns with local governments and civil society.
- In the Democratic Republic of Congo, USAID, along with the Centers for Disease Control and Department of Defense, is supporting over \$10 million in program expansion, to strengthen integration of GBV prevention and response activities throughout the HIV platform. Through support from PEPFAR, these programs will serve the needs of GBV survivors, providing access to medical and psycho-social care, legal assistance, and income generating activities. In addition, the programs will also enhance efforts to promote community awareness of and respond to GBV.

**Questions for the Record**  
*Submitted by the Honorable Luke Messer*  
*To the Honorable Rajiv Shah*

**Question 1:**

**Administration officials assert proposed reforms to U.S. food aid programs will enable the U.S. to reach more people, in less time, at less cost. Can you please provide the research-based evidence that led the Administration to propose these changes in U.S. food aid programs? What would be the impact on American farmers?**

Research from a variety of institutions – both public and private – supports the proposed changes to food aid programs implemented by USAID. Among them are:

- A 2011 GAO report, which found that the average cost recovery rate for USAID monetization was only 76 percent.
- An independent, third party evaluation of USDA's five-year pilot of local and regional procurement (LRP) in developing countries. The evaluation found that on average, LRP arrived 74 days faster than traditional in-kind assistance from the United States, with average savings for commodity purchase and shipment of 35 percent for unprocessed cereals and 31 percent for pulses.
- A January 2012 Cornell research paper that found an average time savings of 14 weeks for LRP compared to traditional in-kind assistance from the United States, with average savings for commodity purchase and shipment of 53 percent for unprocessed cereals and 25 percent for pulses.
- A 2008 GAO report, which found delivery of in-kind food aid took an average of 147 days compared to 35 days for LRP and 41 days for regional procurement in Sub-Saharan Africa. The study also found an average cost differential of 25 percent worldwide.

USAID experience implementing LRP programs largely reinforces the study findings on LRP cost savings.

While the shift to more local and regional purchase of food commodities offers substantial savings to the U.S. Government, USAID expects there will be limited impact on the U.S. agricultural sector.

From 2002-2011, the Food for Peace program procured less than 1 percent of food that was exported from the United States. For the larger suppliers and consolidators, given the size of their business both in the United States and overseas, the impact of food aid reform will be minimal. Smaller suppliers will likely replace the tonnage they would have sold to the U.S. Government as food aid by responding to increasing global food demand, which is constantly rising. USAID will continue to rely on American farmers to supply food aid commodities for its programs.

Since 1954, when the Food for Peace Act was enacted, U.S. agriculture has transformed, and for over three decades agriculture has been the second most productive sector of the American economy.

Fiscal 2013 agricultural exports are forecast at a record \$142 billion, \$6.2 billion above final fiscal 2012 exports. Fiscal years 2009-2012 represent the strongest four years in history for agricultural trade, with U.S. agricultural product exports exceeding \$478 billion over these four years.

**Question 2:**

**The Administration's budget request notes that in FY2014, 55% of funds shifted to IDA would be used to procure and ship U.S. commodities. Does the Administration plan to transition completely away from U.S. procurement? If so, over what time frame?**

U.S. agriculture will continue to be an important tool in our food assistance response. The 55 percent is representative of what we think we likely would be buying in the United States under the new model in the first year regardless of any requirements.

We expect to continue to purchase in the United States beyond FY 2014, as there are times when markets in developing countries cannot supply the amount of a commodity that we need for a particular response, or times when we can get the best price in the United States for a good. There will be times when the amount of cereals required for a response, such as during the 2010 drought in the Horn of Africa, will require that we will continue to buy from the United States. In addition, at this time, our processed foods, such as ready-to-use therapeutic foods, fortified blended foods, and emergency food bars, are not available in sufficient quantities locally or regionally.

**Question 3:**

**Regarding the local purchase programs, what controls are in place to ensure that we really know where that food comes from? Under the program, is it possible that the food bought could come from a broker who collected the commodity from various international sources and not just from local area farmers? Is there a tracking system to ensure that the local purchases are actually locally and regionally grown?**

As is currently the case for USAID-funded local and regional procurements, USAID partners will continue to be required to buy from developing countries near crises and to provide detailed information on planned procurement locations, quantities and other details when applying for assistance. These details are incorporated into the agreement. Deviations from the agreed-upon terms would require USAID approval. By requiring this information, USAID ensures that we are not inadvertently purchasing food from U.S. competitors such as Russia.

