

**STATE, FOREIGN OPERATIONS, AND RELATED  
PROGRAMS APPROPRIATIONS FOR FISCAL  
YEAR 2006**

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**THURSDAY, MAY 26, 2005**

U.S. SENATE,  
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,  
*Washington, DC.*

The subcommittee met at 2:40 p.m., in room SD-138, Dirksen Senate Office Building, Hon. Mitch McConnell (chairman) presiding.

Present: Senators McConnell, Bennett, DeWine, Brownback, Leahy, Harkin, and Landrieu.

**UNITED STATES AGENCY FOR INTERNATIONAL  
DEVELOPMENT**

**STATEMENT OF ANDREW S. NATSIOS, ADMINISTRATOR**

**OPENING STATEMENT OF SENATOR MITCH MCCONNELL**

Senator MCCONNELL. The hearing will come to order.

I am going to put my opening statement in the record. I do not think all of you should be penalized for my tardiness. Also, Senator Leahy is not here yet.

[The statement follows:]

**PREPARED STATEMENT OF SENATOR MITCH MCCONNELL**

Welcome, Administrator Natsios. Today's hearing is on the President's fiscal year 2006 request for appropriations for the United States Agency for International Development (USAID). These programs and activities total in excess of \$4 billion.

As I said during the Secretary of State's hearing earlier this month, the "soft" side of our foreign aid is a critical component in the war on terrorism. Child Survival and Health Programs and Development Assistance, if targeted effectively, can frustrate the ability of extremists to further their hateful ideology and to recruit additional foot soldiers from underserved or underrepresented populations. Moreover, this assistance clearly demonstrates the generosity and benevolence of the American people.

The ultimate success of our efforts, however, is largely determined by the political will and actions of foreign governments to address the needs of their citizens in a transparent and accountable manner. Simply put, the lack of freedom and the rule of law in developing countries blunts the effectiveness of our foreign aid. From Haiti to Cambodia, this maxim unfortunately has been proven true time and time again.

Let me take a moment to commend President Bush for his leadership, and personal commitment, to the cause of freedom. The President's support for democracy is nothing short of inspirational to the courageous individuals who struggle for liberty, human rights and justice abroad—and to those of us who have long championed their worthy causes from our shores.

The challenge for USAID—and the State Department—will be to keep pace with the President, and to this end, the Agency should consider highlighting the impor-

tance of democracy promotion by making this its own operational goal. USAID will need to conduct a stem-to-stern review of the way it supports democracy programs, with a greater emphasis on grants to proven democracy-building organizations, closer coordination with the State Department and the National Endowment for Democracy, and better appreciation for the use of technology—such as that utilized by Voice for Humanity in Iraq and Afghanistan. USAID should be less concerned with the amount it spends on democracy promotion and more focused on what it spends its funding on.

In closing, it would be useful for the Subcommittee to hear your views, Mr. Natsios, on the significant increase in the Transition Initiatives account and the inclusion of emergency food assistance in the International Disaster and Famine Assistance account in the fiscal year 2006 budget request.

Senator Leahy will make an opening statement, followed by Mr. Natsios, and then we will proceed to seven-minute rounds of questions and answers. We will keep the record open for additional questions.

Senator MCCONNELL. Administrator Natsios, what I would like to do is begin with you. Feel free to put your full statement in the record if you would like and then tell us what you have on your mind. We will then ask questions.

#### SUMMMARY STATEMENT OF HON. ANDREW S. NATSIOS

Mr. NATSIOS. Thank you very much, Senator. I have a longer statement for the record, and a very abbreviated statement for my public testimony.

Mr. Chairman and members of the subcommittee, it is an honor for me to be here today to discuss the President's 2006 budget for the United States Agency for International Development.

Before beginning our presentation, I want to thank the chairman, the ranking member and their staff, and the committee members for the support you have shown to us in USAID to play the critical role that we do in our national security.

We particularly appreciate your tremendous work on the supplemental budget to meet the President's request levels for Afghanistan, Sudan, and the tsunami-affected region. We are grateful that you see our work in these states as important as we do in winning the war on terror.

I will, as I said, submit my full testimony for the record which lays out the overall justification for our budget in the 2006 request.

For these few minutes, I would like to address three issues that your staff has raised with us and that we find to be essential to the work of USAID.

First is our work in democracy, second our request to shift funds from the Development Assistance account to the Transition Initiative account, and finally the partnership between the MCC and USAID.

First our work in democracy. President Bush and Secretary Rice have emphasized the centrality of democracy, freedom, and good governance both to our national security and to development in general.

Your staff has also emphasized the central role of democracy and international security. We in USAID—both our political appointees and our career officers—very, very strongly share your perspective on this important aspect of development policy.

In fact, the principal reason that development fails in developing countries is because of the failure of governance. A failure of democracy or a failure of the system to allow people to participate in

the choice of their own leaders is the principal reason why there is political instability that sometimes wrecks years of development by causing civil war or insurgencies.

Countries that are accelerating their development are those which embrace democratic governance and in good governance control corruption and through that, their country progresses.

We in USAID are dedicated to ensuring that our resources carry through the vision of the national security strategy of the President, the Secretary of State, and ultimately the American people by supporting the development of prosperous democratic partners for the United States around the world.

We have played a central role in that. There are 400 USAID officers who are democracy and governance officers, 200 of which work in the field. And our missions, we have created a strike force in the Agency, in the bureau in which the Democracy Office is located, to act in a very rapid way when we believe that democracy has a chance of moving forward.

In Iraq, USAID played a key role in supporting the Iraqi election process as well as helping to build democratic institutions in a country that was ruled with an iron fist for generations.

We helped mobilize thousands of Iraqi election staff, many hundred Iraqi civil society organizations, and we helped Iraq and international organizations to field domestic election observers, deliver voter education, implement conflict mitigation programs.

With USAID support, over 220 core election monitors were trained and with additional European union support, we trained as many as 12,000 domestic monitors.

One indicator of election success was the higher than anticipated turnout in the election, but most importantly the 275 member Iraqi National Assembly with 25 percent female representation was elected to govern the country, draft a new constitution and provide a national referendum on the constitution.

Subsequently a constitutional government was put in place. Funding for this will be put in place later this year. Funding for this total effort was \$114.7 million.

In Afghanistan, we helped Afghanistan move toward the promise of democracy, stability, and peace, the staging of the Loya Jerga. There are two of them, one that elected Karzai as the interim president and then for the interim constitution, only months after the fall of the Taliban regime, owing much to the logistical support that we provided through USAID.

We provided \$151.2 million including logistical support for the Afghan transitional authority to convene the delegates responsible for drafting the constitution and then, of course, as I mentioned earlier, in the October 2004 presidential elections that elected Hamid Karzai as the President.

We are also deeply involved right now in preparing for the parliamentary elections which are scheduled currently for September 2005.

Equally dramatic democratic transitions took place in 2003 in Georgia and 2004 in Ukraine. In the decade that preceded the people to power movements in these countries, we supported projects to build democratic institutions and civil society, establish the rule

of law, and create a democratic legislative base and develop an independent press.

In the Ukraine, for example, the USG provided \$18.3 million to support the electoral process in the last elections. Partners provided consultations to the drafters of the new election legislation.

More than 5 million pieces of printed voter education materials were distributed to over 200 communities about the election process and public service announcements were broadcast on four TV channels and 100 radio stations about the elections.

There is a proposal in the 2006 budget to transfer about \$275 million in money between the Development Assistance account and the Transition Initiative account. To meet the challenges of the post 9/11 world, we are building on our experience of democracy and governance and we are also adapting its tools to create effective programs in countries that are in transitions.

Programs in countries facing fragile conditions, whether they are economic or political, differ from traditional aid programs. These programs will have high impact, visible results, and may have a shorter time horizon than traditional programs.

For example, a cash for work program, a rapid job creation program may be more appropriate in lieu of a long-term job creation program in a fragile state to get people, particularly young men, off the streets, working right away because they otherwise can be drawn into militias that destabilize a new democracy.

Another example may be using funds to restore electricity in a city to prevent chaos. These examples may require reprogramming of funds that require a 15-day notification process under usual authorities, but do not under the Transition Initiative account. By the time notification passes, the Agency risks missing its window of opportunity in some crises.

The TI account has also been traditionally free from earmarks. The Agency understands the political process in a city into which foreign aid assistance operates and has attempted to adjust its expectations over the years accordingly. Yet, we have learned that in the case of dealing with fragile states, the flexibility to move funds quickly is imperative to helping countries move along.

We put four countries as a pilot into the TI account not for the Office of Transition. It would be the USAID missions in the field that would spend the money, but they would have more flexibility in the spending of this money. These four countries are Haiti, Sudan, Ethiopia, and Afghanistan.

They are not the four fragile states in the world. There are several dozen fragile states. In fact, the British Government aid agency estimates that—we have a common definition that are used among donor governments—there are about 50 to 60 fragile states in the world.

We are doing this on a pilot basis to see how it would function in four countries that are critically important to the United States for a variety of different reasons.

Finally, I wanted to comment on our relationship with the Millennium Challenge Corporation. I sit on the board thanks to the Congress. I do appreciate the Congress putting me on the Board of Directors. And we are working with them on a daily basis on the compact countries.

But the board voted and the Congress, I believe, put in the legislation that USAID would have authority over threshold programs, which are countries that did not quite make the cut because they failed on a couple of indicators and we wanted to accelerate their movement into MCC status.

So there is, I think, a provision in the statute that allows up to 10 percent of the appropriation each year to be used for threshold countries.

We are working with the MCC very closely on these proposals. We have a special unit in the central office that coordinates this with MCC Corporation.

Our staff has visited in partnership with the MCC all of the threshold countries. We evaluated the concept papers and we have done an initial review.

The MCC Board of Directors will approve the final budgets and they have the authority to approve the plans for each country's threshold program. The MCC then funds them and we will manage the money through the USAID mission processes in the field missions.

Almost all of the threshold countries, I think with one exception, have USAID missions in them to begin with. We do not expect that the addition of MCC funding for threshold activities will result in a loss or reduction of standard USAID funding. In most cases, threshold funded activities will be complementary to existing USAID programs.

We believe that the complementarity between USAID and threshold programs will accelerate the impact of reform and investment which will help countries improve their prospects of eventually qualifying for MCC.

The 2006 budget request for USAID supports our foreign policy goals of the U.S. Government and our national security interests.

#### PREPARED STATEMENT

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

I welcome your questions.  
[The statement follows:]

#### PREPARED STATEMENT OF HON. ANDREW S. NATSIOS

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

#### A NEW ERA OF DEVELOPMENT ASSISTANCE

The President's National Security Strategy (2002) was written at a year's distance from 9/11 and is the first comprehensive response to the events of that day. Our challenges in the new era require new ways of thinking and operating, the document asserts. To meet them, the whole spectrum of our foreign policy establishment had to be engaged and many of its programs redesigned. This included "defense", "diplomacy," and "development," the success of whose mission is now viewed as a

matter of great urgency and importance. Indeed, “development” today has received a level of commitment not seen since the Kennedy or Truman Administration.

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

In that speech the President also stated, “All who live in tyranny and hopelessness can know, the United States will not ignore your oppression, or excuse your oppressors. When you stand for liberty, we will stand with you. Democratic reformers facing repression, prison, or exile can know, America sees you for who you are: the future leaders of your free country.” Supporting democratic transitions, and building democracy worldwide is one of the United States’ most important goals, and one which USAID has helped support.

USAID’s work in the democracy field has contributed substantively to the transitions to democratic governance throughout South and Central America in the 1980s and 1990s and in Eastern Europe and the Baltic states. As an agency, USAID has played central roles to the democratic transitions as well in countries as diverse as Mongolia, Indonesia, South Africa, Georgia, and Mozambique. Wherever they are USAID democracy programs are distinctive for their analytic grounding, their comprehensiveness, their multi-year planning cycle, and their impact. USAID programs not only promote democracy, but they build democracy for the long-term.

To help meet the challenges of the post-9/11 world, USAID is building on its experience in democracy and good governance. It is adapting its tools and knowledge to forge effective assistance programs in fragile states. It is looking carefully at the “hard nuts”—the authoritarian and semi-authoritarian states—while not forgetting that democratic governance is still at risk in many of our more stable new democracies. USAID’s democracy program will be implemented by a democracy corps of over 400 who manage hundreds of millions of dollars in democracy programs around the world.

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

Early on, I called for an Agency-wide assessment to sort out our core missions and to better align them with the foreign policy needs of the new era. This exercise was undertaken to refocus the Agency, in order to better define and prioritize its tasks. The result was the Foreign Aid in the National Interest (2002) Report and the Agency’s White Paper (2004), which identified five core missions of the Agency.

It has been one of my chief priorities as Administrator at USAID to strengthen the Agency’s response to the key objectives the White Paper identified. These tasks have been made more urgent by the events of that day and more central to this nation’s foreign policy. The fiscal year 2006 budget reflects this commitment.

In this budget we propose tying Development Assistance (DA) to countries’ own development efforts that demonstrate that they are striving for the conditions that the President set forth to become eligible for assistance through the Millennium Challenge Account. A performance-based approach will be adopted to allocate a share of the DA account. This will compare need and performance across regions, based on standard criteria.

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

To make progress on these goals, USAID is requesting \$4.1 billion for its fiscal year 2006 programs. Additionally, we anticipate working with the Departments of State and Agriculture on joint programs that total \$5 billion in ESF, FSA, SEED, ACI and Public Law 480 accounts. We will also manage a portion of the nearly \$2 billion requested for the Global HIV/AIDS Initiative by the Department of State’s Global AIDS Coordinator and a portion of the \$3 billion for the Millennium Challenge Corporation. USAID is requesting \$802.4 million in Operating Expenses (OE),

the Capital Investment Fund, the Development Credit administrative funds and the Office of the Inspector General to fund the administrative costs of managing the \$8.3 billion in program funds.

#### MAJOR INITIATIVES FOR FISCAL YEAR 2006

This year's request introduces two strategic reforms to increase the effectiveness of bilateral foreign aid and advance the security interests of the country. The first is a shift of \$300 million from the Public Law 480, Title II food account to the International Disaster and Famine Assistance (IFDA) account for purchase of food locally. The second is a shift of \$275 million from the Development Assistance account to the Transition Initiatives account. I would like to take this opportunity to explain why these reforms make better use of taxpayer dollars than our current approach.

#### FUNDS TRANSFER FOR LOCAL PURCHASE OF FOOD

As food emergencies have increased in complexity and magnitude, USAID needs to purchase some food locally in order to save lives. Given the widely differing conditions in the countries where we provide food aid, USAID needs more flexibility and access to cash in order to respond quickly and appropriately. When we need to save lives quickly, there is not always enough time to ship commodities from the United States. Therefore, purchasing food locally will enable us to make a significant impact when food is urgently needed. Under such conditions, food would be purchased in the country facing the emergency or in a nearby developing country. Funds for local purchases will not be used to procure commodities from developed nations.

For fiscal year 2006, \$300 million that was previously requested under Public Law 480 Title II is being requested under IDFA for emergency food aid needs. Title II funds may only be used to purchase U.S. commodities, whereas IDFA funds can purchase local commodities. Food is sometimes available close to the area of need and could fill a critical gap before commodities arrive from the United States up to several months later. With potentially lower purchase and transportation costs, the United States could afford to buy more food and reach more of the vulnerable population. In some cases, carefully targeted local purchases could also help stabilize local food prices, strengthen markets and local agrarian economies, providing a double benefit: improved humanitarian assistance and greater development impact.

There are approximately 800 million people in the developing world who go to bed hungry each night. Of these, 25,000 die from hunger-related causes each day. By using \$300 million in IDFA versus Title II, USAID estimates that approximately 50,000 lives could be saved in acute emergencies by supplying locally produced food more quickly and at lower delivery cost. This number is based on calculations of the potential number of beneficiaries that could be reached using \$300 million in cash for local purchase vs. U.S. commodity purchase, while keeping the bulk of the Title II program intact at \$885 million.

The benefits of the Administration's proposal for added flexibility in meeting emergency food needs far outweigh the potential costs, and we strongly urge congressional support. The injection of cash into a local economy can also help address malnutrition in a more sustainable way by stimulating local agricultural production and the rural economy. Local purchases could also help generate local trading and marketing links including financing triangular, regional transactions—buying in a surplus producing country to send to the food emergency in the near-by country. The ability to purchase food in local or regional markets would give us another important option for meeting critical needs.

#### FUNDS TRANSFER: DEVELOPMENT ASSISTANCE TO TRANSITION INITIATIVES

We have requested a shift from the Development Assistance (DA) account to the Transition Initiatives (TI) account for fiscal year 2006. The TI account differs from the DA account in the following ways, essential to providing a more rapid response to conditions on the ground: the option to use notwithstanding authority, funding that is no-year, and a shorter Congressional reporting requirement, i.e., a five day report rather than a 15 day notification. Countries that are confronting crisis or are in transition from crisis to transformational development require rapid response to their unique situation to avert further problems. We are requesting \$275 million for programs in these "fragile states."

Our programs on the ground in fragile states look different than traditional aid programs. The programs focus on activities that have high-impact, visible results and may have a shorter time horizon than traditional development assistance programs. For example, we might use a cash-for-work, rapid job creation program instead of a long-term job creation program in fragile states to get people off the streets and working right away. Or we may need to invest funds immediately into

restoring electricity in a city to prevent chaos. These examples may require a re-programming of funds that would require a 15-day notification process under DA account authorities. By the time the notification time passes, the Agency risks missing its window of opportunity to prevent the country from falling deeper into crisis.

The TI account has also been traditionally free from Congressional earmarks. I bring this up in the spirit of transparency. The Agency understands the political reality under which foreign assistance operates and has attempted to adjust its expectations over the years accordingly. In the case of dealing with fragile states, we feel that the flexibility to provide country programs as the situation on the ground requires is imperative to laying the foundation for long-term recovery and helping the country move from crisis towards economic and political stability. We have learned since 9/11 that weak states tend to be the vector for destabilizing forces that can have traumatic global ramifications. We hope that by freeing funding for fragile states from Congressional earmarks and allowing that funding to be adjusted more rapidly through changes in programs on the ground, USAID will be better able to do its part in applying its resources to the global war on terror.

Both the Public Law 480 to IDFA and DA to TI fund shifts represent a step toward the Agency's vision of more clearly aligning its operational goals, resources and results with the development context in which it operates. With the help of Congress, we aim to make better use of taxpayer dollars through innovative use of the authorities we have in our present account structures. We will evaluate the effectiveness of this approach in the coming year and look forward to sharing the results of these changes with you.

#### PROGRAM PRIORITIES: CORE MISSIONS OF USAID

The five core missions of the Agency as outlined in the White Paper and correlative priorities within these programming initiatives follow:

—Promote Transformational Development through far-reaching, fundamental changes conducive to democratic governance and economic growth. The Agency also seeks to build human capacity by supporting essential human services in the fields of health and education. Such endeavors are key to helping countries sustain economic and social progress without continued dependence on foreign aid.

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

The fiscal year 2006 request reflects a substantial increase of support for Africa when compared to a fiscal year 2001 baseline. Particular emphasis is placed on expanding access to quality basic education, growth in agricultural productivity, and increasing trade capacity. USAID will help the countries in the U.S.-Central American Free Trade Agreement (CAFTA) with the financial and economic reforms that will allow them to take full advantage of trade liberalization. Funding for South Asia reflects the end of the relief phase for tsunami victims and the move to the recovery and reconstruction of this region. Worldwide, we will continue to work closely with the Millennium Challenge Corporation on the MCA "Threshold Program"—an MCA program currently administered by USAID that supports countries the MCC has determined to be on the threshold of MCA eligibility.

—Strengthen fragile states to improve security, enhance stability, and advance reform and to build institutional capacity and modernize infrastructure.

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

#### TEN MAJOR ACHIEVEMENTS—USAID IN AFGHANISTAN

1. Coverage of health services exceeds some 4.8 million people. In USAID-sponsored provinces, 63 percent of the population has access to health services. Over 2,000 Community Health Workers have been trained and are active in health facili-

ties. 4.26 million children have been vaccinated against preventable childhood illnesses.

2. Civic education, political party training and observer support provided in run-up to recent elections. 1.3 million Afghans were reached through voter education activities; registered 41 percent of all women; monitored over 1,673 polling centers—a third of all centers—on Election Day; supported 10,000 observers.

3. \$101.7 million was collected through Customs Operations in 2004.

4. Over 320 kilometers of canals de-silted and 233 irrigation structures repaired, improving irrigation for 310,000 hectares of farmland.

5. Primary education provided to nearly 170,000 over-aged students, over half of them girls. Some 6,778 teachers have been trained to lead accelerated learning classes that allow students to complete two grades per year.

6. To date, 42 million textbooks have been provided. 27 million of the textbooks are in both Dari and Pashto. The textbooks are for Grades 1 through 12 in all secular subjects.

7. Radio-based teacher training (RTT) reaches 95 percent of the country in daily broadcasts in Dari and Pashto, reaching approximately 54,000 teachers. Of these, 9,582 teachers—35 percent women—have enrolled in the RTT course.

8. National Women's Dormitory in Kabul rehabilitated. Enables over 1,000 girls from rural areas to attend the medical school, the Afghan Education University, the Polytechnic Institute and Kabul University.

9. Thirty-two independent FM radio stations, including three Arman FM commercial stations, have been established.

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

—Support geo-political interests through development work in countries of high strategic importance.

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

#### TEN MAJOR ACHIEVEMENTS—USAID IN IRAQ

1. Prevented humanitarian emergency—delivered 575,000 metric tons of wheat, reforming public distribution system.

2. Created local and city governments in more than 600 communities.

3. Restarted schools—rehabilitated 2,500 schools; provided textbooks to 8.7 million students, supplies to 3.3 million; trained 33,000 teachers.

4. Vaccinated 3 million children under 5 and over 700,000 pregnant mothers. Rehabilitated more than 60 primary health care clinics.

5. Providing safe water—expanding Baghdad water purification plant and rehabilitating 27 water and sewage plants.

6. Re-opened deep water port—dredged Umm Qasr, repaired equipment. Today it handles 140,000 tons of cargo a month.

7. Restoring electric service—repaired eight major power plants with CPA, adding 2,100 megawatts by summer 2004.

8. Helped CPA launch new currency and re-establish Central Bank.

9. Reviving the Marshlands—reflooding revives ancient way of life. Established date palm nurseries and crop demonstrations, restocking native fishes (4–5 million fingerlings) and developed strategic plan of integrated marshland management.

10. Establishing Good Governance—budgeting, accounting systems add transparency, accountability to ministries.

—Provide humanitarian relief to meet immediate human needs in countries afflicted by natural disaster, violent conflict, political crisis, or persistent dire poverty.

As demonstrated by response to the recent tsunami disaster, Americans respond to humanitarian emergencies immediately, spontaneously, and generously. We do not calculate what are deeply felt moral imperatives. These commitments are longstanding. They have not changed in the course of American history nor will they be shortchanged today. What has changed is the historic context in which we act. The Administration's innovative proposal to use a portion of food aid funds to purchase food locally, outlined previously, provides the flexibility that will help our food programs save more lives.

—Address global issues and special concerns where progress depends on collective effort and cooperation among countries. These include combating HIV/AIDS and other infectious diseases, forging international trade agreements, and combating criminal activities such as money laundering and trafficking in persons and narcotics.

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

#### PRESIDENTIAL INITIATIVES

African Education Initiative  
 Anti-Trafficking in Persons  
 Centers for Excellence in Teacher Training  
 Digital Freedom Initiative  
 Emergency Plan for AIDS Relief  
 Global Climate Change Initiative  
 Initiative Against Illegal Logging  
 Volunteers for Prosperity

#### ADMINISTRATION INITIATIVES

Broader Middle East and North Africa Initiative  
 Initiative to End Hunger in Africa  
 Middle East Partnership Initiative  
 Trade Capacity Building  
 Trade for African Development and Enterprise  
 Water for the Poor Initiatives

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

#### MANAGEMENT REFORMS AND INITIATIVES

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

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

*Staffing.*—USAID’s capabilities have been weakened by a direct-hire workforce that was drastically downsized during the 1990s and a large workforce contingent reaching retirement age. The Agency needs to increase flexibility and develop a surge capacity to respond to critical new demands if existent programs elsewhere are not to be adversely affected. To address the critical human resources needs, USAID has made the Development Readiness Initiative (DRI), which builds on the State Department’s Diplomatic Readiness Initiative, a priority. This is the third year of DRI implementation, the goal of which is to strengthen the USAID workforce and rebuild the Agency’s diplomatic, managerial, and development efforts. The fiscal year 2006 funding request will help USAID meet OPM’s mandate to get the “right people in the right jobs with the right skills at the right time” by increasing its direct-hire workforce.

In addition to increasing overall numbers, DRI will strengthen the Agency’s capacity to respond to crises and emerging priorities, cover staffing gaps, fill critical

vacancies, and provide appropriate training. DRI will maintain the Agency's quality and flexibility of human resources and ensure that staff maximizes the professional skills needed to grow with job requirements. Our commitment to DRI will make the Agency more agile and better able to respond to changing foreign policy concerns.

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

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

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

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

The Global Development Alliance (GDA) is the centerpiece of our public-private alliances which brings significant new resources, ideas, technologies, and partners together to address development problems in the countries where we are represented. Through fiscal year 2004, USAID funded over 290 public-private alliances that used \$1 billion in USAID resources to leverage over \$3 billion in alliance partner contributions.

A new obligating instrument—the collaborative agreement—was created by USAID and became operational in fiscal year 2005. This provides an alternative to traditional grants and contracts for our non-traditional partners. In support of the U.S. global health and prosperity agenda, USAID has recruited highly skilled American professionals to international voluntary service from nearly 200 U.S. non-profit organizations and companies. Three-quarters of these entities are new to USAID. Of these, 30 are counted among the GDA figures noted above. About 20 of the entities are faith-based organizations.

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

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

#### TEN MAJOR ACHIEVEMENTS—BUSINESS TRANSFORMATION FISCAL YEAR 2001–2004

1. Received two consecutive annual clean audit opinions on Agency financial statements that demonstrate transparent and accountable financial practices.
2. Implemented an annual Agency-wide survey to assess quality of management services and identify opportunities for improvement, achieving over 25 percent increase in employee satisfaction over four years.
3. Launched comprehensive Human Capital Strategy and Development Readiness Initiative to identify and close critical skill gaps, revitalize the workforce and enhance Agency performance.

4. Deploying a new financial management system and new procurement software overseas to enhance decision-making and enable fast and accountable transactions.

5. Allocated additional funds to countries with the most need and the highest commitment through strategic budgeting. Re-allocated \$30 million to higher performing, higher need programs after an internal country and program performance assessment.

6. Enhancing knowledge management systems and methods to capture and share development expertise and new ideas. There are 130,000 documents in our institutional memory bank.

7. Expanded USAID employee training tools enabling Agency employees to complete nearly 2,000 Web-based courses to enhance job performance. Trained nearly 1,000 employees on Executive and Senior Leadership to enhance career development opportunities.

8. Better aligning staff with foreign policy priorities and program spending levels.

9. Reduced the average hiring cycle time from closure of job announcement to job offer below the OPM standard of 45 days. In addition, the process is more predictable and systematic.

10. Published a regulation to allow faith-based organizations to compete on an equal footing with other organizations for USAID funds.

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

#### CONCLUSION

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

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

Senator McCONNELL. Thank you, Mr. Natsios.

The way we will proceed is that I will ask questions first, followed by Senator Leahy and then in order of arrival: Senator DeWine, Senator Landrieu, Senator Harkin, and then Senator Brownback.

With Mahmoud Abbas in town—some of us met with him yesterday and I know he was with the President today—I thought we would start off with a few questions regarding West Bank and Gaza.

I notice that the administration has announced it would provide \$50 million directly to the Palestinian authority. I, by the way, support that decision.

How do you anticipate those funds will be used?

Mr. NATSIOS. Senator, I have not been briefed on the President's meeting yet. I understand the President has made a press statement and I understand there is talk of a \$50 million program for housing.

But we have not gotten formal communications because the meeting literally took place 1 hour or 2 ago and I am waiting for formal communications.

The President has the authority under statute, as you know, to waive the prohibition of money going through the Palestinian Authority. We follow his lead and the Secretary of State's lead. Whatever they tell us to do, we will do.

This is probably the most closely managed because it is one of the most sensitive programs in the world politically in the United States and in Israel and the PA, it is a very sensitive program. And we are very much aware of the concern of the Congress in terms of who our partner organizations are and how we manage that.

We have a review process where the entire country team of the U.S. Embassy reviews what our plans are, how we spend our money in a way that is not done in most embassies because of the sensitivity. We are aware of the statutes that have been passed and the laws as to who we can deal with, who we cannot deal with. We are complying with those laws.

We have one very important factor which I would like to assure you is very important to compliance and that is the Inspector General has an office in the mission. Usually they have regional offices. But they actually have an office in the mission and they do concurrent audits.

Concurrent audits means when you are spending the money, they get audited, not after it is all spent.

I have a meeting once a week privately with the IG, who is a separate line of information about what is happening. And if he knows something is going wrong, he tells me privately and I can fix it if the information system within the agency does not inform me. So we have an extra check on what is happening.

Senator MCCONNELL. Given travel restrictions to Gaza, how do your people operate in that area?

Mr. NATSIOS. We meet on a regular basis with our partner organizations in the embassy, but now it is much more restricted than we would find in other places. But that allows us to go through the vouchers of the organizations and meet with them regularly in Tel Aviv to see what they are doing. We do make trips to the field, but, again, not as many or not as much as many of us would like given the security conditions that we face.

We hope as the situation stabilizes, and things are calmer certainly than they were 2 years ago or 1 year ago, it will increase the chances that our staff can get out because we are under the direction of the diplomatic security, as you may know. We do not have our own security apparatus to tell us when to travel. We follow the State Department's instructions.

Senator MCCONNELL. Certainly given the outcome of the local elections, it is not in dispute that Hamas has a lot of influence in that area.

What safeguards do you have to ensure that the NGOs who are operating are not either directly or indirectly supporting Hamas activities?

Mr. NATSIOS. First, it is clear that we cannot give any money to Hamas or Hamas organizations and the statute is clear on that. We do comply with that.

What we do before we develop a partnership with an organization, whether it be a traditional AID partner or an international NGO, an international agency or a new partner, a local NGO, for

example, a women's group, something like that, we do a thorough vetting not just of the organization but also of the people who work for the organization. And that gives us some protection in terms of who we are dealing with. So there is a vetting process that we go through on an individual basis.

Senator MCCONNELL. I want to shift to Iraq for the balance of my round. How would you describe the pace of progress on reconstruction in Iraq?

I would like for you, in answering the question, to cover how much of an issue in getting the work done is the security problem in the Sunni triangle.

Mr. NATSIOS. Certainly the security situation, Mr. Chairman, is difficult in the central part of Iraq. But in the Shia south and in the Kurdish north, I have traveled myself. I think it was in December I was in Iraq. And I traveled without the kinds of protections I had to have when I was in Baghdad, in the greater Baghdad area.

So there are large parts of the country that are relatively free of violence where we are able to do our work without incident.

Senator MCCONNELL. Therefore, are you concentrating in those areas?

Mr. NATSIOS. No. We actually have very extensive programs in the Sunni areas, but there are security restrictions.

There are probably 90,000 Iraqis now working on USAID grants or contracts. And they do not wear uniforms saying "I work under an AID contract." No one knows in many cases that it is a contractor and an NGO working with us. It is done very low key.

In fact, many of the organizations, particularly the NGOs, have had no deaths at all and have had no disruption of their operations in Iraq because they work at the community level very quietly and they get the support of the community and the local sheikhs to get their work done without any interference in a nonpolitical fashion.

Have there been incidents? Yes, there have. Certainly. We have had the deaths of some local staff. We had a tragic incident a few weeks ago where a young woman who was an FSN—I think she is the only Foreign Service National who actually worked on the USAID staff in Baghdad—was killed. She was killed in her back yard by random fire and it was not direct fire. They tend to fire weapons in celebration sometimes in Baghdad and the bullet went up and it came down and it punctured her skull and she died from that. She was not being targeted. It was even random fire.

From what the doctors tell us, the bullet literally came directly from the sky down. And in an urban area, you do not fire weapons like that, but that unfortunately has been going on in Baghdad for a long time.

So we have had casualties, Senator, but we are getting our work done. I am very proud of the USAID work in agriculture, in education, in health, in micro finance, in the restoration of the marshes.

One of the programs that is closest to my heart is the restoration of the marshes because next to the Kurds, the strongest pro American group of all of the Iraqis are the Marsh Arabs because they were most destroyed by Saddam, by the atrocities committed. And

we have done enormous work on a small budget in the marshes to restore the people's livelihoods there.

Senator McCONNELL. I will turn to Senator Leahy.

STATEMENT OF SENATOR PATRICK J. LEAHY

Senator LEAHY. Thank you, Mr. Chairman. I will put my full statement in the record.

[The statement follows:]

PREPARED STATEMENT OF SENATOR PATRICK J. LEAHY

Mr. Natsios, thank you for being here. I think we all appreciate what USAID is doing to respond to critical needs around the world. On top of everything else, you are coping with AIDS, the tsunami, Darfur, Afghanistan and Iraq. Any one of these challenges is daunting by itself.

I also want to take a moment to respond to some of your remarks before the House Foreign Operations Subcommittee earlier this year.

One of the things you said was that legislative restrictions often prevent USAID from doing its job. I agree that Congress needs to amend or repeal confusing and unnecessary provisions in the Foreign Assistance Act.

But I disagree with the implication that if Congress would just get out of the way, USAID could do its job better.

Over the past four years while OMB has cut your budget, this Subcommittee has consistently come to the rescue and added hundreds of millions of dollars to core USAID programs.

There have also been many times when USAID has asked this Subcommittee to approve legislative authorities that were not cleared by OMB and in some cases actively opposed by the State Department. Had we not done so, authorities that USAID needed would have been bottled up by OMB and never seen the light of day.

Despite your comments about the legislative restrictions that hinder USAID's work, the Administration has not submitted a proposal to rewrite the Foreign Assistance Act. Each year, the Administration's budget proposes only to remove almost every legislative provision in the Foreign Operations Act, which is not a serious proposal.

Another issue is the red herring of "flexibility". The Administration's recent track record with increased flexibility has not been encouraging. Iraq is the obvious example where we are dealing with all sorts of waste, fraud and abuse.

Many restrictions are on the books because of lessons learned the hard way. One section of the Foreign Operations Act exists because Congress discovered that IMET funds were used to take foreign military officers to Disneyworld.

During my tenure as Chairman or Ranking Member of this Subcommittee, Congress has had to take the initiative when the Administration did not.

It was Chairman McConnell who had to earmark democracy money in the Iraq Supplemental, after the Administration failed to include any money to pay for elections or build democracy in Iraq.

Not very long ago, USAID's budget to combat tuberculosis worldwide was \$4 million, which USAID at the time insisted was a "serious strategy." We didn't see it that way, and we dramatically increased funding.

Earmarks are a sore subject. We know you don't like them. But the fact is we are judicious about which earmarks to include. They are there because they have strong Congressional support, and usually because the Administration has failed, for no convincing reason, to do what we asked.

Mr. Natsios, I hope you know that members of this Subcommittee believe in USAID's mission and its people, and we want to work with you. But the Congress has a strong interest in how taxpayer funds are spent, and that is going to continue.

Thank you.

Senator LEAHY. But, Mr. Natsios, I hope you take time to read it. I express some concern—and I share your admiration for so many of your people working in the field—but I express concern about some comments you made at the other body in testifying basically sort of the idea it gives the impression that Congress meddles, gets involved too much, earmarks, so on. I will let you read it and you can let me know what you think.

But to point out that over the past 4 years where your administration has cut your budget, this subcommittee, for example, has consistently come to the rescue and added hundreds of millions of dollars to it. Chairman McConnell had to earmark democracy money in Iraq supplemental after the administration failed to put any in.

I know sometimes you do not like some of these earmarks and oftentimes they are ignored anyway, but sometimes it is the only way to get to the money that has been cut out. In some ways, it would be an awfully lot easier for us simply to give you the budget that has been requested and ignore the back-door requests that we get from your Agency and others saying, please, please, please put this money back in that has been cut.

So if it is bothering you that we put it back in and add a few earmarks, instead it would be a heck of a lot easier to just simply say, okay, we will give you the money that has been requested and you are going to get a lot less money.

I do want to ask one question. I will submit the rest for the record, although in some ways, I hate to do that because they rarely get answered.

They direct us, but—last year in the statement of managers, they point out operation of the “Appropriations Act.” Congress cited the important work done by the Global Health Council.

We urge USAID to support the council’s work, but it appears you not only have not done that, but you abandoned 32 years of support for this organization. When an official of the U.N. population is going to speak at a panel at the Global Health Council’s annual conference, just being they are doing that, you withdrew support for the conference even though this official is not receiving any reimbursement for her participation.

Next week, the Global Health Council is hosting here in Washington its annual conference, 2,000 participants, the largest gathering of global health program implementers in the world, those who have to implement a lot of the programs that you and I both support. The topic of this year’s conference is Health Systems.

Obviously an important issue for a development Agency like USAID, which has a large portion of its budget committed to health. The head of the World Health Organization is chairing the conference. But I am told USAID does not even plan to participate.

Are things so busy down at the office that nobody can even bother to participate?

Mr. NATSIOS. Senator—

Senator LEAHY. Just curious.

Mr. NATSIOS [continuing]. There are many traditional partners, 1,600 of them, that USAID has done business with over the years. I come from the community, as you know.

Senator LEAHY. I know. I am also saying this is one where you totally ignored what was in the manager’s package written by both republicans and democrats, House and Senate, regarding the Global Health Council.

Mr. NATSIOS. Well, Senator, what we have tried to do is to move more toward nontraditional partners in a lot of work we do because there is a sense out there that USAID has a fixed number of part-

ners. And if you are a traditional partner, you get the money. And if you are not, you do not.

I have told the career staff repeatedly, and I think they are listening now, that we need to move beyond the notion that there are entitlements in the USAID budget for any NGO, any contractor, any agency first.

Second, that we need to look toward institutions, community-based institutions in the countries that we work in, more indigenous institutions.

Senator LEAHY. Mr. Natsios, I understand all that.

Mr. NATSIOS. And, third, that we do more competitive bidding.

Senator LEAHY. But you have ignored—I mean, you do not even have anybody show up. When they had their annual conference last year, you had one Congressman. It was critical that somebody from UNPA was going to be there and you guys ran like scared rabbits.

Now, I have put in time and time again. I have worked, cast chips in both sides of the aisle to get money for USAID, money that your own agency has told me you needed even though your administration said you did not. And, yet, when something like this comes in, it kind of makes one wonder.

Mr. NATSIOS. Senator, I think USAID funds too many conferences around the world. I have instructed our staff to spend less money on conferences, more delivery of services, more training of staff, more scholarships, and more community-based programming.

I think our staff spends too much time in every sector with partners that are friends of mine going to conferences. So I put a stop to it.

Our delegations have been too large. We put new regulations in place to slow that all down because I think we are spending too much money on that.

Senator LEAHY. Mr. Natsios, we are not asking you to fund any conference. The statement of managers does not do that. We just wondered if somebody could kind of walk across the street and even show up at the Global Health Council that has got 2,000 participants who are talking about global health programs or if they want to take a cab the two blocks, I will be glad to pay for it out of my own pocket.

You have money for other things. You are about to give a \$75 million contract in Indonesia for a contractor who apparently has no expertise in that kind of work in that part of the world. You have got \$75 million for that.

You have really limited amounts of money that you are requesting for infectious diseases and, yet, we have a conference where people might actually be talking about that.

I say this as somebody who has worked harder to support your budget than certainly anybody on my side of the aisle. I just wanted you to know I was disappointed.

Senator MCCONNELL. Thank you, Senator Leahy.

Senator DeWine.