In most cases we do have information on both source (where it was purchased) and origin (where it came from). In addition, USAID's largest partner, the United Nations World Food Program

(WFP), has requirements for origin certification for local and regional procurement. For example:

- WFP purchased rice whose source and origin was Cambodia, to be distributed within the country.
- WFP purchased locally-produced maize meal in the Democratic Republic of the Congo to be distributed to internally displaced persons.
- WFP purchased white beans whose source and origin was Burkina Faso for distribution in Côte D'Ivoire.

**Question 4:**

**With PL 480, we stamp the US flag and “from the American people” on the bag, and that’s a powerful symbol of our nation’s generosity. There is some concern that we not put foreign source commodities under the US flag because there is a risk of endangering the reputation for safety and quality that US produced commodities have earned. How do you propose addressing these concerns?**

USAID and its partners purchase products overseas that are already available in local markets for local consumption. Food safety standards are rigorously followed to ensure we purchase food fit for human consumption. USAID’s partners must comply with recipient country food safety standards or, if nonexistent, the Codex Alimentarius Recommended International Code of Practice; cereals must be tested for aflatoxin; and awardees are required to contract established inspection services prior to shipment and distribution. The partner organization must retain a copy of each certificate for its records and the documents must be provided to USAID on request.

USAID has purchased commodities locally and regionally for three years. In that time there have been no reports of unsafe food being distributed to beneficiaries.

More generally, USAID food assistance will continue to be branded and marked, with the USAID logo prominently displayed on all program-related materials, whether purchased in the U.S. or in the affected region. We are confident the branded local commodities will be of an appropriate quality for the populations we serve. In fact, we ensure the distinctive USAID handshake is not only on bags of locally purchased food but on vouchers as well.



**Question for the Record**

*Submitted by the Honorable Joseph P. Kennedy III  
To the Honorable Rajiv Shah*

**Question:**

Administrator Shah and Mr. Yohannes, thank you for testifying before this Committee.

Whether we're talking about the dramatic increases in primary school enrollment that you mentioned in your testimony, Administrator Shah, or the MCC's achievements in promoting gender equality in Lesotho, I appreciate hearing your insights into the United States' role in providing international humanitarian and development aid. And, as a returned Peace Corps volunteer, I share your commitment to reducing global poverty through innovative programs that improve health outcomes, reduce hunger, and promote economic growth.

As you both know, real development requires changes in behavior. It is not simply the product of short-term assistance or programs that lead to long-term dependency, no matter how well funded or well intentioned. For over five decades, Peace Corps volunteers have been living in the very communities they serve, establishing the presence and partnerships necessary for change to take root. I am very interested in knowing how each of your agencies partner with Peace Corps volunteers to leverage the trust and cooperation they establish in their local communities. How can the Peace Corps' record of grassroots diplomacy and development help us get the most bang for our buck from the limited foreign aid budget? And how can we improve cooperation and collaboration between your agencies and Peace Corps volunteers, either while they are serving or after they have returned home?

The relationship between USAID and Peace Corps is longstanding and deep. Perhaps the single greatest way in which USAID's relationship with Peace Corps influences and benefits our work is through the large number of former volunteers who are such a large part of our Agency. These returned volunteers bring to bear their unique experience in ways that enrich much that we do.

Former volunteers working with the Agency have returned to Peace Corps to serve as Country Directors and in other positions.

We have also worked with the Peace Corps to collaborate and take advantage of the volunteers' unique role. For example, there is the recent Peace Corps participation the Water and Development Alliance, a USAID partnership with Coca Cola in which volunteers will help to improve village water supply quality and sanitation. We also have partnered with Peace Corps to extend the reach and effectiveness of our malaria eradication programs. Volunteers have also partnered with USAID in village level food production, in support of USAID's Feed the Future initiative.

Since 1983, USAID and the Peace Corps have collaborated on the Small Projects Assistance (SPA) program in which USAID bureaus and missions are able to transfer program funds to Peace Corps posts in support of volunteer community development projects.