#### STATEMENT OF SENATOR MIKE DE WINE

Senator DEWINE. Thank you, Mr. Chairman.

Mr. Natsios, thank you very much for being with us. Good to see you again.

Mr. NATSIOS. Nice to see you, Senator.

Senator DEWINE. I would like to talk about something you and I talked about quite a bit and I know that many of the members of the committee are interested in.

That is the whole issue of preventable childhood deaths in the world. We know there are millions of them, estimated 11 million preventable childhood deaths every year.

I want to talk a little bit about philosophy. If you could take a couple minutes to talk about that and tell me how you approach this. It seems to me that we kind of have two maybe conflicting philosophies. One is looking at this from a development point of view and the other is from a more triage point of view. Go in, save as many lives as you can, as quickly as you can, vaccinations, whatever it takes to get it done.

How do you balance those two and what is the proper philosophy?

Mr. NATSIOS. Well, there has been a focus for the last decade in USAID which we are now going to begin changing with your help and cooperation. We have been focusing on the delivery of service, which is appropriate. Vaccinating children is very important.

But the question is for me why is not the Ministry of Health capacitated to do this, because that is what ministries of health are supposed to do in the countries that we are working in.

Senator DEWINE. But you have to assume there is a Ministry of Health.

Mr. NATSIOS. Well, there is, but some of them are completely dysfunctional.

Senator DEWINE. Dysfunctional?

Mr. NATSIOS. Yes. They do not do any work or they do not have the capacity to manage these efforts. And the vaccination rates in Africa have actually been dropping even though we put a huge amount of money. We give \$125 million that the Congress appropriates to UNICEF every year for vaccination programs and, yet, the vaccination rates are declining.

So the problem is there are not enough trained health workers who are local nationals and when they are trained, they sometimes leave the country to go work in Europe or the United States or a wealthier country, in the Gulf states, for example.

So working with the ministries to capacitate the ministries to train people in those ministries is very important.

We used to provide 20,000 scholarships a year to students, many of whom came from the ministries, the Ministry of Agriculture, the Ministry of Health, the Ministry of Water. And they go to American universities, get their Master's Degrees or their undergrad, and then they go back to the ministries and work. We stopped doing that. We only do 900 now a year.

Our career staff tell me one of the most important things we did that we do not do now are the scholarship programs, because they do not just go back with a technical skill. They go back with an understanding of American culture, the American institutions, and why they work as well as they do.

You will find, for example, if you look at the current Indonesian cabinet, 30 to 40 percent of the cabinet ministers received their de-

grees with USAID scholarships 25 years ago. We are not doing that anymore. I think that is a big mistake.

So I told our staff I know there has been a bias against long-term training, but we need to go back to this and we need to look at making sure they have a job because the reason they stay here or they do not go back home is because there is no job for them once they get their degree.

We have done some studies in pilots that if they are ensured of a job back home, a good job, they will go home and work in their countries.

So building capacity is going to be a greater focus of what we have done in the past because we cannot keep doing this every year without having the countries take control of their own destiny.

So there is going to be more of a focus on local capacity building at the health clinic level, private hospitals, private clinics, not necessarily just through the Ministry of Health but indigenous, indigenously based.

Senator DEWINE. I want to continue to explore this with you sometime when we have more time. And I do not disagree with that. It makes a lot of sense. But it is like anything else. It is like when we tell the FBI to worry about terrorism, they are not worrying about something else.

We have to be honest with ourselves and say if you are doing that and you are building long-term capacity, what are you not doing? And, you know, I think you need to come forward to this committee and say we are building long-term capacity and this is what we are doing and it is great. And we think we should be doing that, but here is a hole. Seems to me there has to be a hole you are leaving. Do you agree with that?

Mr. NATSIOS. I do agree with that.

Senator DEWINE. You need to be telling this Congress there is a hole.

Mr. NATSIOS. Right.

Senator DEWINE. You are not doing this immunization or you are not doing vaccination, whatever is the hole that we are not doing because, you know, these are decisions that we have to be a part of too.

So let me ask you another question. Let me move to this hemisphere. About half the people in our hemisphere live on less than a dollar a day. We know all the problems of the movement in this hemisphere now, kind of retrenching back away from democracy at least as far as popular opinion.

When we look at our commitment to this hemisphere, my statistics, what I see shows 20 percent of our development assistance money, only 20 percent goes to this hemisphere, 12 percent of our child survival and 4 percent of our economic support fund spending goes to countries in this entire region.

Is that the appropriate macro picture? Is that really appropriate for the hemisphere that we live in?

Mr. NATSIOS. A large chunk of money, Senator is given to us to do alternate development programs in the Andean Initiative of the President to deal with the narcotics problem.

Now, these are developmentally sound programs. I am very proud of many of them, in Bolivia, in Peru, in Ecuador, and in Co-

lombia. However, they are tied to a larger national crisis that we face with the narcotics trade which is undermining democracy in Latin America and those countries too.

Senator DEWINE. Why should that drain from these percentages?

Mr. NATSIOS. Well, there is only a fixed amount of money and the administration and the Congress has determined that that is the first priority.

We have an active development program in Central America which we put a lot of money. We have a very successful rural agricultural program, for example, in Honduras. We have trade capacity building that has—

Senator DEWINE. Excuse me. What we are saying, though, is again trying to talk about the policy. What we are saying is because we are dealing with, what I think is very important, a problem in Colombia, a problem in the Andean countries having to do with drugs, that means that because we are doing that, we cannot deal with child survival problems in this hemisphere. I am not sure I follow the logic of the policy and I am not saying it is your policy.

Mr. NATSIOS. Sure.

Senator DEWINE. I am saying what is the logic behind that policy decision? We put all our eggs in one basket in this hemisphere and we do not put money into child survival. We do not put it into economic support funding. We do not put it into developmental systems spending.

It seems to me it is not really—if you really look at what we are doing in this hemisphere, it is not a balanced approach.

Mr. NATSIOS. In terms of the humanitarian for the child survival programs, the health programs, they are targeted based on the levels of child mortality, female mortality, mothers' mortality in having children.

The rates have come down actually in Latin America. They are significantly below what they are in Africa, for example. And so we focus our attention in terms of our health programming in the areas of greatest need.

There is one country in Latin America, as you may know, that is in the President's emergency HIV/AIDS program and that is Haiti. Haiti has child malnutrition rates and child death rates which are comparable to the poorest areas of the world.

But it is fair to say that in other countries in Latin America that is not the case. In fact, we have had a number of countries like Chile graduate from our programs.

Senator DEWINE. Well, my time is up, Mr. Chairman.

I would just say that if you look at some of the other accounts as far as developmental accounts, I do not think—I just think it is a fair statement that we as a country—and I am not blaming you for it—but as a country, when we look at Latin America, we look at this hemisphere, do not have a balanced approach to this hemisphere.

I support what we are doing in Colombia and I support what we are doing in the war on terrorism and the war on drugs. I just do not think we have a balanced approach to this hemisphere.

Thank you, Mr. Chairman.

Senator MCCONNELL. Thank you, Senator DeWine.

## STATEMENT OF SENATOR MARY L. LANDRIEU

Senator LANDRIEU. Thank you. I am going to submit my statement for the record and just address three questions to three different points.

[The statement follows:]

## PREPARED STATEMENT OF SENATOR MARY L. LANDRIEU

Mr. Chairman: Thank you for calling this hearing so that we may listen to the testimony of Administrator Andrew Natsios of the United States Agency for International Development (USAID).

Humanitarian assistance is a crucial part of the foreign affairs budget of the United States.

For more than 40 years, USAID has administered the bulk of U.S. bilateral economic aid to the developing nations of the world (USAID provided some form of assistance to about 150 countries in 2005). And while USAID's programs remain a crucial part of our foreign policy, its role has changed, understandably, fit the needs of the present.

Since being elected to the United States Senate I have had the privilege of visiting countries where USAID is responsible for many of the programs which assist those in great need.

I have seen first hand the impact these programs, if well done, can have on the lives of people.

I have visited Sri Lanka which was devastated beyond words by the Tsunami and where USAID was able to respond quickly and was able to provide life-saving relief to so many who would have otherwise perished. I visited Uganda where there are a staggering number of orphans due to the epidemic of HIV/AIDS and where USAID has had a significant presence since the revival of its relationship with Uganda in 1980. I have also spent significant time in Romania, El Salvador, Honduras, Russia, and China working to find homes for children who begged for the love of family.

While it is essential that we all forge ahead with efforts to strengthen the roots of democracy and foster the economic security for people around the globe where possible, we must remember the roots of democracy are best founded on strong families and vibrant communities.

I would suggest that this is one area in which USAID needs to do better. By your own account, there will be 40 million children without families by the year 2010, over 60 percent of those because of the AIDS epidemic in Africa. Despite this, I am concerned the Vulnerable Children program, which provides the necessary care, support, and protection for these precious children, has been slashed by 63 percent. You state that one of the agency's priorities is international crisis, but how high does this need to go?

Another area, the empowerment of women should also be a primary objective due to the dramatic effect that it has on a society. Assisting women by encouraging equal partnership through not only funds but in skills and talents will benefit the spectrum of society.

USAID has been entrusted with significant resources to assist in the rebuilding of Afghanistan and Iraq. While these are, and should be, very important in USAID's mission, it is also important that we not lose sight of other "fragile states" around the world that are desperate for our helping hand.

This week the European Union (EU) announced that it is doubling its aid to developing countries in the next five years. The United States still lags far behind other countries when calculated as a percent of Gross Domestic Income (GDI). Norway significantly outpaces the United States when using these calculations and ranks first while the United States shows up in 22nd place.

While our policies continue to evolve in response to crises, we should not ever waiver from our duty to not only our own citizens, but those citizens of the world. Indeed, the instability of the world requires that we protect others so that our own citizens maintain the freedoms and quality of life we cherish.

I appreciate you taking the time today to share your thoughts with the members of the Subcommittee on State, Foreign Operations, and related programs.

Senator LANDRIEU. But first of all, Mr. Director, let me associate myself with Senator Leahy's remarks and also Senator DeWine's remarks.

You have got some champions on this committee for USAID and we want to be supportive and want to help find additional funding, you know, where we can. This administration has continued to cut USAID funding by raising the Millennium Challenge account and some of us feel like there should be an increase in other categories as well.

I am pleased to see some of the progress we are making in the Millennium Challenge account and the way that it is established. I actually think it has a lot of merit. The concepts are very good. And as you said, there are two countries that have received full funding, some more on the list to receive it, and that process is ongoing.

But for USAID, we have seen a 59 percent decrease in global fund for AIDS, TB, and malaria, a 28 percent decrease for infectious diseases, a 62 percent decrease in the category for vulnerable children. And I could go on and on and on.

So we want to try to be supportive because I believe that this is part of our diplomacy and our strategy to have us be a reliable partner to help other countries stand up not only their democratic institutions but their education systems, their health care systems, et cetera.

My question and really more of a comment, I have spent not as much time as some of these other members in other countries, but over the last few years, I have been in and out of probably ten. I always visit with the USAID directors there.

What occurs to me is that we have in the past and continued to act as sort of a super contractor as opposed to a strategic leverager. I like to think about the parable of the loaves and the fishes when, you know, Jesus was challenged with having to feed a multitude and he only had just a little bit. I know it was a miracle and we cannot hope for those exact same miracles maybe today, but he kind of took just a little bit and make it really, really work.

I kind of see that as USAID's strategic key role. You do not have a lot of money. But it seems to me that if you used it as a leverager, getting everybody to work together, I mean, all the NGOs working together instead of competing for grants, working together, and then look up and see the private donors, churches, faith-based organizations, corporations that need leadership and guidance, they have money, but they do not have access and they do not have power. But they have money. You have the power and the access.

I just do not understand why we cannot put this together and have USAID's role change to be not a super contractor where you line everybody up and say, okay, compete. They will all put in proposals. We only have enough money to fund one, but you all spend 6 months coming up with a hundred proposals. It is a waste of everybody's time.

So I just throw that out. It is not a question. But to think about a new way of approaching this that takes into account money does not grow on trees and we cannot create miracles, but we can work harder to spread our money.

Number two, orphans in the world are growing exponentially. Your own documents say that 60 percent of an increase is going to be basically because the parents are dying of AIDS. And unlike

other diseases that might take the life of one parent, this disease expressly takes the life of both because of its nature.

So you are creating double orphans which is the way the international community, not single but double orphans. We have 40 million plus in the country.

I want to know on the record—and I was pleased to see from your web site this comment that you and USAID and this administration believe that children belong in families not orphanages.

So could you comment about what USAID is doing to recognize this extraordinary and historic—never before has the world seen so many orphans. Never. Not in World War II, not any time. Not in the Plague. Never have we seen this many orphans.

What are we doing as a Nation that values children and families to help stand this situation up?

Mr. NATSIOS. Thank you, Senator. I know you have been a long-time supporter of USAID and you always when you travel, you visit our projects which we really do appreciate.

You spent some time describing this leveraging function and what you basically described is the Global Development Alliance which we initiated four years ago. We had about 12 alliances when I arrived 4 years ago. I started May 1, 2001, so I have just passed my fourth birthday or anniversary with USAID.

They were all successful and they leveraged a lot of money privately. In 1970, 70 percent of the money that flowed to the developing world came from USAID and 30 percent was what we would call private foreign aid from NGOs, corporations, charities, foundations, that sort of thing.

Two years ago, the complete reverse had taken place. Eighty-five percent of the money that goes to the developing world from the United States is now private foreign aid and 15 percent is from our Government institutions, all Government institutions in the U.S. Government that goes into the developing world.

So we realize that there has been a profound shift in funding. This is not because our budget was cut over 35 years. In fact, when I arrived as an administrator in calendar 2000, the year before I arrived, ODA, Official Development Assistance, which is all our foreign aid, was \$10 billion. Last year, it was \$19 billion.

The President has increased foreign assistance from the U.S. Government, from all Federal agencies by 90 percent. We expect it to go up to as much as \$24 billion this year, although we will not know until spending is finished.

This is not appropriated money or proposed budgets. It is actual spending. So there is actually going to be a big increase because of the increases for the President's AIDS initiative and the Millennium Challenge account which will begin to show up later this year and next year.

So we will see larger increases in the next few years in foreign aid.

Senator LANDRIEU. But orphans real quick as well.

Mr. NATSIOS. Right. Let me just mention the GDA. We now have 286 alliances with corporations, nontraditional donors, people that we do not do business with normally, foundations, universities, church groups, religious institutions. And we put in \$1.1 billion

into these alliances and the private sectors put \$3.7 billion in, \$3.7 billion.

We are one of the 18 finalists out of 1,000 applicants to the Kennedy School of Government Innovations and Government Award, with this GDA process.

So we are leveraging money on a huge basis, a four to one basis, 286 of these—I can give you a list of these and you can see they are all over the world and they are quite innovative. There are new partners that we have not done business with before.

In terms of orphans, it is one of the most serious crises. We are not going to see the real crisis until they become teenagers or in their twenties because if you have a country that is unstable and you have a very large number of particularly young men but also young women who have no parents, who are on the streets, you will begin to see gangs form and that will cause instability and crime in the cities will be massive.

So we think there is a crisis facing us in another generation that we will see from this AIDS pandemic. There are millions of AIDS orphans in Africa now.

Under the President's AIDS Initiative, there is a portion of the account that is for the care of children, of people who have been affected by this, but particularly for orphans.

Our approach is the approach you have mentioned. The adoption of children into families is a much better approach than institutional care because you will get care for a lot more children if you do it that way. And there is a tribal custom, particularly in sub-Saharan Africa, that is stronger than anywhere else in the world. Children are regarded as valuable in Africa.

There is great desire in the tribes to go through a traditional process of adopting a child who has been orphaned. The problem is there is so many of them now that the system is getting overwhelmed and there are not simply enough families.

But this is a serious problem and we are doing a lot of pilots now with community-based programs to try to integrate these children into families on an organized basis and a large scale because the scale is massive.

Senator LANDRIEU. My time is up. But, Mr. Chairman, I plan to pursue this issue to as far as I can through this budget year.

Senator MCCONNELL. Thank you, Senator Landrieu.  
Senator Harkin.

#### STATEMENT OF SENATOR TOM HARKIN

Senator HARKIN. Thank you very much, Mr. Chairman.

Secretary Natsios, section 579 of our bill had five different requirements under the heading of disability requirements. I know you are committed to working to integrating disability access and inclusion into all of USAID's projects throughout the world.

Could you just kind of just briefly for the record tell us what progress USAID has made to date in accomplishing this?

Mr. NATSIOS. Well, the first thing is, Senator Harkin, that we are now obligating the money that is in the ESF account which is controlled by the State Department. It is \$2.5 million for people with disabilities. And we are working that in a partnership with the State Department for the careful use of these monies.

We hope that 75 percent of this money will be spent by the end of fiscal 2005, but it is a 2-year appropriation, so we will have a little bit of time at the end of this year and beginning of next year to spend it as well.

We are making as many grants and funding as possible from this fund to disabled people's organizations, not just groups that help disabled people but disabled people's organizations and through locally-based organizations that are indigenous to build capacity so that they become sustainable on their own. Because if you just help them once through an international NGO, you have no guarantee that the next year, if there is no funding, that will continue.

Indigenous organizations in my view are the way we should be putting more money.

We have a program to train the USAID staff in disability programming and that curriculum is being designed now. And there will be a large-scale program of instruction. It will be done directly by trainers and also over the Internet. We have large-scale IT programs where our staff learn on the internet because we are spread out all over the world. We are working on that now.

We have designed standardized plans, which I think I have shown you in your office, of new schools that we are building. In Iraq and Afghanistan, we are building a large number of schools and health clinics so that they are accessible to disabled people.

Senator HARKIN. You can assure me that that is in place and—

Mr. NATSIOS. It is in place, Senator.

Senator HARKIN. Okay. That is great.

Mr. NATSIOS. Yes.

Senator HARKIN. That is great.

Mr. NATSIOS. I will show you. In fact, we will bring you some pictures.

Senator HARKIN. That is great. Thank you.

Mr. NATSIOS. We are aware that this is a problem. I have to say I have been all over the developing world and probably to 50 countries in the last 4 years and some of the most difficult scenes I have seen are of disabled people, because countries that are very poor simply do not have the infrastructure to care for people. And so I am very sympathetic to your perspective on this, sir.

Senator HARKIN. Well, I think you are doing a great job. And I just want to applaud you for moving ahead on this. You know, a little bit here and there and we are doing a lot of reconstruction.

As we have learned in the past that if you start in the beginning in terms of construction or reconstruction, the costs of making it accessible are really zero. I mean, they are just not anymore. It is just a design concept and how you do it.

Because there are so many people who have suffered disabilities, especially in Iraq and Afghanistan, that as long as we are going to be doing these things, we ought to be at least doing them right from the beginning. So I applaud your effort in that regard.

Following up on that, I just might want to ask you about Iraq. And does USAID have an individual or someone who is responsible for advising and overseeing the projects in Iraq from a disability perspective, making sure that they comply, that they do have some accessibility guidelines that type of thing? Do you have someone like that?

Mr. NATSIOS. I have appointed in Washington Lloyd Feinberg to coordinate for the whole Agency and we have asked the mission director to focus attention on this not just in one sector but in all of the sectors, health, education, agriculture, water, sanitation.

I can give you some excellent examples of what Iraqis are doing on the ground. There is a community action program, CAP, which the Congress generously gave, I think in the last supplemental, an additional \$100 million.

We are constructing an educational outreach center in the Maysan Governorate through the Iraqi Red Crescent Society and they are rehabilitating the sidewalk around the building that will allow it to be accessible for disabled people. And there are about 16,000 men and 4,600 women who are disabled who will now be able to get access.

CAP is a program that uses, I think, five very well-known American NGOs to do small community access programs across the country. And I might add, it is astonishing in the middle of the insecurity that we face that many of these NGOs have had not one security incident at all because they are so imbedded in the community, the community protects them. And many of their projects are very sensitive.

We have told them we want a focus because there are a very large number of amputees from the Iraq-Iran War. More than 100,000 young men were killed in that war and there were many, many casualties. And they have not been cared for all these years. So there is a focus now on attempting to focus on that.

Senator HARKIN. Secretary, I heard your response earlier to a question. I forget even who asked it. But it sticks in my memory about not being a big fan of all these conferences that people run to all the time. And I might just say I tend to agree with you on that. Have these conferences and people go, and then you wonder what the conference is all about.

But I guess to every rule, there is an exception perhaps. Section 579 also referenced using funds for an international conference of needs of persons with disabilities. Poland, I understand, had planned to host such a conference, but it has fallen through.

The only thing I would have you think about in terms of this kind of a conference is because we have not really focused much on this with these other countries and because we, the United States, have come a long way in terms of universal design and what universal design means, I just think it might be good to have something like this so that these people who are running these programs in these other countries can come—I do not know if Poland wants to do it again or not, to host it—but to learn and to get the kind of information on universal design which they can take back.

I just ask you to think about that. Like I say, I tend to generally agree with you on sometimes conferences are just do-good affairs, the people go and nothing really happens. But in this case, the transmittal of information and ideas and concepts of which we really have come a long way in this country—we are the best in the world on universal design—might be something that you might take a look at. That is. I just ask you to think about that because it was in section 579.

Mr. NATSIOS. I met with a minister. I do not remember his title, a minister in the Polish Government. He came to visit me in Washington and we exchanged information as to what we were doing.

The Polish Government has now set up their own foreign assistance program and we are looking to partner with them in other countries. And they want to put a focus particularly on disabilities and we told them we would work with them on that.

So whether the conference comes off or not, we are still going to work together with the Polish Government.

Senator HARKIN. Even if it is not a conference, some way of getting the—

Mr. NATSIOS. Yes.

Senator HARKIN [continuing]. Foreign concepts and stuff out to these other countries. If not a conference, maybe some other way of doing it. Maybe just—I do not know. Maybe there is other ways of doing it.

Mr. Chairman, I know my time has run.

I really wanted to ask you just one question about the food aid to clear up some of the issues here. I had talked about this when Secretary Rice was here. There seems to be a little bit of confusion about the \$300 million. A lot of us who have been involved in Public Law 480 for now 30 years on my part, this is a great program. It has worked well. And we are concerned about the taking funds from Public Law 480 for these emergency situations.

Could you just kind of clear that up for me, please?

Mr. NATSIOS. Sure. Senator, I ran the food aid programs under the President's father in USAID at a lower level. Food for Peace reported to me. I am devoted to food assistance as a concept. I have written a book on famines and I wrote the introduction to Fred Cuny's book on how you combat famines.

Fred Cuny died in Chechnia. He is a celebrated figure in the famine relief work and he has written many books before his premature death.

Fred said that we always lose a lot of people at the beginning of famines, particularly ones that we did not anticipate, or emergencies like Darfur that did not start out as a famine. It was just atrocities taking place because the places are in such remote areas; it takes 3 to 4 months to ship the food and get it there.

It is in all the literature. All of the experts on famine would say we have a problem in the early stages. We need our agricultural system in the United States, not just our farmers but our shippers, our companies that process the food and bag the food and dock workers.

This is a very important system. I would not want to disassemble that. And some people think this is the beginning of a trend. It is not. I would strenuously oppose any effort to undo what has been a remarkably successful program that has saved tens of millions of lives.

I have watched children die in famines waiting for the food to arrive. We now have famine conditions in some areas of Ethiopia because there were very bad rains and it is much worse than what we had anticipated probably because there was an emergency 2 years ago and people are still recovering from the emergency 2 years ago.

You generously provided, and several of you helped put that through, the fact it went through this committee, \$240 million in additional Public Law 480, Title II which we are using. The day the President signed the bill, I ordered the food through USDA. USDA orders the food for us at our request. It is going to take 3 to 4 months to get there. What happens between now and then?

We propose taking in the President's budget \$300 million to put in the emergency account to allow us to do some local purchase. There is always food in a famine, always. I have never seen a famine where there is not. But it is just so expensive, people cannot afford it.

We are proposing to look for surpluses for that 3- to 4-month window at the beginning of an emergency and then huge amounts of food will come later from the United States to do the bulk of the work.

This is simply an effort to stop early deaths in these emergencies, whether it is Darfur or whether it is Ethiopia or whether it's northern Uganda. It is not an attempt to undo. I would never support that, sir.

Senator MCCONNELL. You need to wrap up your answer, Mr. Natsios.

Mr. NATSIOS. I'm sorry, sir?

Senator MCCONNELL. If you could wrap up your answer.

Mr. NATSIOS. Yes. And so we would be willing to negotiate a talk to change the amount or to even just give the authority to the administrator of USAID to use part of the existing appropriation in Public Law 480, a certain percentage, a small percentage for local purchase in emergency situations.

Senator MCCONNELL. Senator Brownback.

Senator HARKIN. Thank you very much, Mr. Natsios, for clearing that up.

#### STATEMENT OF SENATOR SAM BROWNBACK

Senator BROWNBACK. Thank you, Mr. Chairman.

Thank you, Director Natsios, for your life's work. You have worked in a lot of places and done a lot of good. You are head of an Agency now that helps a lot in very afflicted areas of the world. And I applaud your work and what you have done.

I am going to bring up a couple of the issues that I would like to address and put these out in front of you.

On malaria, I have had some discussions with you and your office. And I would hope as we mark this bill up that our malaria work will be more on delivering of actual product.

Some I have mentioned to you privately and I am going to be working on it in the appropriation bill, actual product, actual spraying, indoor spraying for malaria or for mosquitoes in malaria-infested area.

This one is one of those that I see as low-hanging fruit, that we really can save a lot of lives pretty rapidly if we can deliver product in some of these intense, tough areas.

I know you are very familiar with that. I just mention it to you that it is something I am going to be working with hopefully the chairman, that we can get more actual product delivered there.

There was water well drilling account that was put in last year on the House side of \$9 million for water well drilling that we had hoped a number of private groups would start drilling water wells, particularly in sub Sahara Africa. Water is again, you know, one of these you have got to have it. You have got to have good water. If you can have that, that is a basic that you can build some other things on.

There are a number of groups that are willing to drill water wells, I think pretty effectively, fairly, reasonably priced. And the more water wells we can drill in these places the better off they are.

I hope you can look at breaking those funds free so that they actually can go for these NGO groups and drilling water wells, particularly sub Sahara Africa. That money, it was report language, but to my knowledge to date, it has not been spent or used.

This is one of these areas Jeffrey Saks has had a series of articles out recently about ending poverty which is a dream that people have aspired to for a millennium. I do not know that it is possible, but, you know, there are basics to it. And one of them is water.

The majority of leaders got a water bill. And I would hope we would break those funds free to be able to use and to appropriate and to actually count these folks. And, okay, we are going to contract with you \$1 million and we want X number of wells drilled in these areas.

I hope they are all posted with drilled with American money, American taxpayer money, and people would know that this money came from the United States to give them clear, fresh water. They need that.

On Senator Landrieu's point on orphans—and I have been to some of these places. You have been to a number of them. The scale of orphans is just massive anymore.

One of the things that I thought that we ought to be able to tap into and we tried a few years back with the Clinton administration, did not get it going, but the private sector in the United States, if you, if the agency or somebody could do a due diligence and went into Uganda, Zambia, somewhere and said, okay, if you invested in this group in that place or helped this group, we have done a due diligence.

We believe this is an authentic local group. We believe that they are helping with a number of people. We cannot do this with 100 percent reliability, but we have people on the ground. We have checked it out and we will monitor this periodically.

I think you could tap millions of dollars in the United States of people that want to help orphans, but they do not know where to put the money. They do not know who is doing things. I mean, they have groups that they are supporting from here, but they have a limited capacity too.

That you could almost take your orphanage money if you did due diligence in a number of targeted countries and telling people, okay, this group in Uganda, northern Uganda is a reliable bunch and post it on your web site, do disclaimers about you cannot check this all the time, but we do monitor this group and work with them, that there would be a lot of funds you could tap into because people really do want to help.

We have got a bill. It is a bipartisan bill on a bioshield two. This is a totally separate topic, but I just want to make you aware of it.

About 90 percent of the people in the world die of diseases where we invest about 10 percent of the money for researching pharmaceutical products. Most of the research in pharmaceutical products goes for diseases in the western world because that is where the market is. So you do not get much investment in malaria, river blindness, sleeping sickness. You know the list of diseases that 90 percent of the people of the world actually die of but get a very small percentage of the research.

In the bioshield two bill is a provision that says that we will pick certain of these diseases that we want to find a cure for and if you, the pharmaceutical company cannot identify a cure, we will let you extend a patent on your current product in a limited range to be able to access some funds to be able to do this in the developing world.

I hope that we just target into lifestyle drugs in the United States and say we can give a year patent extension, 2-year patent extension, but you have got to find a vaccine that cures malaria. You get that, we will give you this to get some of that research funding into some of these diseases that impact millions of people that they die of.

That is not in your shop. I put it in front of you because I am seeing Gates Foundation, other people stepping up in this area of really a huge lack of funding in these disease categories where so many people die from. And what a beautiful contribution if we could hit on a couple of these, even one of them, we could save tens of millions of lives.

I was at a meeting yesterday with Warren Hatch, Joe Liebermann on this topic. I think we have got the makings of a good possibility here and to really save a lot of lives. I put those out in front of you.

Chairman, I have spoken most of my time.

You can respond to those if you would like. I just wanted to lay those in front of you.

Mr. NATSIOS. Senator, first, let me mention the malaria issue which is something that concerns me. Our staff has gotten malaria, I mean because three-quarters of our staff are in the field. We have actually had staff that has died from cerebral malaria in USAID over the years.

So we take it very seriously. And we know 1 to 2 million people die each year from malaria, and because people do not get it in the west and the north, people do not focus on it. We focus on it because we live there. Our staff is out there all the time and they see the consequences.

I have been to a village in Darfur about 10 years ago. I walked in. The birds were eating the entire crop. I said why do you not harvest the crop. The entire village had malaria. They could not get out of their sickbeds to harvest it and they were hungry the next year because the birds ate the entire crop literally in front of us.

So I know it has other consequences than just the disease itself. And if you are under 5 and you get malaria, there is a 50 percent chance you will die from it.

We have invested a lot of money, \$8 million in the field tests with other donor governments to test an Asian herb, artemisia. And there is a drug therapy called ACT with artemisia. We did the field tests, worked with other agencies to do the field tests to make sure that, in fact, this was the optimum way of approaching this. It is. And there is a WHO report now that many donors contributed to, including us, that proves that this is, in fact, a very viable strategy.

What we have done is we funded the planting of 2,200 acres in Africa of this herb and we are now working with companies to begin African companies, not western companies, to begin to process this in the appropriate amounts that will actually have the desired effect because it is very effective against malaria.

It is better that the Africans do it themselves and it become an industry in Africa and work itself into the marketplace because the best way to get anything distributed in Africa is through the private markets.

That is our plan. We are working on that now and we are beginning the process. We have now proven it works and we are trying to extend it. I can provide some written material to you, Senator, on these other issues because I know my time is up.

Senator BROWNBACK. Thank you.

Senator MCCONNELL. Thank you, Mr. Natsios.

I am going to turn to Senator Bennett. And I see that Senator DeWine is here.

Would you like another round?

Senator DEWINE. That is up to you, Mr. Chairman.

Senator MCCONNELL. Senator Bennett.

#### STATEMENT OF SENATOR ROBERT F. BENNETT

Senator BENNETT. Thank you very much, Mr. Chairman.

Mr. Natsios, like the other members of the committee, let me thank you for your service, your expertise in an area that some might consider fairly arcane, but we appreciate your passion and your dedication for this.

Listening to this, I have several items that just kind of jump out at me at random. First, your reference to the scholarship program.

I remember a dinner I had with a finance minister of a country that I shall not name publicly for reasons that may become obvious. And I said to him—this was in his own country. We were having dinner together. I said to him, what do you need the most. And he did not hesitate for a minute. He said I need 15 people I can trust.

I preside over a bureaucracy that is about 50,000 people. And this is a country where the government is the employer of last resort maybe. And he said I could fire every one of them if I had 15 people I could trust and I keep trying to get AID to pay for scholarships. This particular man has a Ph.D. in economics from one of America's most prestigious universities. And he said if I could get 15 young people to come back with Ph.D.s from legitimate Amer-

ican universities, I could run my whole bureaucracy and fire the other 50,000.

USAID says to me, no, we do not do scholarships. And the reason is you will just pick your nephew and your brother-in-law and whatever and send them to the United States to study at our expense. And he said my response to them was, okay, you pick. Do you think our government is sufficiently corrupt, we will not pick. He says I still cannot get them to do it.

So I simply tell you that story to underscore your dedication to the idea of scholarships. And it may not be as long term a payout as you have indicated in your testimony here. There may be a turn-around within 5 to 10 years if this particular fellow is indicative of the kind of help that they really need in the government. So I leave you with that.

Micro credit, micro credit is one of my passions. I raised it with Secretary Rice when she appeared before the subcommittee.

Could you comment briefly on what your plans are for micro credit, what percentages you plan to put out for micro credit? I understand you prefer private contractors.

My own experience is that the issue is to get the micro credit into the hands of the people rather than to have money that is dedicated to micro credit eaten up with administrative processes. So I would like your comment on that.

One final issue, we were in Palestine. I was enormously impressed with the new Palestinian leadership, specifically the finance minister, who is cleaning up the corruption.

I said to him the American press says that Arafat made off with as much as \$1 billion. That is a staggering sum. Could that be possibly true? And he said, yeah. He said we have recovered \$660 million so far and we are still digging and finding.

I think this may not be in your area of responsibility and if it is not, then correct me, but I know there are some in my party who say we cannot give aid directly to the Palestinian authority. I think that attitude was more than justified with Arafat skimming \$1 billion off the top. I do not think it is justified with the new anti-corruption attitude that we have in this new finance minister.

I think as a demonstration of America's confidence in the new government and an encouragement to them to continue at least the promises they have made with respect to terrorism, promises that Arafat never intended to keep, that we should make aid available directly to the Palestinian authority instead of insisting as some might think in the other body do that it goes through NGOs or some other places and has strings attached. I think it is very important for the legitimacy of the Palestinian authority to get money directly.

So those are my concerns and I would be happy to hear whatever responses you might have on any of them.

Senator MCCONNELL. Before you respond, Mr. Natsios, I must go. I have asked Senator Bennett to wrap up. If Senator DeWine would like another round and that works for you, too, that would be fine. Thank you for coming.

Senator Stevens had a statement he would like to put in the record as well.

[The statement follows:]

## PREPARED STATEMENT OF SENATOR TED STEVENS

In the fiscal year 2006 Foreign Operations budget, the President eliminated \$37 million in total aid to Russia from \$88 million in fiscal year 2005, to \$51 million in fiscal year 2006. I am concerned that such a drastic cut does not take into account the needs of the Russian Far East.

The Russian Far East faces numerous challenges not present in the more urban areas of Western Russia, including economic and social development and foreign direct investment. It is in these areas that I see the most drastic cuts, and it is in these areas that the Russian Far East depends the most on foreign aid.

In addition to completely zeroing out economic policy reform, the presidential request cuts in half the aid for small business development, improved local governance and economic development, and health and child welfare.

The situation in the Russian Far East is analogous in many ways to the situation faced by towns and villages in rural Alaska, including; limited access to these areas, a lack of infrastructure, and a lack of basic amenities like running water, waste disposal, and sewer systems. Additionally, the Russian Far East has a multitude of humanitarian issues such as high rates of fetal alcohol syndrome, alcoholism, and tuberculosis. These are factors unique to the Russian Far East, and require special attention. The cuts the President has requested do not reflect the great needs that have yet to be met in the Russian Far East.

Due to the similarities between the Russian Far East and rural Alaska, it is also important to continue working with the University of Alaska-America-Russia Center and Alaska Pacific University to aid efforts in business development and expanding health and public works efforts. I am pleased to see the administration support the important work these institutions do for the Russian Far East, and look forward to continued support for these programs in the future.

I am also concerned to see that the funding used to provide financial support and basic equipment to drill local water wells, addressing the need for clean drinking water in Third World countries as well as rural Alaska, has been zeroed out in fiscal year 2006. This not only affects persons living in rural Alaska and the Russian Far East, but people all across the Third World who lack sufficient drinking water. Lack of support for these efforts could lead to a serious humanitarian issue in the future.

I hope the State Department and administration will consider all of these issues in allocating resources to Russia and the Third World.

Mr. NATSIOS. Thank you, Senator. These are really good questions.

The first is there has been a policy against scholarships in USAID even though the career officers bitterly complain against it.

We had a meeting of our 80 mission directors last week. Secretary Rice spoke to us. And I announced that we were rescinding the policy and we are going to go back to a scholarship program. We have got to find the money to do it, however. I just want to say that.

Senator BENNETT [presiding]. If you have additional problems, let us know and we will help you with some language in the bill.

Mr. NATSIOS. We will. But I went to everyone and I said you are going to resist this. They said resist this? We have been waiting for this for years. We resent the policy that had been established earlier.

Senator BENNETT. Okay. Good.

Mr. NATSIOS. So they now have carte blanche to say yes depending on the country and the ministry. It does depend on the country.

Senator BENNETT. I understand.

Mr. NATSIOS. Okay. In terms of micro credit in fiscal year 2001, we spent \$156 million in micro credit. In 2004, we spent \$190 million. And we expect to reach \$200 million this year.

I am a strong supporter of micro finance because a lot of the jobs created are not just, I might add, in the developing world but in the United States are from smaller enterprises, right? A famous MIT study from some years ago noted that most new employment

in the United States is not created by very big companies but by small companies.

In some countries, the ministries will say we want to have our own micro finance program. We want a piece of legislation in. NGOs are very good, and I came from the NGO community. I started the micro finance programs in World Vision when I was there 10 years. I was vice president for 5 years. USAID supports NGOs. We are the principal funder in the world of NGOs to do micro finance. But they cannot be the only ones we work with.

When a government says help us write a statute that will get through the parliament to establish indigenous micro finance lending institutions, I send a technical expert to do that and that is usually from a university or a contracting agency that has expertise in this.

Sometimes the central banks want to help rewrite their regulations to facilitate smaller loans. Central banks are not something micro lending NGOs deal with. But can it affect the amount of money available? Oh, profoundly if you write the regulations the right way.

So technical assistance does count sometimes and we do not want a situation where we are having competition between the NGOs and these technical people because we need both of them. If we do not have both of them, we are not going to succeed in this in the longer term.

In terms of the Palestinian Authority, the President is going to tell me what to do and I am going to do it.

I happen to personally favor your position on this because the finance minister is very well regarded by the USAID mission. He is what he appears to be from what we can see and we work with him all the time and talk with him.

But there is a prohibition in law against us giving money to the PA unless there is a presidential waiver and restrictions. Actually, we did not have money stolen because we did not put much money through the PA. And when we did, we had it.

We made agreements that the money would be put in a bank account in the bank of our choice and there were concurrent audits being done to make sure that did not happen because we heard stories.

Senator BENNETT. He stole it from—he was an equal opportunity thief.

Mr. NATSIOS. Yes, he did.

Senator BENNETT. He stole it from everybody.

Mr. NATSIOS. Yes, he did. We think that the best hope for peace right now is to support the President who was elected democratically by his own people. He is a moderate. He wants to end the violence and the President met with him today.

I do not know what agreements were made. But whatever they are, we are going to do them. Secretary Rice is focusing on this. We are focusing on it. I deal with it every week. And, Senator, if I am told to do it, I am going to do exactly what they tell me to do.

Senator BENNETT. Well, simply carry the message back that there is at least one appropriator who would look very kindly on that particular focus.

Senator DeWine.

Senator DEWINE. I just have a couple more questions.

You talked very eloquently about the change that you would like to make in regard to food aid and the flexibility you would like.

I wonder if you could just talk a little bit about the overall issue of food aid. We were able to get a little money for you all in the supplemental. But as you look at the next budget that we are getting ready to prepare now or the appropriations we are working on now and the year ahead, where are we in the world?