The overarching objective of the SPA Program is catalyzing the capacity of host country individuals, organizations, and communities to meet their own development needs and priorities. Over the past three decades, USAID has funded more than 25,000 small grants and 1,000 training activities, providing over \$80 million to support the efforts of Peace Corps volunteers and their local counterparts to implement a broad range of grassroots development activities benefitting more than 4 million individuals.

To help ensure sustainability, and to build greater self-reliance, the Peace Corps also provides targeted skills training to volunteers and their host country partners. To expand and deepen the impact of the program, volunteers are encouraged to seek alliances with other organizations and institutions operating in the same geographic and sector area.

To expand cooperation and collaboration between the two agencies, USAID has created two sector-focused agreements on education and food security.

The Global Education Framework (GEF) Agreement between the Peace Corps and USAID allows USAID bureaus, offices, and field missions (bilateral and regional) to collaborate with the Peace Corps to support education activities. Under this framework agreement, statements of work are developed that describe the work to be undertaken, the anticipated results and budgets.

Since the Agreement's inception in October 2010, the Peace Corps has received funding to support three projects: a South African Baseline Study; Community Data-Driven Decision Making in Education; and, Tundlo Mindanao: Peace Corps' Education Assistance Program in Mindanao.

Under a Feed the Future Agreement, the Peace Corps has committed to: 1) Seek to place volunteers in Feed the Future target geographic areas and 2) identify and train more than 1,000 "Feed the Future Peace Corps Volunteers." Work has begun between Peace Corps posts and USAID missions in Mali (2009), Senegal (2009), Ghana (2010), and Nepal (2011).



**Question for the Record**

*Submitted by the Honorable Joseph P. Kennedy III*

*To the Honorable Daniel W. Yohannes*

**Question:**

**As you both know, real development requires changes in behavior. It is not simply the product of short-term assistance or programs that lead to long-term dependency, no matter how well funded or well intentioned. For over five decades, Peace Corps volunteers have been living in the very communities they serve, establishing the presence and partnerships necessary for change to take root. I am very interested in knowing how each of your agencies partner with Peace Corps volunteers to leverage the trust and cooperation they establish in their local communities. How can the Peace Corps' record of grassroots diplomacy and development help us get the most bang for our buck from the limited foreign aid budget? And how can we improve cooperation and collaboration between your agencies and Peace Corps volunteers, either while they are serving or after they have returned home?**

MCC is committed to leverage our partnership with Peace Corps. In 2010, Peace Corps and MCC signed a Memorandum of Agreement (MOA) to better support country development initiatives. MCC recognized the important role Peace Corps Volunteers (PCVs) and Peace Corps Response Volunteers (PCRVs) can play in providing support for the implementation and sustainability of MCC Compact projects. To further the MOA, a Peace Corps and MCC joint working group developed guidance on the cooperation between the two agencies in 2012. The assistance provided by Peace Corps Volunteers is intended to enhance MCC-funded project effectiveness and build the long-term capacity of partner countries. Volunteers have helped to develop and implement training programs, community outreach programs, HIV/AIDS prevention programs, or management information systems, or to provide other types of assistance related to MCC-funded programs.

In Lesotho, for example, PCVs have been assigned to support public outreach efforts, and social and gender integration of the MCC-funded rural water activity sites. In Namibia, PCVs are conducting a community needs assessment to help guide the design of the targeted educational programs for the communities we are serving. Similarly, in the Philippines, a PCRV was assigned to work on the Kalahi-CIDSS community-driven development project to translate/simplify the community finance and community procurement manuals that are being used by community leaders in project implementation. In Malawi and Zambia, MCC and Peace Corps are exploring potential areas for cooperation once those compacts enter into force. For our second compact country partners, MCA-Georgia and the Peace Corps have already identified potential areas for collaboration in rural schools in Georgia. There are many more examples of MCC and Peace Corps collaboration in the field including Cape Verde, Armenia and Mongolia.

In Washington, MCC and Peace Corps have held several workshop, conferences and events at the staff level. In addition, you may be pleased to know that over ten percent of MCC's employees are Returned Peace Corps Volunteers, proudly advancing the Peace Corps' Third Goal while continuing to serve their country.