Mr. NATSIOS. Well, Senator, the problem with food aid and our budgeting process is that our budgets are put together about a year to a year and a half before they are actually appropriated.

Senator DEWINE. Right.

Mr. NATSIOS. And so I cannot tell when there is going to be a drought or genocide or a civil war, an insurgency. And for a number of years now—it is not just the last 2 years—70 to 75 percent of our funding through Title II goes to emergencies. And I do not expect frankly that is going to change a lot.

We have a very serious crisis in Zimbabwe now, in northern Uganda, in eastern Congo, in Darfur. In southern Sudan, there is a drought and we do not want to disrupt the peace process that has taken us all these years to reach fruition. And there are food aid needs in the south, but particularly in Ethiopia where there has been a serious drought.

I cannot predict what conditions are going to be like once the budget passes because it will be affected by the crop that is harvested this fall in many of these countries. I watch this on a daily basis in terms of the food programs because I know it means the difference between life and death for many people.

When there is a need, USAID goes through the interagency process to try to access the Emerson trust. We accessed the Emerson trust in Darfur. And I have no hesitancy going to ask for assistance through that mechanism which, of course, will allow us the flexibility when we do not have the amount of appropriation we need.

So that is a very important tool that we have. But the other tool that I would like is at least some degree of the ability to do local purchase. It could be done through the means in the budget which is the mechanism that I support.

Of course, this is through different committees; it would be the Agriculture Committees and Appropriations Committees that would have to do this—is perhaps a change that allowed maybe 10 or 15 percent of Title II to be used for local purchase when there is an emergency situation that requires immediate attention.

The more tools we have that are more flexible, the more people's lives we can save and the more crises we can prevent from getting to the critical point. None of us want to see people die. And 60 percent of the food that goes to the World Food Program comes from the United States. We are the largest donor of humanitarian assistance.

According to the DAC, the Development Assistance Committee of the OECD that keeps records on all donors, on the emergency side, which is droughts and civil wars and natural disasters, the U.S. Government is 50 percent of the total for all donors in the world comes from U.S. Government, principally from the PRM account of the State Department and USAID's accounts.

I am very proud of that. I work on it very hard. And we appreciate the support of the Senate and the House on these appropriation bills because without the appropriations, we cannot do this work.

But I cannot predict what is going to happen in the future in terms of crops and droughts and civil wars unfortunately. I wish I could.

Senator DEWINE. Of course, we had to come up with a figure in regard to the money. So that is—

Mr. NATSIOS. I am told by OMB that I support the—

Senator DEWINE. Yes, I understand.

Mr. NATSIOS [continuing]. Budget as proposed. Of course, Senator.

Senator DEWINE. Of course you do. We understand that.

I wonder if you could talk a little bit about the situation in the Congo. The reports are that 1,000 people a day possibly die from preventable diseases and hunger because humanitarian groups simply cannot reach them.

What is USAID doing to develop new strategies for the Congo and other conflicts where there are large parts of the territory that are really just inaccessible to humanitarian aid groups?

Mr. NATSIOS. There is, of course, a horrendous civil war with unspeakable atrocities. I do not even want to discuss them in public. They are in some cases worse, worse than what has happened in Darfur. The problem is there are not people reporting it, so the media does not see what has happened there.

One of the first acts that I undertook when I became Administrator was to review our emergency budgets both, Title II and the OFDA budget, the Office of Foreign Disaster Assistance, a program I ran under the President's father, to see if we could come up with money for eastern Congo, which is where the focus of these atrocities are.

The level of mass rape has been unimaginable. In some cities, two-thirds of the women have been raped. The violence against women—I have never seen anything so horrific. It is horrible in Darfur, but it is just as horrible in eastern Congo.

We have begun a whole program to try to stop that and we worked with some members of the international community to see if we cannot get some rape convictions. And as of now, based on some funding we provided to institutions, international institutions, 70 people have now been convicted of rapes and put in jail in very highly visible cases.

You do not have to put everybody in jail who commits the rapes. All you have to do is do it and do it visibly because it sends a message that you cannot have impunity in this kind of violence.

The second problem that we are facing right now is one of the major crops that people survive on are bananas. You know, that is the principal crop in Burundi, Rwanda, and part of eastern Congo. There is a banana virus now that is spreading very rapidly and killing much of the banana crop.

There is an improved variety of banana that was developed by some of the international research that USAID funds with other donors through the World Bank. And we are trying now to use funds appropriated in the 2005 budget to begin to spread this ba-

nana-resistant crop that will supplant the virus-prone plant that is now dying.

We have tested this. It does work. It does not get the virus if it is planted. And it is just as good and just as productive. So we are trying to do that as a developmental intervention.

The third thing we are facing now is the spread of disease. The number of people according to reporting that the International Rescue Committee has done on child deaths in some of the cities are simply astronomical.

I am at a loss to figure out how the death rates could have been this high. It cannot be just disease. I think part of it must have been disruption of the markets and a disruption of people's family income so they cannot access the markets.

But we are looking at this now and we have put a number of grants through OFDA in place to do immunizations working with UNICEF and the NGO Committee which we will continue.

Senator BENNETT. Well, I thank you very much. Your testimony has been very, very helpful.

Mr. NATSIOS. Thank you.

#### ADDITIONAL COMMITTEE QUESTIONS

Senator BENNETT. There will be some additional questions which will be submitted for your response in the record.

[The following questions were not asked at the hearing, but were submitted to the Agency for response subsequent to the hearing:]

#### QUESTIONS SUBMITTED BY SENATOR MITCH MCCONNELL

##### ARMENIA

*Question.* Congress recommended up to \$3 million in fiscal year 2005 funds for ongoing humanitarian needs in Nagorno-Karabakh—does USAID anticipate providing this funding?

Does USAID have the capacity to increase activities in Nagorno-Karabakh, and if so, what additional programmatic opportunities exist?

*Answer.* Between fiscal year 1998 and fiscal year 2005, USAID obligated \$25.2 million for Nagorno-Karabakh (including \$2 million in fiscal year 2005).

USAID continues to carry out humanitarian work at levels that USAID believes to be effective and appropriate in meeting the basic needs of those in Nagorno-Karabakh. USAID's humanitarian assistance to Nagorno-Karabakh supports basic shelter, primary and maternal health, income generation, potable and irrigation water supply and sanitation, subsistence agriculture, schools, and mine clearance.

##### EGYPT

*Question.* What is the fiscal year 2006 budget request for democracy programs for Egypt, and does USAID intend to support indigenous groups—such as the Ibn Khaldoun Center—with these funds?

Does USAID support continuation of language in current law that denies the Egyptian Government's veto over democracy and governance activities?

What is USAID's view on the \$200 million Commodity Import Program for Egypt—has it outlived its usefulness?

*Answer.* The USAID fiscal year 2006 budget request for democracy programs is \$25.4 million. Part of these monies will be used to support indigenous groups. We will fund ideas to promote political reform from Egyptian civil society actors, such as the Ibn Khaldoun Center.

USAID supports continuation of language in current law that denies the Egyptian Government's veto over democracy and governance activities.

Given the GOE's shift to a market determined exchange rate and the increased availability of foreign exchange, USAID is looking at options for reprogramming the Commodity Import Program's funding.

## TSUNAMI ASSISTANCE

*Question.* Congress recently approved \$656 million for the Tsunami Recovery and Reconstruction Fund. The world was generous in pledging assistance to impacted areas following the tsunami—are pledges being fulfilled, and if not, which countries are delinquent?

*Answer.* Figures compiled by the U.N. Office for the Coordination of Humanitarian Affairs (OCHA) indicate that humanitarian assistance commitments/contributions are about two thirds of the amount initially pledged by donors. In a June 6 report, the United States is listed among donors that have yet to fulfill their pledges, although total U.S. commitments to date, including DOD expenses, exceed the \$350 million U.S. pledge. OCHA reports other donors that have yet to fully meet their pledges include Canada, the European Commission, the United Kingdom, Germany, Italy, China, France, United Arab Emirates, Sweden, Australia, Finland, and New Zealand.

## TSUNAMI ASSISTANCE: RESPONSE OF INDONESIAN GOVERNMENT

*Question.* How would you characterize the response of the Indonesian government, including the military, in providing relief in Aceh?

*Answer.* Operating under extremely difficult circumstances, the Government of Indonesia (GOI) performed remarkably well during the initial emergency relief phase following the earthquake and tsunami on December 26. It acknowledged the enormity of the disaster and the fact that the scope of the disaster far outweighed the GOI's own capacity to provide emergency relief and supplies. The decision on December 28 by the GOI to open up Aceh to foreign donors, NGOs, militaries and media was heartening, as this conflict zone was a "no go" area for foreigners up until this date. This allowed a rapid ramp-up of international assistance efforts that was made possible, largely, by the close cooperation with the Indonesian military (TNI). Belying widespread concerns that the TNI might restrict the flow of aid or limit access to victims, the TNI, by and large, pitched in with critical logistical and manpower support. With the arrival of U.S. military assets on January 1, this was all the more important. The TNI assisted in coordinating the landing of relief planes, U.S. helicopter sorties and relief supply convoys. In the ensuing weeks, the U.S. military and TNI worked closely in providing emergency relief and supplies that saved thousands of lives.

Beyond the role played by the TNI, the GOI played an important regional leadership role in successfully organizing an international donors' conference in Jakarta in mid-January, in cooperation with ASEAN and the United Nations. This helped bring global attention to the enormity of the disaster in not only Indonesia but throughout the region, and resulted in major pledges of assistance to all affected countries. As the relief phase ended, the GOI developed an overall blueprint for the rehabilitation and reconstruction of Aceh. The GOI also built temporary living quarters, which have provided shelter to some of the nearly 500,000 homeless survivors. With the recent establishment of the Aceh and Nias Rehabilitation and Reconstruction Agency, there is a new sense of urgency on the part of the GOI to provide better coordination of the recovery effort and to move more quickly in providing shelter, restoring livelihoods and re-establishing basic community services.

## IRAQ: CONTRACTS

*Question.* What percentage of contracts are security costs, and what is the average overhead cost per contract?

How many contracts has USAID awarded to Iraqi entities, and will increasing these contracts have any impact on reducing security costs for activities in Iraq? Might it increase the pace of reconstruction?

*Answer.* The total estimated security cost for USAID/Iraq contracts averages around 10 percent of the total contract value with an average overhead cost, including security, of roughly 37.4 percent. For example, Bechtel, USAID's largest contractor in infrastructure, with a negotiated overhead cost of approximately 30 percent, estimates 7.1 percent for costs of security and insurance.

USAID has not made any direct contracts with Iraqi entities. Through sub-contracts, USAID has approximately 3,000 Iraqi partners, including Civil Society Organizations, Non-Governmental Organizations, grantees and subcontractors. For example, Bechtel, USAID's largest contractor has made over 160 subcontract awards, valued at approximately \$200 million, to Iraqi entities.

Security costs are notably reduced when Iraqis are involved in implementing contracts. For example, CAP and DAI, which use many Iraqi firms, have average security costs of 6 percent versus the overall average of 10 percent in security costs for

USAID/Iraq contracts. Although involving Iraqi firms reduces security costs, it is not likely to increase the pace of reconstruction. USAID is presently disbursing \$40 million weekly, sufficient to complete the reconstruction work assigned to us by mid-2006.

#### IRAQ: VOCATIONAL TRAINING

*Question.* USAID is considering a change to the Iraq Vocational training and employment services contract. The committee has expressed support for using some of the aspects of the U.S. job corps program in the delivery of vocational training to Iraqis.

As I am concerned that USAID will abandon the use of the U.S. Job Corps model in this contract, can you assure me that the agency will continue to utilize effective U.S. Job Corps approaches in the vocational training we are providing in Iraq?

*Answer.* The U.S. Job Corps remains one of the world's most successful programs with regard to vocational training. USAID fully expects that any proposal being submitted to implement a vocational training program in Iraq, particularly from an American firm, would include the U.S. Job Corps as a basis for the implementation structure. However, wholesale importation of the model as a panacea for Iraq's vocational training needs would be insufficient as the post-conflict and socialist nature of Iraq's economy requires a tailored, Iraq-specific solution. At this time, USAID is revising the statement of work to reflect the immediate needs for a trained workforce to allow Iraqis to successfully operate and maintain the public utility projects that will be turned over to them in late summer 2005.

#### IRAQ: DEMOCRACY PROGRAMS

*Question.* What contracts and grants exist for democracy promotion in Iraq and how successful have these efforts been?

How does USAID coordinate its democracy-building efforts in Iraq with the State Department and Iraqi Government, and does the Administration intend to continue to support the work of the International Republican Institute and the National Democratic Institute in Iraq?

*Answer.* Grants and contracts grants exist for democracy promotion in Iraq with the following organizations: America's Development Foundation (Contract), Consortium for Elections and Political Process Strengthening (Grants for NDI, IRI, and IFES), Research Triangle Institute (Contract), ACDI/VOCA (Grant), CHF (Grant), Mercy Corps (Grant), Save the Children (Grant), IRD (Grant), and Voice for Humanity (Grant).

Collectively, these programs have contributed significantly to the elections, building democratic institutions, raising public awareness and understanding of democratic principles and processes, encouraging civic participation across all ethnic, tribal, religious, gender, and regional lines, and assisting civilian victims of war. As a significant by-product of the project goals, they have directly and significantly increased employment opportunities and improved infrastructure.

USAID/Iraq works hand-in-hand with Embassy Baghdad while USAID/Washington is actively engaged in the formal interagency process as well as regular communication with Department of State counterparts. USAID's programs in the field are coordinated with the Embassy and the appropriate Iraqi government officials. The Administration highly values the work of IRI and NDI and expects to continue supporting their work in Iraq in fiscal year 2006, subject to the availability of funding. Our grantees under the Community Action Programs work almost exclusively with and through Iraqis, building their skills in citizen advocacy, collective decision-making, and other democratic processes while rebuilding their lives and neighborhoods. The local governance program implemented through Research Triangle Institute also works predominantly with and through Iraqis improving the capacity of government officials to deliver basic services and respond to the needs of their constituents. America's Development Foundation works with Iraqi civil society organizations, journalists, and media outlets to enable them to effectively represent issue-based points of view.

#### DEMOCRACY PROMOTION

*Question.* What specific plans does USAID have to ensure it keeps pace with the President's agenda to promote freedom abroad, and why isn't democracy its own "pillar" within USAID?

*Answer.* USAID has identified "building sustainable democracies" as one of the Agency's four overarching goals. Currently, USAID manages democracy programs in over 80 countries. For over two decades USAID programs have contributed to the

rule of law, legitimate political processes, a robust civil society, and good governance.

Our work includes democracy promotion to democracy building. For example, USAID is working with the Government of Iraq and Iraqi officials to build capacity in key government ministries that will undertake the task of governance in the new regime. A key element of U.S. assistance is to help Iraqis learn to make decisions at the grassroots level. Through its Community Action Program, the agency works with residents of neighborhoods to identify, prioritize, and meet critical community needs while utilizing democratic processes. USAID has committed over \$129 million to date to fund 2,844 community projects.

To keep pace with the President's agenda, USAID is drafting a "democracy building" strategy which will be completed soon. It addresses the challenges of fragile and failing states, as well as recalcitrant states, and the linkages between governance and other development sectors and activities. The strategy will position USAID to ramp up its democracy programs.

In addition to building a more robust Office of Democracy and Governance, USAID is training many new officers through the New Entry Professional, the International Development Intern, and the Presidential Management Fellow programs. The Agency currently has approximately 400 trained democracy and governance professionals, and continues to staff up.

During the Agency's 2002 reorganization, the Center was moved to the new Bureau for Democracy, Conflict, and Humanitarian Assistance (DCHA) and renamed the Office of Democracy and Governance. The location of the Office of Democracy and Governance in the DCHA Bureau assures that democracy and governance activities will not be stove-piped, but rather mainstreamed within the Agency's critical programs. Over the course of fiscal year 2005, USAID will continue to strengthen our democracy programs and looks forward to working with the Committee to this end.

#### DEMOCRACY DEFINITION

*Question.* What is USAID's definition of a democracy program, and what is the rationale for the Agency's preference to use large contractors instead of smaller, more specialized grantees in conducting these programs?

*Answer.* The following definition of democracy and governance programs was agreed by USAID and the State Department:

Democracy and governance programs are technical assistance and other supports to strengthen the capacity of reform-minded governments, non-governmental actors, and/or citizens, in order to develop and support democratic states and institutions that are responsive and accountable to citizens. They also include efforts in countries that are not reform-minded, to promote democratic transitions. Programs are organized around core concepts considered the key building blocks of democracy. Democracy programs promote the rule of law and human rights, transparent and fair elections coupled with a competitive political process, a free and independent media, stronger civil society and greater citizen participation in government, and governance structures that are efficient, responsive and accountable.

USAID does not prefer to use large contractors instead of smaller, more specialized grantees in implementing democracy and governance programs. The Agency encourages all possible providers of goods and services to compete in the various acquisition and assistance processes which the pertinent federal laws and regulations require. Contracts are utilized when a very substantial degree of control and ongoing oversight of the activity is appropriate. This level of involvement is often required in sensitive efforts to reform governments or build democracy, but is inappropriate in working with grantees. However, USAID supports more specialized grantees extensively in its democracy programs.

#### COORDINATION OF DEMOCRACY PROGRAMS

*Question.* How does USAID coordinate its democracy programs with the State Department and the National Endowment for Democracy?

*Answer.* We coordinate at every level possible with the State Department. In the field, USAID works under the authority of the Ambassador, and the Mission Director reports to the Ambassador. In some areas, such as democracy and governance, there are often standing committees, led by the State Department, in which all relevant U.S. Government agencies in the country coordinate their activities (this may include the State Department, USAID, Department of Justice (FBI), Drug Enforcement Administration, and others). Indeed USAID feeds directly into the Mission Program and Planning process to ensure consistency and coordination at the country level.

In Washington, the relationship is extremely rich and complex, with networks in both regional and functional areas, as well as a variety of management channels. USAID's Bureau for Policy and Program Coordination has the primary responsibility for linkages and coordination. The DCHA/DG office has additional separate, lower level linkages, particularly with the regional bureaus and the State Department's Bureau of Democracy, Human Rights and Labor (DRL) Office. One example of coordination with DRL is represented by the Agency's regular service on technical review panels to evaluate proposals submitted in response to democracy-related RFAs issued by the State Department. In coordination with DRL, we are also beginning to work out a common budget format and improve common indicators of DG success. With the State Department's Policy Planning Staff, we have been involved in developing and coordinating strategic planning operations. With the Bureau for International Narcotics and Law Enforcement Affairs (INL), USAID often works on security issues, local governance and other areas of DG activity, often implementing INL funding into DG programs.

USAID and the National Endowment for Democracy (NED) implement complementary programs. The two agencies share information on a routine basis, both in Washington and in the field, concerning their respective activities. USAID receives and disseminates quarterly a list of all NED grants, so as to not duplicate work already being done by NED. Moreover, USAID is the primary support agency for the National Democratic Institute, International Republican Institute, and the American Center for International Labor Solidarity, which represent three of NED's constituent institutes.

#### SPENDING ON DEMOCRACY FUNDS

*Question.* How much did USAID spend on democracy programs in fiscal year 2004, and what percentage of these funds went to contractors and to grantees?

*Answer.* USAID allocated \$1,380,655,000 for democracy programs and activities in fiscal year 2004, inclusive of all appropriations and transfers channeled through USAID. Specifically within the Development Assistance account, USAID used approximately \$148,103,000 for democracy and governance programs.

During fiscal year 2004, approximately \$1.04 billion were put into new or existing grants and contracts related to democracy and governance. Of this, \$650.16 million or 62 percent went into grants. The remaining \$393.21 million or 38 percent went into contracts. The proportion going into grants increases to 67 percent when Iraq and Afghanistan are removed from the calculation. In Iraq and Afghanistan, democracy grants accounted for 45 percent and 84 percent respectively.

#### DEMOCRACY CONTRACTS

*Question.* Please provide a detailed listing of all democracy contracts awarded in fiscal year 2004 and 2005 on a country-by-country basis, including the name of contractor, the amount awarded, and a brief summary of contract objectives.

*Answer.* USAID is currently disaggregating its fiscal year 2004 democracy and governance programs to provide this information. This work will be completed shortly.

#### AVIAN FLU/HIV/AIDS

*Question.* Should the Avian influenza prove pandemic, what is the anticipated health impact on the HIV/AIDS population in Asia?

*Answer.* The virus that causes Avian influenza, called H5N1, has newly emerged and even the healthiest humans have little or no immunity to it. Current mortality rates from H5N1 infection exceed 60 percent. Nearly all of those who have died from Avian influenza to-date have been young and in general good health. Should this influenza prove pandemic, all people would be at risk. The Central Intelligence Agency estimates the death toll to be as great as 180 million people during the first nine months of the outbreak. While there have been no specific studies evaluating the impact of H5N1 infection on HIV/AIDS populations, it is assumed that diminished immuno-competency will contribute to even greater vulnerability to infection and death.

#### PROGRAMS IN THAILAND REGIONAL OFFICE

*Question.* Please provide a summary of all programs (including a brief description of activities and funding amounts) that USAID's regional office in Thailand manages.

*Answer.* Activities managed by RDM/A fall under four strategic objectives—all funding is fiscal year 2005 appropriations unless otherwise stated:

*Strategic Objective—Vulnerable Populations in the Region Assisted and Other Special Foreign Policy Interests*

- Reduce Trafficking in Persons (\$400,000 DA)*.—Emphasizes stronger ties among countries in the region on trafficking issues and cross border initiatives including prosecution, protection and prevention as well as improved data collection, capacity building and standardization of research and monitoring and evaluation tools.
- Protect Human Rights and Equal Access to Justice (\$700,000 CSH; \$1,070,000 CSH Prior Year; \$300,000 DA)*.—Strengthening the legal framework to protect the rights of people with disabilities (PWD), including enforcement of Barrier-free Access Codes and Standards in construction, implementation of national action plans on accessibility to public transportation and reviewing and enforcing of governmental standards on employment of PWDs, along with helping PWDs to acquire the knowledge and skills needed to find employment.
- Build Health System Capacity (\$500,000 CSH; \$500,000 CSH Prior Year; \$450,000 DA)*.—Strengthen institutional structures; shape direction of prosthetic and orthotic rehabilitation; support development of NGO laws to raise awareness of the role of civil society in Vietnam; and, support inclusive education for the disabled.
- Establish and Ensure Media Freedom and Freedom of Information (Burma) (\$4,500,000 ESF; \$2,366,000 ESF Prior Year)*.—USAID will fund targeted programs at the U.S. Embassy's American Center; support training and advocacy for a transition to a democratic government by preparing the Burmese population (inside and on the Thai border) to participate in a free and democratic society. The State Department-managed portion of this program supports information and media activities and institution building programs.
- Health and Education along the Thai-Burma Border (Burma) (\$3,000,000 ESF; \$6,057,000 ESF Prior Year)*.—Humanitarian assistance to refugees along the Thai/Burma border will continue to improve access to primary health care, maintain nutrition and food security for refugees and provide access to health care for Burmese in Thailand residing outside of refugee camps. A recently competed request for proposal (RFA) will further define focus areas. Also included is the development of a viable and sustainable education system recognized in and transferable to Burma when refugees return to their homeland. Activities include training and capacity building for teachers, principals and administrators; curriculum development; and special education.
- Prevent and Control Infectious Diseases of Major Importance (Burma) (\$436,000 ESF; \$1,000,000 ESF Prior Year)*.—Continuance of the regional HIV/AIDS activities described below to include Burma. The malaria and infectious diseases program launched in fiscal year 2003 along the Thai-Burma border will continue. The RFA mentioned above will determine focus areas.
- Protect and Increase the Assets and Livelihoods of the Poor during Periods of Stress (\$4,216,000 ESF; \$110,000 ESF Prior Year)*.—In fiscal year 2004, USAID supported ethnic Tibetan communities in China. Fiscal year 2005 funds will be used to continue these programs as well as an existing agreement with The Bridge Fund (TBF). The Sustainable Tibetan Communities project is implemented in the Tibet Autonomous Region (TAR) and in other Tibetan areas outside the TAR.

*Strategic Objective—Improved Regional Governance and Economic Reform*

- Improve Economic Policy and Governance (\$6,000,000 DA)*.—A grant or cooperative agreement will be competed to implement a regional program that will improve public and private sector governance; improve transparency and accountability; development public policy reforms consistent with civil society advocacy, judicial reforms, advancement of democratic processes and counterterrorism measures such as anti-money laundering practices; and, encourage progress toward implementation of free trade agreements and the promotion of open political and economic systems. This activity will include promotion of further trade and investment reforms needed to meet Vietnamese BTA commitments and requirements for WTO accession.
- Improve Economic Policy and Governance (\$744,000 ESF)*.—Technical assistance and training will support USG objectives with ASEAN such as enhancing administrative and implementation capacity of the secretariat and building regional cooperation on transnational areas such as terrorism, human trafficking, narcotics and HIV/AIDS and other infectious diseases.
- Improve Community-Based Reconciliation Efforts (\$992,000 ESF)*.—Working closely with the Embassy in Bangkok, USAID will identify measure and activities to promote reconciliation and peace in Burma and Southern Thailand

through activities such as primary education, migrant rights, democracy and press freedom.

*Strategic Objective—Improved Regional Environmental Conditions*

- Improve Access to Clean Water and Sanitation (\$4,000,000 DA).*—Provide technical assistance and training to Asian NGOs and consumer groups to increase awareness and advocacy for expanded water access through regional grants programs, working with the private sector and public awareness campaigns. Planned activities include linking Asian water providers with U.S. utilities to assist in the development of financial plans for full-cost recovery; improving operating performance; identifying technologies to expand water and sanitation access; and working with local and national governments to improve the policy framework for tariff reform, land tenure and regulations for inter-governmental fiscal transfers and other enabling conditions.
- Reduce, Prevent and Mitigate Pollution (\$1,000,000 DA).*—Activities at the city, national and regional levels will improve urban air quality while responding to the Presidential Initiative on Global Climate Change. Training and technical assistance to local governments will strengthen capacity to manage air quality through monitoring, development of data bases and emissions inventories, the use of air quality planning tools and identification and assessment of improvements.
- Improve Sustainable Management of Natural Resources and Biodiversity Conservation (\$3,000,000 DA).*—RDM/A is assuming responsibility for programs previously managed by the East Asia and Pacific Environmental Initiative for forest, coastal and marine resources management and biodiversity.

*Strategic Objective—Improved Effective Regional Response to HIV/AIDS and Infectious Diseases*

- Reduce Transmission and Impact of HIV/AIDS (\$13,343,000 CSH; \$193,000 CSH Prior Year).*—Through the Greater Mekong HIV/AIDS program, USAID is supporting efforts and collaborative partnerships to rapidly scale-up access to packaged prevention, care, support and treatment interventions that effectively reach most-at-risk populations in both country-specific and region-wide contexts. Quality is maintained through south-to-south exchanges and centers of excellence that foster institutional capacity building in remote areas currently lacking quality health care service providers. Activities ensure the persons living with HIV/AIDS have a role in planning AIDS programs.
- Prevent and Control Infectious Diseases of Major Importance (\$4,108,000 CSH; \$1,000,000 CSH Prior Year).*—Activities focus on TB, malaria, surveillance, infectious disease control in migrants and host communities on the Tai-Burmese border and control and prevention of infectious diseases of local importance by strengthening and expansion of treatment strategies; monitoring for multi-drug resistant TB; enhancing collaboration between HIV and TB programs and developing a TB diagnostic algorithm; surveillance for anti-malarial drug resistance; increased emphasis on drug quality surveillance, adherence and drug use assessments; enhanced regional coordination efforts; and capacity building. Given the increasing impact of avian influenza in the region, USAID will continue to act in concert with other U.S. Government agencies and international organizations to prevent the spread of the disease and increase the ability of affected countries to manage avian flu outbreaks.

OVERSEAS CONFERENCE EXPENDITURES

*Question.* How much does USAID spend on travel to overseas conferences and meetings?

*Answer.* The Agency does not separately account for travel to overseas conferences and meetings. The best readily available proxy is spending under Object Class Code (OCC) 210330, which covers travel for conferences, seminars, meetings, and retreats. In fiscal year 2004, the Agency obligated \$8.9 million under this OCC. Although this provides a general idea of spending on conferences and meetings, the data has several limitations, including that it covers both overseas and domestic travel.

In particular, the data includes spending on seminars and retreats, in addition to conferences and meetings, and for USAID-hosted events, not simply travel and attendance at outside conferences. The data also may exclude spending on conferences and meetings that may be classified under other object class codes, such as site visits, particularly if the conference or meeting was completed in conjunction with a site visit.

To maximize the effectiveness of available funding, the Agency has implemented a new policy limiting domestic and overseas travel from Washington. Any travel from Washington, whether program or OE funded, by a group of more than three staff members, including direct- and non-direct-hire staff, must be approved in writing by the Chief of Staff.

#### OVERHEAD RATE

*Question.* What is the overhead rate at USAID (including program funds used to cover shortfalls in operating expenses)?

*Answer.* The Agency has done a significant amount of work on the use of Operating Expense (OE) and program funds for administrative expenses overseas. Based on detailed analyses, the Agency established an incremental overseas administrative rate of 7 percent for unbudgeted program increases. In other words, a \$100 million increase in an appropriation, supplemental, or agency transfer for overseas programs would require \$7 million in additional OE, or program funds for administrative purposes, for program management. The incremental rate reflects only variable costs.

The analyses also showed the total overseas administrative rate is 13 percent. This is the ratio of total administrative costs (both OE and program funded) to program dollars actually used to deliver assistance. The difference between these two rates is that the total rate includes both variable and fixed costs.

#### PROCUREMENT IMPROVEMENTS

*Question.* What plans does USAID have to improve its procurement process to make it more transparent and accessible to new organizations?

*Answer.* The Office of Acquisition and Assistance (OAA) is working on the following improvements in transparency and accessibility to new organizations.

##### *Changes in internal USAID procurement practices*

- Class waiver to permit limited competition at the discretion of the Grants Officer to organizations that have received less than \$500,000 in USAID grant financing within the last five fiscal years.
- Education programs to sensitize Contracting Technical Officers (CTOs) to understand success of small businesses.
- Workshop by the Small Business Association to provide information on their programs.
- Small businesses' forum in Ronald Reagan Building for USAID CTOs to become familiar with the technical expertise and capabilities of small businesses.
- Quarterly outreach conferences conducted by the Office of Small and Disadvantaged Business Utilization.
- Improvement to the external website to make it user friendly.

##### *Promotion of small businesses to large contractor firms*

- Creation of a mentor protégé program to motivate and encourage large business prime contractor firms to provide mutually beneficial developmental assistance to small businesses.
- Establishment of small business targets within prime contracts with corresponding award for meeting goals.
- Set aside contracts within competitions for small businesses to compete amongst each other.

#### AFGHANISTAN: IMPACT OF ALTERNATIVE LIVELIHOODS PROGRAMS

*Question.* How successful are alternative development programs in Afghanistan, and what is your assessment of poppy eradication efforts to date?

*Answer.* Implementing an effective alternative development program in Afghanistan is challenging, as there continue to be serious security constraints. Nonetheless, programs are showing success. For example, in Nangarhar, 14,000 rural residents were employed on a daily basis, earning over \$1.8 million in salaries. In Helmand, over 14,000 laborers were employed on a daily basis earning a total of over \$4.27 million. These successes in employment generation are significant because lessons from other countries show that providing alternative legitimate sources of income is a key component of an effective counter narcotics strategy.

In addition, longer-term comprehensive provincial economic development programs, which are being formulated in collaboration with the local administrations in Nangarhar, Laghman, Helmand, Kandahar, and Badakshan provinces, show promise for successful alternative development. Implementation of these programs is just beginning and covers a wide range of activities including rural infrastructure,

agricultural development, agri-business and financial services. This is a long term effort and we are in the early stages.

*Security impact on Alternative Livelihoods*

- Faced with multiple security threats and the death of several staff, the contractor implementing USAID's Alternative Livelihoods program in Helmand temporarily suspended work on May 19. Next week, the contractor plans to start sending out armed convoys to pay Afghan farmers for work done before the stoppage. The contractor is putting in place an enhanced security package and plans to start work again by July 1.
- In addition, the contractor implementing the Alternative Livelihoods program in Nangarhar slowed down activities due to credible security threats.
- Suspension of both these programs resulted in job loss for over 26,000 Afghans employed through the Alternative Livelihoods program.

*Eradication*

- State/INL manages poppy eradication efforts and can respond to this question.

AFGHANISTAN: COORDINATION WITH AFGHAN GOVERNMENT

*Question.* How does USAID coordinate its alternative development programs with the Afghan Government?

Answer. USAID coordinates its alternative development program with all levels of the Afghan Government—national, provincial, district, and village. At the national level, USAID participates in a working group of several Afghan Government Ministries, donors and NGOs that is developing a framework that will be used by the Government to plan and manage development activities. At the provincial level, alternative development plans are being developed by USAID contractors in consultation with provincial authorities, who must approve them. Further, USAID plans to provide programs to build the management capacity of both provincial and district authorities. Finally, at the village level, local authorities are widely consulted by USAID for its current cash-for-work activities in order to ensure that all projects enjoy popular support and meet local needs.

AFGHANISTAN: VOICE FOR HUMANITY

*Question.* Does USAID intend to continue to support Voice for Humanity's civic education programs in Afghanistan at the \$7 million level recommended in the Senate report accompanying the emergency supplemental bill?

Answer. Pursuant to the supplemental, USAID notified Congress in the Sec. 2104 financial report, of our intent to award \$3 million in fiscal year 2005 supplemental funds to Voice for Humanity (VFH) in anticipation of upcoming Afghan parliamentary elections. The financial plan, which serves as notification, was fully cleared by Congress in mid-July, and we anticipate the award to VFH will be made shortly.

BURMA: COORDINATION OF SUPPORT

*Question.* How does USAID coordinate its programs to support Burmese refugees and "economic migrants" with the State Department?

Answer. USAID currently administers \$4 million in fiscal year 2005 ESF funds to assist Burmese economic migrants and refugees along the Thai Burma border as directed by the fiscal year 2005 Appropriations Bill. The State Department's Bureau of Population, Refugees, and Migration (PRM) administers approximately \$3.9 million in fiscal year 2005 ESF to assist Burmese refugees residing in camps in Thailand and for democracy and media activities. As such, extensive coordination between USAID and the State Department is critical to the success of the overall Burma program. The Regional Development Mission/Asia (RDM/A) and USAID/Washington have consistently engaged the State Department in all matters regarding Burma ESF funds programming and are committed to continuing this practice.

For example, the conceptual framework and strategic approach to the Request for Applications (RFA) for the Burma Border Program, was developed through extensive discussions between RDM/A and the Embassy in Bangkok, including PRM, on a regional level. The RFA concept was then briefed to the entire Embassy, including Ambassador Johnson, in October 2004 after a joint assessment visit by EAP, DRL and USAID. During the procurement process, USAID invited PRM to participate directly in the technical review and sent both a regional and a Washington representative to the TEC. Finally, USAID's plan to issue the RFA document was duly notified in the fiscal year 2006 Congressional Budget Submission which was cleared through State.

## BURMA: COORDINATION WITH STATE

*Question.* Is it USAID's understanding that the State Department is the lead organization in these efforts?

*Answer.* USAID receives policy guidance from the State Department and U.S. Embassies abroad in the implementation of all ESF funding. Such is the case for the implementation of programs inside and along the Thai/Burma border. USAID coordinates closely and collaborates with the U.S. Embassy in Bangkok, the U.S. Embassy in Burma and the State Department. USAID has and will continue to diligently implement Burma programs in accordance with this guidance.

In the field, USAID's Regional Development Mission/Asia (RDM/A) has a team of six staff members who visit the programs on a regular basis. Functions performed include development, oversight, and implementation of individual activities. The PRM officer at the Embassy has expressed confidence and appreciation for the attention that USAID's RDM/A staff is able to devote to oversight of the Burma/Thai border programs.

In Washington, as you are aware, with the development of a joint Strategic Planning Framework, State and USAID have formed a Joint Policy Council (JPC) to ensure foreign policy goals and development assistance programs are fully aligned to achieve U.S. Government priorities. USAID's Asia Near East Bureau and corresponding State Department offices participate at the working level in the East Asia and Pacific Policy Group which oversees Burma program operations and reports to the JPC.

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 QUESTIONS SUBMITTED BY SENATOR ROBERT F. BENNETT

## FOOD AID: PURCHASING AND DISTRIBUTION

*Question.* Under the administration's proposal to transfer \$300 million from the Public Law 480 Title II account to the USAID International Disaster and Famine Assistance account, how would USAID purchase and distribute the commodities? Please provide an example of how you would operate the program.

*Answer.* The USAID Bureau for Democracy, Conflict and Humanitarian Assistance Office of Food for Peace would continue to have the responsibility to manage USAID food aid programs whether with Public Law 480 Title II commodities or IDFA funds. We plan to work through Private Voluntary Organizations and the World Food Program (WFP) to purchase, transport, store and distribute the food assistance. Many of these organizations have been procuring locally for a number of years and are, therefore, experienced in all aspects of conducting local purchases and supportive of the concept of purchasing food locally in appropriate circumstances.

*Examples**Sudan*

—In 2001, OFDA conducted a major local food purchase to meet needs in South Sudan. The budget of \$1,000,000 programmed through Norwegian People's Aid was used to purchase 1,275 metric tons of food including sorghum and maize. The commodities were purchased in Western Equatoria and transported by land and air to food deficit areas in Bahr el Ghazel such as Gogrial County and Raja. At that time Raja had experienced fighting between the SPLA and GOS and this food was the first relief to reach the town.

*Iraq*

—For fiscal year 2003, USAID contributed \$245 million to WFP to shore up the ongoing universal ration system in Iraq reaching 27 million people. USAID supported the regional procurement of 330,000 metric tons of mainly food items such as bulk wheat, wheat flour, rice, pulses, sugar, tea, vegetable oil, salt, and weaning cereals. Items were procured from places such as Turkey, Eastern Europe, Jordan, Pakistan, India, Bangladesh, Vietnam and the Gulf States and transported by both land and sea to reach the distribution points within Iraq.

## FOOD AID: IMPROVING RESPONSIVENESS

*Question.* I understand the need to get commodities to the country as soon as possible in emergency situations. However, emergency food aid, by definition, is sent to countries that are not functioning because of some type of natural catastrophe, civil war, or both. In other words, getting commodities to the port may be the easy

part while getting them inland for distribution is the challenge. How would the administration's proposal improve on the program currently in place?

Answer. The Administration's proposal is aimed exactly at improving our current program by enabling limited local purchase of food commodities. Emergencies have increased in complexity and magnitude, and USAID has not always been able to respond in the most effective manner to these emergency food crises. This problem has been exacerbated by pipeline breaks in the Food for Peace program.

Given the widely differing conditions faced in the countries where we provide food aid, we must have the flexibility to respond quickly and appropriately. In many emergency situations, time is a critical factor and cash is necessary for making local purchases so that needs are met in time to prevent mortality rates exceeding those that are normal in the emergency-affected area. The authority to purchase food locally in limited circumstances would enable the Agency to respond more effectively to emergency situations.

#### VALUE-ADDED COMMODITIES

*Question.* The Congress has been very supportive of the use of U.S. value-added commodities in the Food for Peace program to assist vulnerable people in developing countries. In the farm bill we recognized the need to improve the quality of food aid products to meet the needs of recipients and to maintain the reputation of U.S. food products overseas. We have been hearing about ongoing problems with corn-soy-blend being rejected by recipients due to quality problems, which suggests that more needs to be done. How is USAID assisting USDA in addressing these issues?

Answer. Of the 2 to 3 million metric tons of U.S. food provided annually under Public Law 480 Title II, the majority of these products are high quality value added commodities. Whether wheat flour, corn soy blend, fortified cornmeal, bagged pulses, bagged rice, or fortified vegetable oil, these commodities have proven highly effective in restoring health, reducing suffering, and saving lives. By and large, these nutritious products are well received by our partners and end beneficiaries. Occasionally, complaints or concerns are raised by end beneficiaries or partners' staff. Each and every complaint is thoroughly investigated by USDA with our assistance. Specifically, our strong field presence helps ensure that the right information regarding the complaint is gathered by our implementing partners' staff so that USDA can investigate, in collaboration with USAID, the likely causes and possible solutions. If changes in the specifications for either commodities or packaging are warranted, we jointly and collaboratively work on making those necessary changes with USDA taking the lead on issuing the proper notices to the trade and invitations for award of quality product.

Regarding corn soy blend (CSB), there have been sporadic reports over the years of CSB being clumpy, stale, or even turning an undesirable color when cooked. Like all complaints relating to quality, we are constantly working with USDA on identifying the extent of such problems, so USDA can find the causes and the ways to correct and improve the quality of the product.

*Question.* The President's budget would reduce Food for Peace funding by \$300 million and increase USAID's International Disaster and Famine Assistance (IDFA) by the same amount. Under this proposal, USAID would create a new, cash-based food aid program under foreign-grown and processed commodities could be purchased for shipment from foreign ports on foreign-flag vessels. Under Food for Peace, Title II of Public Law 480, USAID has been providing emergency food assistance for decades. Why is a new cash-based program needed now?

Answer. Emergencies have increased in complexity and magnitude and USAID has not always been able to respond in the most effective manner to these emergency food crises. This problem has been exacerbated by the limited resources available for programming, and consequently, FFP too often has been faced with pipeline breaks. Given the widely differing conditions faced in the countries where we provide food aid, we must have the flexibility to respond quickly and appropriately. In many emergency situations, time is a critical factor and cash is necessary for making local purchases so that needs are met in time to prevent mortality rates exceeding those that are normal in the emergency-affected area.

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#### QUESTIONS SUBMITTED BY SENATOR PATRICK J. LEAHY

##### BUDGET

*Question.* Once again, the President proposes to cut core USAID programs. Even after taking into account the transfer of funds from the Development Assistance ac-

count to the Transition Initiatives account, there is still a cut of \$70 million for Development Assistance.

How do you defend cuts in these Development Assistance (DA) Programs?

Answer. The President has requested a \$49 million increase from his fiscal year 2005 DA request—\$1.329 billion in fiscal year 2005 versus \$1.378 billion in fiscal year 2006—for the combined DA and the expanded portion of the Transition Initiatives (TI) accounts. Under the President's budget, the DA fiscal year 2005 level should be compared with the combined DA-TI fiscal year 2006 request level.

#### PERCEIVED CUTS IN EXISTING FOREIGN AID PROGRAMS

*Question.* The President assured us that funding for the Millennium Challenge Corporation (MCC) would not result in cuts in existing foreign aid programs. Isn't that what is happening? Do you foresee cuts in USAID assistance to countries that qualify for MCC assistance?

Answer. USAID does not expect to reduce its funding levels in MCC compact countries. The purpose and rationale for MCC is to reward good performers and offer them additional incentive and assistance to move forward in meeting their development objectives. The MCC compact is meant to be additive to the USAID program.

USAID policy is to initiate a review of USAID programs during the annual budget review for countries that have signed an MCC compact. During the review, USAID will discuss how compacts may affect the country program management and resource request, including operating expenses and staff. This review does not necessarily trigger a change in funding for the MCC compact country. It would be a great disincentive to countries if it were perceived that signing an MCC compact implied giving up its USAID program. USAID is coordinating closely with MCC to ensure there is no duplication of effort.

#### INFECTIOUS DISEASE FUNDING

*Question.* The President's budget would cut USAID's programs to combat TB, malaria, and other infectious diseases from \$200 million in fiscal year 2005 to \$141 million in fiscal year 2006.

How can that possibly be a good idea?

Let me give you one example of why it makes no sense. There are six neglected diseases which cause severe illness and disfigurement among millions of people in tropical countries, particularly in Africa. They are not easy to pronounce and most Americans have never heard of most of them: Schistosomiasis; Lymphatic filariasis (otherwise known as Elephantiasis), Onchocerciasis (otherwise known as River Blindness); Intestinal parasites; Trachoma; and Leprosy.

To combat all of these diseases combined, USAID spends only a few million dollars, yet there are low cost and effective drugs for treating and in some cases preventing or even eliminating them.

Shouldn't we be increasing funding to combat infectious diseases, rather than cutting it? Would you support a special initiative in the 2007 budget to mount a serious effort to combat these neglected diseases?

Answer. There are many competing priorities for funding. Unfortunately, the budget request reflects a number of very difficult and painful choices. For infectious diseases, we have tried to achieve the best balance within our budget parameters between the critically important investments that need to be made in TB and malaria and the smaller, yet critically important funding for other diseases.

The budget request for fiscal year 2007 is still being developed. We will continue to place priority on infectious diseases that pose the greatest threat to lives and economies in developing countries. These include HIV/AIDS, malaria, TB, and avian influenza.

#### FUTURE BUDGET

*Question.* A recent New York Times article said that the World Bank, IMF, British Prime Minister Blair, and others have all called for a doubling of aid for the poorest countries. In fact, I'm told that just this week the European countries pledged to increase their contributions by a total of several tens of billions of dollars by the year 2010.

The United States has not taken a position. Our aid to rebuild Iraq, with a population of 25 million, is more than we give in foreign aid to 2 billion people living in poverty in the rest of the world.

The amount of aid we give to the world's poorest countries is still a miniscule percentage of our gross national income.

Do you see this changing, or are we in for more incremental increases in this budget, robbing Peter to pay Paul, and no change in the big picture?

Are you aware of any plans by the Administration to increase our foreign aid significantly in response to the U.N.'s millennium goals?

Answer. U.S. assistance to the poorest countries is increasing, and the President's fiscal year 2006 budget request for overall development assistance is almost double the fiscal year 2000 level. The new accounts for the Global HIV/AIDS Initiative and the Millennium Challenge Account are a significant part of this increase. The fiscal year 2006 budget request reflects the President's recognition that development assistance makes a vital contribution to enhancing U.S. national security. These two recently added accounts deal, in the first case, with the most serious global health issue of this millennium, and in the second case, with countries that rule justly, invest in their people, and encourage economic freedom.

From the beginning of this Administration, the President has made known his commitment to providing additional international assistance. To underline this commitment, the President has launched several new initiatives that support the goals of the U.N.'s Millennium Declaration.

#### USE OF LARGE CONTRACTORS

*Question.* I am concerned about USAID's increasing use of large contractors. Recently we heard about a \$75 million contract to do democracy work in Indonesia with a contractor that as far as I know doesn't have a lot of expertise in this type of work or in that part of the world.

Yet qualified, small organizations that know the country and specialize in this work cannot compete unless they can find a way to subcontract, which isn't always possible or desirable. I hear these complaints all the time. Do you see this favoritism towards big contracts continuing? Are you doing anything to change it?

Should we set aside funds for grants and cooperative agreements to qualified small organizations so they don't get shut out?

Answer. With significantly reduced workforce levels in the acquisition and assistance workforce and a doubling of our operating budget, USAID along with other USG agencies have increased its use of task orders placed against indefinite quantity contracts (IQCs).

Under the Federal Acquisition Streamlining Act enacted by Congress in 1995, the ability of agencies to award multiple IQCs was expanded, and the procedure to provide a fair opportunity selection process for subsequent task order awards was further defined.

Realizing that large businesses have won a significant amount of USAID IQC awards, USAID has aggressively sought to compete new IQC awards that include set-aside awards for small businesses. To further address this matter, we require large businesses to subcontract a percentage of their work to small businesses. For example, in USAID's \$1.8 billion solicitation for infrastructure support for Iraq, USAID included a provision that provided an incentive fee, which was available to firms that proposed expanded use of small businesses. We evaluate the efforts and commitment to execution of the subcontracting plans of prime contractors in consideration of future awards.

With regard to sets asides for grants and cooperative agreements, USAID's Office of Private Voluntary Cooperation has a program in place that reserves funding for designated organizations, which has been favorably viewed in the Private Voluntary Organization community.

#### OFFICE OF PRIVATE VOLUNTARY COOPERATION

*Question.* I have heard that USAID may be planning to sharply scale back funding for its Office of Private and Voluntary Cooperation, which helps to build the capacity of United States and local non-governmental organizations and cooperatives. Is this true?

Given the role these organizations play in implementing foreign aid programs, and the difficulty they have meeting USAID audit requirements and competing with large contractors, shouldn't we increase support for this Office?

Answer. Agency priorities are constantly being reviewed. Currently, increased focus is being placed on post-conflict stabilization with less emphasis on cross-sector NGO capacity-building programs. The Matching Grant Capacity Building Program, which supported PVO and local NGO organizational development for many years, issued its last request for applications in 2002, and the last request for applications for the NGO Sector Strengthening Program was issued in 2003.

Attention to organizational capacity building is certainly important, especially for local NGOs. Newer and more nascent organizations are offering orientation sessions

at the PVC Office's annual conferences on such matters as procurement, audits, and reporting.

OFFICE OF ENERGY AND INFORMATION TECHNOLOGY

*Question.* Each year, we recommend in the neighborhood of \$15 million for the Office of Energy and Information Technology, and each year USAID funds it at about half that. Given the importance of energy, particularly renewable energy, in poor countries where the cost of fossil fuels is prohibitive, why aren't we doing more?

*Answer.* We are doing more in fiscal year 2005 to increase access to energy in developing countries. USAID reported to Congress in April that Agency-wide spending on energy in fiscal year 2005 is expected to exceed \$100,000,000 to "promote and deploy energy conservation, energy efficiency, and renewable and clean energy technologies," and reach nearly \$104,000,000. This amount includes energy funding for the Office of Energy and Technology and is more than \$15,000,000 above what USAID originally estimated it would invest in energy in fiscal year 2005 (\$83.5 million).

The vast majority of this funding is programmed by USAID missions in the field where the needs for and impact of USAID programs can be monitored most effectively. While the missions implement programs that increase access of developing countries to clean, efficient, renewable energy, the role of the Office of Energy and Information Technology, as a central technical office in Washington, is to support their design and implementation, and to provide technical leadership in how to best increase access of developing countries to clean efficient energy.

In fiscal year 2005, the Bureau for Economic Growth, Agriculture and Trade (EGAT) allotted \$12 million to the Office of Energy and Information Technology, of which the largest apportionment by far, \$8.5 million, is to provide such technical support to USAID field missions. When added to funds apportioned to EGAT's Climate Change team and funding in other bureaus for related energy activities, the central funding for energy totals \$10.7 million, or about 10 percent of expected fiscal year 2005 energy spending worldwide.

*Note.*—The Office of Energy and Information Technology was renamed the Office of Infrastructure and Engineering on June 16, 2005 to reflect the addition of an engineering services team.

VALUE-ADDED COMMODITIES

*Question.* The Congress has been very supportive of the use of U.S. value-added commodities in the Food for Peace program to assist vulnerable people in developing countries. In the farm bill we recognized the need to improve the quality of food aid products to meet the needs of recipients and to maintain the reputation of U.S. food products overseas. We have been hearing about ongoing problems with corn-soy-blend being rejected by recipients due to quality problems, which suggests that more needs to be done. How is USAID assisting USDA in addressing these issues?

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## QUESTION SUBMITTED BY SENATOR MARY L. LANDRIEU

## ADOPTION AND ORPHANS AND VULNERABLE CHILDREN (OVC)

*Question.* I have read a copy of your recent publication, *Children on the Brink*, published in 2000, which details the looming international crisis caused by the increasing number of orphans. According to your own report, the number of orphans is expected to reach 40 to 50 million in just a few short years. As you point out, the largest contributing factor to this phenomena is AIDS. According to your figures, “In 1990, AIDS accounted for just 16.4 percent of parental deaths leading to orphaning. By 2010, that number will rise to 68.4 percent.”

These numbers are shocking. But what is more shocking to me is that neither your plan for addressing the world’s AIDS crisis, nor your plan for addressing children on the brink, include efforts to promote permanency through adoption. Can you explain to me why?

*Answer.* As part of President Bush’s Emergency Plan for AIDS Relief, USAID supports a range of activities aimed at a holistic approach to building capacity and strengthening communities to meet the needs of orphans and vulnerable children affected by AIDS.

Following the death of a parent, our priority is to enable family members to provide the first line of protection for orphaned children. USAID seeks to strengthen family members’ ability to provide vital care and support by: training caregivers, increasing access to education, promoting the use of time and labor-saving technologies, and providing training and support in income-generation and micro-finance. If a family member is not available, USAID works to mobilize and strengthen community-based responses in addition to working with governments to develop appropriate policies and essential services to care for these children.

While our primary objective is to serve children within their communities, we recognize that may not always be possible. USAID implements programs to create special protection and care measures for children, including broad-level advocacy for legal protection. Where possible, we work with host country governments to strengthen social safety nets, including local adoption, where supported and allowable in national policy.

## USAID’S RECORD OF SUCCESS IN FRAGILE STATES

*Question.* You have already alluded to the major achievement in Afghanistan and Iraq by USAID. While your work in the Sudan is just beginning, areas which USAID does have a record of contribution are in Haiti and Ethiopia. Over the last several years the U.S. Government, through USAID, has been the largest donor of foreign assistance to Haiti (\$810 million from 1993–2005). Also, USAID has contributed significant amounts of financial and human capital in an effort to address the severe shortages and issues related to the Ethiopian/Eritrean war.

What is your record of success in other “fragile states” around the world that aren’t garnering the exposure of Iraq and Afghanistan?

*Answer.* Since its inception, USAID has worked in fragile states and has been a leader in humanitarian and post-conflict response. USAID has drawn from the lessons of this experience to innovate programmatically and speed the transition from relief to development. The overall level of assistance to fragile states has increased since the end of the cold war to almost one-fifth of USAID’s overall resources in 2003, excluding Iraq.

USAID’s “Fragile States Strategy,” approved in January 2005, recognizes that work in fragile states is inherently risky due to the volatility and complexity of their environments. The strategy recognizes that while we have had many successes, there is room for improving the effectiveness of our response in fragile states. Building on that strategy, over the past 6 months we have already strengthened our ability to:

- monitor fragility across countries;
- better identify the sources and dynamics of fragility in given countries;
- focus our programs on the sources of fragility and on key factors—stability, security, reform and capacity building—for reducing fragility;
- apply appropriate technical responses to the needs of fragile states, including through collaborative efforts with other donors;
- respond rapidly by building a corps of crisis response officers and identifying possible options for streamlining internal procedures and key systems—personnel, procurement, planning, among them.

The examples that follow illustrate some of USAID’s successes and ongoing challenges in responding to fragile and conflict situations over the past 15 years.

*Liberia*

In 2003, 14 years of conflict ended in Liberia with the signing of the Accra Comprehensive Peace Agreement. USAID's subsequent transitional program is a model of internal and inter-agency integration and collaboration, including participation from the Office of Foreign Disaster Assistance, the Office of Food for Peace, the Office of Transition Initiatives, and the Bureau for Africa, as well as the U.S. Departments of State, Defense, and Treasury. The primary goals of the current development program are to enhance good governance and the peace process; create economic and social conditions within communities that will facilitate both reintegration and the rehabilitation of infrastructure; increase formal and non-formal learning and counseling opportunities; and improve community health practices.

As of 2004, USAID's community revitalization and reintegration program created more than 500,000 days of direct employment for more than 10,000 ex-combatants and other unemployed Liberians, and over 1,500 kilometers of road were improved. In addition, thousands of children associated with the fighting forces have been reunited with their families. Under the program, displaced Liberians, refugees, ex-combatants, and other war-affected Liberians have received counseling and other services, including training, to help them reestablish communities and resume normal lives.

USAID has also supported initiatives to "get out the vote" and provided nationwide coverage of the election process and funded civil society organizations to increase their civic advocacy activities related to the elections, corruption, conflict mitigation, and human rights.

*Mozambique*

In 1984, the United States and Mozambique reopened diplomatic relations after years of tension generated by the government's embrace of the Soviet bloc. That same year, USAID initiated an emergency food assistance program to deal with a worsening refugee crisis caused by the ongoing civil war, and after 1997 engaged with the government's shift to market-oriented reforms. These were followed by an economic policy reform program, support for regional transportation initiatives and programs to support private sector agricultural marketing. These programs laid the foundation for new private economic activity even as the war continued. The worst draught of the century in 1991–1992 saw USAID respond with assistance on a phenomenal scale (\$225 million in fiscal year 1992 alone), reaching over 2 million people and facilitating transportation to Mozambique's drought stricken, landlocked neighbors.

The second phase of USAID's engagement with Mozambique began with the signing of the Rome Peace Accord in October 1992, ending 16 years of civil war. USAID's program included support for the continuing emergency needs among the country's population of 5 million displaced and returnees; rural reintegration; infrastructure rehabilitation; demining; the demobilization of over 91,000 former RENAMO and Government soldiers; and elections. USAID financed the rehabilitation of over 1,000 kilometers of rural roads in the hardest hit areas of the country, thereby reviving long-dead market networks for agricultural production. USAID's programs in support of the politically charged October 1994 general elections—from civic education to training for political parties—were critical to sustaining the peace. While the election itself was a spectacular success and involved literally dozens of organizations, embassies, and Mozambican actors, USAID's innovative financing of the training of almost 30,000 Mozambican party poll monitors was one of the major reasons why the Mozambican people accepted the results.

*Sudan*

The signing of the Comprehensive Peace Agreement in January 2005 represented a major positive change for Sudan, which has been embroiled in 40 years of civil war, the longest civil war in Africa's history. USAID has been engaged in supporting the peace process since June 2003. Below are several examples of USAID's work towards helping the feuding sides come to the peace table.

With the late May 2004 signing of the Naivasha Protocols by the SPLM and the Government of Sudan (GoS), USAID helped provide a stable foundation for peace by disseminating accurate information on the Protocols throughout southern Sudan. USAID has funded two projects, the Sudan Radio Service (SRS) and the Southern Sudan Transition Initiative (SSTI), which spread news of the protocols and facilitated grass-roots participation in the peace process. The SRS broadcasts 6 hours of programming a day in nine different languages, reaching 1.5 million people or 20

percent of the total population of southern Sudan. The SRS provides timely updates and on-the-scene coverage of the peace process.

As the Sudan People's Liberation Movement (SPLM) transitions to the Government of South Sudan (GOSS) support is being provided on many levels to ensure healthy transition and strong systems are established. For instance, technical assistance and training was provided to the SPLM to develop a strategic framework for local governance in southern Sudan. Exposure visits were organized to Uganda and Ethiopia so that the team could examine regional models of decentralization. The final strategic framework developed by the team emphasizes good governance practices of accountability, transparency and efficiency. The model became the basis for a decentralized structure of governance for southern Sudan.

As conflicts were increasingly fueled by the inability of the judiciary to respond to outstanding cases and the poor mobility of the few judges in the south, USAID developed the concept of mobile courts' whereby judges travel to areas of potential conflict to try out overdue cases and implement verdicts. These activities have been very successful in resolving long-running conflicts.

Additionally, USAID supported the strengthening of the Women's Secretariat to carry out three regional Women's Conferences in Bahr el Ghazal, Upper Nile and Southern Blue Nile. At these large conferences, the SPLM women were able to identify leadership at the county level and elect representatives for the National Conference.

#### *Burundi*

Hutu and Tutsi violence has plagued this small country in the Great Lakes Region of Africa. Bordering on the Democratic Republic of Congo, Rwanda, and Tanzania, the ethnic conflict has resulted in cross-border fighting and massive displacement of local residents. The transitional government that was inaugurated in November 2001, subsequently signed a power-sharing agreement with the largest rebel faction in 2003 and set in place a provisional constitution in 2004. The USAID program, launched in March 2002, has been supporting the peace process in Burundi through community development, youth vocational training, and governance, and media programming.

In February 2004, USAID launched the Burundi Community-based Peace and Reconciliation Initiative (CPRI) to strengthen local capacities to benefit from and contribute to the peace process. CPRI is concentrating its work in two provinces where much of the worst destruction and displacement had occurred (Gitega and Ruyigi) through community-based reconciliation and participatory improvement projects, vocational skills training, small grants, and media. USAID trained and deployed 20 master trainers to each of 18 communes in Gitega and Ruyigi, who then conducted conflict mitigation training with three groups of civil society leaders in each commune and in five vocational skills training schools. Local government officials have said the training has helped them improve their leadership styles and relationships with their constituents. CPRI has also promoted reconciliation by bringing people together from returning and host populations to learn marketable skills and jointly participate in income-generating associations. Furthermore, the skills training reduces individuals' dependency on land-based income, and therefore reduces the risk of violent conflicts over scarce land.

USAID media partners, state-owned Burundi National Radio and Television (RTNB), and independent RSF Bonesha FM (Bonesha) obtained the equipment and support necessary to ensure uninterrupted, country-wide coverage and make weekly field trips out of Bujumbura to gather interviews and material for programming. These advances have significantly mitigated conflict in Burundi, given that the timely dissemination of accurate and balanced information is critical to assuaging fears and dampening incendiary rumors.

#### ASIA AND THE NEAR EAST

##### *Nepal*

The United States is supporting efforts to resolve the Maoist insurgency and address the underlying causes of poverty, inequality, and poor governance in Nepal, making an important contribution to fighting terrorism and diminishing the likelihood of a humanitarian crisis.

USAID's conflict program supports government and civil society efforts to address the conflict and promote community solidarity. The newly-formed Government of Nepal Peace Secretariat is poised to play a key role in reaching a peace settlement between the GON and the Maoists. USAID provides support to the Peace Secretariat in a number of areas including equipment and logistics, training in conflict resolution and negotiation techniques, and technical assistance on key policy and

programmatic issues. USAID is also supporting community mediation as a way to resolve disputes locally.

In fiscal year 2004, USAID's agricultural programs, working in rural areas including the conflict-affected West and Midwest regions, targeted more than 37,000 small farm and forest households. Household incomes increased by more than \$100, and more than 200,000 persons benefited from the promotion of high-value agriculture and non-timber forest products. USAID programs help Nepal increase agricultural and other exports, and thus people's incomes, through activities such as export promotion assistance and technical assistance to the Department of Customs.

USAID works to strengthen community health programs, mitigating the impact of the conflict. Child mortality has declined by 40 percent in the last 10 years. The average number of children per family declined from 5 to 4.1 during the period. The Vitamin A supplementation program was implemented in all of Nepal's 75 districts and reached 98 percent of all eligible children.

#### *Philippines*

Conflict in the Philippines is jeopardizing the country's economic and social development and represents an important threat to regional security and USG vital interests. USAID's conflict mitigation assistance seeks to address the underlying causes of conflict, and assistance is focused on conflict-affected areas. Activities aim to reintegrate former combatants and their communities into the mainstream economy, improve economic infrastructure, accelerate economic and business development, increase access to microfinance services, improve governance, and expand availability of social services.

USAID helped 21,000 former combatants make the switch from guerilla fighting to farming seaweed, hybrid corn or rice. Three thousand of them have learned to produce higher value crops. With solar dryers, corn shellers and warehouses provided by USAID, they have increased their produce's selling price by as much as 35 percent. USAID has also helped strengthen the services of 115 banks and rural cooperatives, enabling them to provide loans and other services for small entrepreneurs profitably.

#### *Sri Lanka*

Sri Lanka has suffered through two decades of civil war between the Sinhalese majority and Tamil separatists, where tens of thousands have died in ethnic. Hope for peace came in February 2002 when the government and Liberation Tigers of Tamil Eelam formalized a cease-fire. A USAID program, launched in March 2003, has supported bringing all sides to the table to promote peace, especially in the regions most affected by ethnic and religious violence. USAID has also played an instrumental role in administering tsunami relief in Sri Lanka, and has incorporated ethnic peace-building into post-tsunami reconstruction efforts. Below are outlined activities that support the movement towards peace.

A USAID program in Sri Lanka has supported positive interaction among diverse groups of people; promoted participatory decision-making at the community level; and facilitated the flow of accurate information from multiple viewpoints. Working with local NGOs, informal community groups, media entities, and local government officials, USAID identifies and supports critical initiatives that move the country along the continuum from war to peace.

USAID's programs in Sri Lanka have succeeded in bringing diverse groups of people together. One such project in Trincomalee involved the provision of sanitation facilities for a resettled Sinhalese community. Moreover, an inter-ethnic dimension was added by purposely enriching the ethnic mix of the vendors who provided goods and services to the beneficiaries. First, the Muslim vendors supplying materials to the beneficiaries voluntarily offered to deliver materials directly to each house to help facilitate construction. In addition, Tamil laborers helped the Sinhalese families excavate the sites for the facilities. Finally, a local Sinhalese brick maker from whom USAID purchased building materials greeted USAID staff members who were visiting the site and said "thank you" in Tamil, using the traditional Tamil gesture of respect.

In addition, USAID has trained over 4,000 officials and key decision-makers and 13,000 people in peacebuilding/conflict resolution/mitigation skills. For example, USAID funded the Eastern Rehabilitation and Relief Organization to conduct three local youth exchange programs in Ampara district. Between program start-up in March 2003 and the end of February 2005, USAID approved 345 small grants worth approximately \$8.58 million.

#### *East Timor*

After a majority of East Timorese voted for independence from Indonesia in U.N.-sponsored referendum in 1999, local Indonesian-supported militias wreaked havoc

on the small island country in a scorched-earth campaign that destroyed infrastructure and homes and forced 300,000 into West Timor. Rebuilding the small country of 1 million citizens was part of a USG objective to promote self-determination and deter tyranny in the Southeast Asian region. Below are several examples of activities supporting the rebuilding of devastated East Timor.

From the onset of independence, economic recovery was one of the most essential tasks facing East Timor. As a result, USAID quickly moved to foster economic opportunities and development. USAID invested \$3.9 million through 469 small projects that directly engaged an estimated 63,000 people, putting cash directly back into the hands of individuals and relieving tensions evident in the population.

The USAID provided in-kind provision of construction materials and commodities needed for rehabilitation of community-identified facilities deemed to be important for economic recovery. For instance, grants were made to repair agro-processing facilities, schools, water services, and roads. USAID also supported income-generating activities such as cooperative activities based on the provision of hand-tractors, brick making, and coffee production as well as micro-finance initiatives.

USAID also supported macro-level interventions to support East Timor's economic recovery. For instance, technical assistance was provided to the Government of East Timor for meaningful participation in the Timor Sea Mineral Rights Negotiations, the settlement of East Timor's maritime and land boundaries, and technical inputs were provided for East Timorese officials in negotiations with the Phillips Petroleum Corporation on oil and gas exploration.

#### EUROPE AND EURASIA

##### *Bosnia and Herzegovina*

The overriding United States interest in Bosnia and Herzegovina (BiH) remains the conversion of this multi-ethnic country from a source of regional instability to a peaceful, viable state on the road to European integration. BiH continues to struggle with the structural challenges of the Dayton Peace Accords. USAID is addressing BiH's development challenges through a program targeted at economic transformation, democratic reform, and the reestablishment of multi-ethnic society.

USAID's work on developing private sector-led economic growth has significantly contributed to the development of a vibrant and sound banking sector and the generation of new jobs. The seven-year long activity is directly responsible for introducing modern banking into BiH, creating over 15,000 new jobs, and protecting 30,000 existing jobs. Further work by USAID in developing a stable macroeconomic environment included assisting the BiH Government in becoming fiscally responsible by improving transparency and accountability of budget formulation. A financial management information system is now operational in the State, both entities, and 6 of the 10 federation cantons.

USAID was instrumental in working on the execution of a judicial reform initiative resulting in a country-wide restructuring of the court system and a re-competition of every judicial and prosecutorial position. As a result of USAID's investments, objective local government performance measures have improved considerably, as has citizen perception of this level of government. USAID opened 22 "one-stop shops", which have reduced waiting times for local government services.

USAID's support in re-establishing a multi-ethnic society through facilitation of minority returns has exceeded its targets. The lives of more than 129,000 minority returnees were directly impacted through the provision of access to basic services, including electricity, water, schools, health centers, and roads/streets. Seven hundred and fifty families were directly affected, representing one-fifth of the total minority returns registered since 2000. Sustainability of those returns is ensured through provision of economic opportunities such as small grants and loans. More than 1,950 families received some type of economic incentives that contributed to income generation.

##### *Macedonia*

In February 2001 fighting broke out between the Macedonian military and a newly formed Albanian insurgent group. Six months later, an estimated 30,000 civilians were displaced, a once expanding economy was in decline, and ethnic tensions remained high. In August 2001, parties signed a peace agreement, ending hostilities and promising political reform. However, socioeconomic pressures for violence persisted, with unemployed youth part of the problem.

USAID created short-term employment opportunities for 2,000 of Macedonia's youth that focused on repairing public works in all 124 municipalities. The program increased economic security for returnees, the internally displaced, and others af-

ected by conflict. Ethnic tensions were reduced, and confidence in the peace process was raised.

#### *Kosovo*

As part of the ethnic violence that plagued the Balkans during the 1990s, Serbian militia groups forced massive expulsions of ethnic Albanians living in Kosovo in 1998–99. International outrage ensued, and NATO forces bombed Serbia and stationed NATO-led forces in Kosovo. A key objective of the USAID program in Kosovo was to get Serbian, Albanian, and other ethnic citizens to work together through their communities in building more peaceful and compatible within the ethnically diverse society.

USAID officers were in the first group of non-NATO officials to enter Kosovo in late June 1999. Building on contacts developed before the bombing and during the program-in-exile, USAID quickly began a program focused on rehabilitation and democracy-building. The initiative helped citizens understand and responsibly exercise their political rights, encouraged and supported the development of moderate and democratic local leadership, and enabled local communities to get the resources they need to rebuild according to their priorities.

USAID supported the formation of over 200 Community Improvement Councils (CICs) composed of 12 to 15 people each who reflect the political, social, and intellectual diversity of the local population. The role of each CIC is to identify the community's priority reconstruction needs, such as repairing a school or a road, and secure a local contribution—usually in the form of labor. USAID then provides the material resources. The experience of working together in a participatory, democratic, and constructive manner was as important a benefit as the humanitarian impact of the project itself.

In fact, the CICs emerged as de facto representatives of the diverse interests in their communities, providing other donors and international agencies with information on real local needs and priorities as defined by Kosovars themselves. USAID leveraged over \$4 million from other donors and over \$2 million in local community contributions.

USAID also supported the creation of an independent media and a strong civil society. Media projects included rebuilding infrastructure for radio and television broadcasts and supporting the first independent Albanian-language radio station in Kosovo, as well as community radio and newspaper outlets across Kosovo. Civil society groups, which have mobilized around issues related to human rights, women, and youth activism, have received crucial start-up assistance from USAID as well.

### LATIN AMERICA AND THE CARIBBEAN

#### *Colombia*

Since USAID initiated support for Plan Colombia in 2000, significant advances have been made in providing assistance to the internally displaced, expanding state presence, strengthening Colombian democracy, and creating licit economic opportunities.

USAID has provided support for more than 1.4 million persons that have been displaced by violence or forced to flee their homes after receiving threats from guerrillas, paramilitary groups or narco-traffickers. Most of the assistance is for physical and mental health services, shelter, water and sanitation, education, employment creation and community strengthening. USAID provides support for the rehabilitation of former child combatants. More than 1,375 children have entered the reception center thus far where they have received treatment, education and shelter. USAID has also helped more than 3,293 human rights workers, labor activists, journalists and others who were threatened by armed groups.

Under the peace program, USAID has strengthened the capacity of the High Commissioner for Peace's Office to engage in discussions and negotiations with illegally armed groups. USAID supported development of an Early Warning System that alerts the Colombian military, national police and other state institutions when situations occur that could lead to massacres or forced displacements. In fiscal year 2004, more than 75 percent of the alerts issued were addressed correctly by pertinent Government of Colombia entities.

USAID has increased access to justice for thousands of low income and marginalized Colombians by supporting national coverage of the Justice Houses Program. A total of 37 Justice Houses have been established, handling some 2.7 million cases. USAID has also established 35 oral trial courtrooms and strengthened the capabilities of public defenders. The local governance program has promoted effective public administration by supporting more than 210 social infrastructure projects;

creating 221 citizen oversight committees, and assisting 38 local governments with improvements of public services.

USAID is working with farmers and townships that want to eradicate drug crops in exchange for support for construction of small infrastructure projects, food production, or cultivation and marketing of legal crops. During fiscal year 2004, USAID helped establish approximately 16,508 hectares of licit crops and completed 182 infrastructure projects in 13 municipalities in coca and poppy growing areas. The program has benefited over 12,845 families and will help reduce coca cultivation in Colombia and stem the flow of illicit drugs to the United States.

#### *El Salvador*

The Government of El Salvador and the representatives of the Farabundo Marti National Liberation Front signed comprehensive peace accords in January 1992, ending 12 years of civil war that caused enormous loss of life, destroyed a significant portion of the country's infrastructure, and halted productive activity in and substantially depopulated a major portion of the country's land area.

USAID helped sow the seeds of future growth by reconstructing damaged infrastructure, financing land and titling for ex-combatants and civilian refugees, providing training and credit, increasing civic participation in the identification of priority infrastructure needs, broadening the role of NGOs in service delivery to rural communities, and attending to the special medical needs of the war disabled.

USAID was engaged in a wide range of other programs such as promoting macro-economic reforms; strengthening municipal governments; and reforming the judicial system, electoral processes, and institutions that played an important and complementary role in supporting the reconstruction process. This support is broadly credited with playing a critical role in assisting the successful transition from war to peace.

#### IDFA ACCOUNT INCREASE

*Question.* The President's budget would reduce Food for Peace funding by \$300 million and increase USAID's International Disaster and Famine Assistance (IDFA) by the same amount. Under this proposal, USAID would create a new, cash-based food aid program under foreign-grown and processed commodities could be purchased for shipment from foreign ports on foreign-flag vessels. Under Food for Peace, Title II of Public Law 480, USAID has been providing emergency food assistance for decades. Why is a new cash-based program needed now?

*Answer.* Emergencies have increased in complexity and magnitude and USAID has not always been able to respond in the most effective manner to these emergency food crises. FFP too often has been faced with pipeline breaks. Given the widely differing conditions faced in the countries where we provide food aid, we must have the flexibility to respond quickly and appropriately. In many emergency situations, time is a critical factor and cash is necessary for making local purchases so that needs are met in time to prevent mortality rates exceeding those that are normal in the emergency-affected area.

#### U.S. RECORD ON FOREIGN ASSISTANCE

*Question.* This week the European Union (EU) announced that it will double its aid to developing countries in the next 5 years. Some expressed frustration at the incremental movement toward bigger aid budgets that could have a significant impact to the world's poorest countries. While the United States is still the largest donor in terms of dollars spent on foreign assistance to poorer countries, we are often ranked last when aid transfers by developed country donors are calculated by percent of gross national product (GNP). Recently Britain disclosed details of a "Marshall Plan" for the developing world. British Chancellor of the Exchequer, Gordon Brown, said, "we must rise to the challenge and we accept that we will be judged by what we achieve."

In light of these announcements and ambitions, are we doing all that we possibly can to assist those with the least resources?

*Answer.* In the overall view, the President's fiscal year 2006 request for development assistance is almost double what the level was 5 years ago and has risen faster than at any time since the Marshall Plan. The fiscal year 2006 budget request reflects the President's recognition that development assistance makes a vital contribution to enhancing U.S. national security. To underline his commitment to increase development assistance, the President has launched several new initiatives for the poorest countries and has also established two new accounts for the Global HIV/AIDS Initiative and the Millennium Challenge Account. These recently established accounts deal, in the first case, with the most serious global health issue of

this millennium, and in the second case, provide dramatically increased assistance to countries that rule justly, invest in their people, and encourage economic freedom.

#### FRAGILE STATES POLICY AND CHILDREN

*Question.* In reading USAID's *Fragile States Strategy* document, I understand that the term "fragile states" refers "generally to a broad range of failing, failed, and recovering states." My concern is that the "Strategic Priorities" laid out in the *Fragile States* document only mentions the world children twice in the entire document, and this informs my question.

Are children being given the level of attention and commitment they deserve in USAID's "fragile states" policy?

*Answer.* Children are certainly victims of fragility, and deserve and receive USAID's help. USAID helps children through multiple programs targeted at strengthening families and helping children to live healthier, productive lives. These programs are implemented in both "fragile states" and those embarking on a path toward transformational development.

The *Fragile States Strategy* you cite is focused on the root causes of fragility—factors such as conflict, political instability, and weak governance. For this reason, you find limited mention of specific groups, including children, and our programs addressing their needs. But programs will clearly relate to children and youth: school reconstruction, textbooks and supplies, and teacher training; job creation focused on youth unemployment; and, demobilizing and reintegrating ex-child soldiers are three examples. Thus, implementing the strategy includes investments in problems of youth and children, primarily aimed at stability and security.

While the strategy calls for increased program focus on the sources of fragility, USAID will continue to respond the effects of fragility. This includes humanitarian assistance, protection of human rights and abuse prevention, which will target children as a primary group. Moreover, most fragile states are characterized by high under-five and infant mortality rates. We will continue to provide immediate life-saving services in fragile states to reduce mortality as well as foster healthy and productive families. However, this alone will be insufficient. To have a lasting impact, it is imperative that we address the political and social factors that continue to make these children (and their families) vulnerable.

#### MEETING THE 10 PERCENT OVC EARMARK IN FISCAL YEAR 2006

*Question.* The Global AIDS legislation directs that 10 percent of all Global AIDS funding be spent in behalf of orphans and vulnerable children. This is a seemingly hard requirement to achieve in fiscal year 2006 given that 52 percent of funding has been cut from the "Displaced Children's and Orphan's Fund."

How much is being spent to assist displaced HIV/AIDS orphans and vulnerable children and how will USAID meet the fiscal year 2006 requirement in the Global AIDS legislation?

*Answer.* The Office of the U.S. Global AIDS Coordinator informs us that as of June 2005, total planned allocations of fiscal year 2005 Emergency Plan funds for the care and support of orphans and vulnerable children was approximately \$82.5 million, or 7 percent, of Emergency Plan funding in the 15 focus countries.

USAID, as a primary implementer of President Bush's Emergency Plan for AIDS Relief, is a part of the interagency orphans and vulnerable children (OVC) working group that assists the individual country programs to identify barriers and help meet the 10 percent requirement. Through this interagency process, we are confident that the fiscal year 2006 budget will meet the 10 percent funding requirement for the care and support of orphans and vulnerable children.

#### VULNERABLE CHILDREN

*Question.* The Vulnerable Children section of the Strategic Pillar category on Global Health has been cut by 63 percent. This is a drastic cut in light of the needs of children. Children are our bridge to the next generation and we must address the issues that vulnerable children suffer from.

What is the rationale behind such a severe funding cut for these children?

*Answer.* Saving the lives of children is of prime importance, and USAID is committed to improving the health of children. USAID supports various categories of activities in this area, including vulnerable children and programs to address the primary causes of most under-five mortality. We have had to make difficult choices in our budget request, however. Overall, we have tried to protect funding for HIV/AIDS and Child Survival and maternal health programs that support life-saving interventions with the most impact on the main killers of children.

Within the Vulnerable Children funding category, the request reflects funding only for the Displaced Children's and Orphans Fund. This is an extremely important program that has positively changed the lives of millions of marginalized children over the years. Because of our budget constraints, we were not able to request funding for other activities and specifically for vulnerable children, typically included in the appropriations. The difficult choice we made was between those activities and our core child survival programs, and, for the reason stated above, we determined that core child survival activities were a higher priority.

#### CONCLUSION OF HEARINGS

Senator BENNETT. Thank you all very much. That concludes our hearings.

[Whereupon, at 4:03 p.m., Thursday, May 26, the hearings were concluded, and the subcommittee was recessed, to reconvene subject to the call of the Chair.]