

Sen. Kaine: I want to call the Sub-Committee Meeting to order [audio skip 00:17:17] ... Ranking Member Senator Barrasso and expect others to attend, and I want to welcome our witnesses. We've got a good panel today to address important issues. John Murphy, who is the Vice President for International Affairs at the U.S. Chamber of Commerce; Bill Lane who is the Co-President of the U.S. Global Leadership Campaign, and also the Director of the Washington Office for Caterpillar ...

Bill Lane: [No microphone 00:17:38]

Sen. Kaine: He's brought a visual aid, I highly approve. You guys didn't get the memo, Todd and John; and finally, Dr. Todd Moss who is Vice President for Programs at the Center for Global Development.

The purpose for this hearing and it's the first hearing of the International Development Sub-Committee and this Congress is meant to compliment full Committee Hearings that we've had on the President's FY 2014 International Affairs Budget Request. We've heard, as full Committee both from Secretary Kerry, and Administrator Shah about the justification for the budget request from within the administration what they need, what they plan to do with it and how we'll be able to measure their success. Those were important hearings.

I had the opportunity to introduce Senator Kerry for his first major foreign policy address as Secretary of State which occurred at the University of Virginia, the university started by a Former Secretary of State, Mr. Jefferson, as we call him in Virginia, Mr. Jefferson. Secretary Kerry made the compelling case for foreign aid. Foreign aid is about 1 percent of the Federal Budget, and Secretary Kerry lay out the good that it has done, but also in a changing world the good that it still can do including an openness to change and reform.

Foreign assistance has traditionally served U.S. National Security interest, commercial interest, and also addressed global humanitarian concerns. During the State of the Union Address in February, President Obama laid out a very ambitious goal about eradication of extreme poverty within two decades, and we've heard Administrator Shah sort of focused on two deliverables in that score, reduction of death of children up to age five, elimination of hunger as the two measurables that we would work on in this area.

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

Before we hear from Senator Barrasso and the Witnesses, I'll just set the stage for a couple more minutes: The history of foreign assistance, investments in this country, generally was justified by national security concern for the primary kind of trend-setting U.S. investments through the Marshall Plan and thereafter were a way to prevent or slow down communist influence and secure the United States' support during a Cold War era.

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

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

It's been a huge shift in development assistance in the last couple of decades, and it's a shift that we ought to mention because it affects what we do going forward and how we measure the success of what we do, and that shift has been where assistance dollars come from. Basically the story, I would say, of the last 20 years, there's been a dramatic increase in private sector resource flow to development assistance.

The resource flows developed to development countries are currently dominated by private transaction such as foreign direct investment, portfolio investment, philanthropy, remittances. Collectively, these account for now 87 percent of the global total of development assistance. The donor governments and multilateral development assistance only account for 13 percent of resource flows, and this is a complete reversal from decades past where the governmental assistance used to be about 80 percent in total, private development assistance at 20 percent.

Foreign direct investment just using that, so developing countries saw 293 percent increase from 2000 to 2010 in FDI and if you look at the 30-year period from 1980 to 2010, the statistics are even more stark. The bilateral, multilateral assistance in that 30-year period grew by 280 percent, now this is now global dollar number, but foreign direct investment inflows to developing countries grew by nearly 7000 percent, admittedly from a very low base, but you can see

where the momentum is going. This is happening, the shift of development assistance into the sort of private side of the equation for a number of reasons.

The recent recession transformed the world economy and including a reordering of relative national economies. Emerging economies particular China have begun to be involved in assistance in new ways, developing countries are seeing more rapid growth, the growth of the middle class, strong commodity prices, they have a liberalized trade. Mexico is a wonderful example of a company that's trade-liberalized and is now a more open economy making foreign direct investment and trade easier.

A developing country's share of global GDP is steadily rising; overseas markets represent 95 percent of the world consumers and 80 percent of its purchasing power, and now half of U.S. exports go to the developing world, and these markets, in all likelihood, are growing and they will continue to grow at a faster pace, than our traditional trading partners. All of those factors have accounted for this tremendous increase in the private sector foreign direct investment and the increase in development dollars on the private side of the ledger.

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

We are here today to have the hearing to talk about these new perspectives on development assistance in light of the presentation of the President's Budget, looking forward, what we should focus on. I look forward to hearing from the Panel; we've got three great witnesses about a number of issues, the U.S. Government interest in international development. We continue to make that case to our public about every dollar we spend in the budget, international development is no different.

How this public-private partnership model is growing and the important of nurturing those partnerships, the way the U.S. can better leverage private partners, and in a public-private partnership model what that says in terms of accountability and how we should measure the success of our efforts, and always, always the most important question in any hearing like this, how we can improve. We can talk about things that are working well. We can talk about things that aren't working well, but at the end of the day I know my Ranking Member and I, and the Members of this Committee are always looking for strategies to help us do a better job, and I hope we'll hear some creative ideas,

both about things that work, and things that don't, but how we can do a better job from our witnesses today.

With that, I'd like to turn it over to my Ranking Member, Senator Barrasso.

Sen. Barrasso: Thank you so much, Mr. Chairman. I really appreciate your very thoughtful comments. Thank you, for your leadership in organizing this hearing, and I look forward to working with you during this session of Congress, and beyond, on this very important topic. I sure want to welcome all of our witnesses. Thank each and every one of you for being here with us today, and appreciate you sharing your knowledge and your analysis and your perspectives with our Sub-Committee.

I really do appreciate, Mr. Chairman, your efforts to have our first Sub-Committee Hearing on the examination of the cost and impacts of international development assistance. American people are very generous, as you've just stated, individuals, groups and communities across our country give their time and their precious resources to help others; both people to people here, as we are seeing with Oklahoma and the tragedy there, but also to people around the world. There was a very long history of people across this nation generously supporting victims of international disasters, famines, diseases and wars.

I hear from a lot people at home in Wyoming about foreign assistance, and they want to make sure that ... and as they ask the questions, they want to know what's the purpose of foreign aid, is it effective? How effective is it? Is any being wasted? Who is it helping and what value does it add to the United States?

This hearing is going to provide a great opportunity to discuss these questions, and find some of the answers. In fiscal year 2012 the United States spent over \$37 billion for international developments about 5.7 percent increase from the previous year. About 147 countries received some form of bilateral assistance from the United States. U.S. foreign assistance is often aimed at promoting democracy and economic development, as well as humanitarian efforts, as you've mentioned, Mr. Chairman.

With the national debt, however, quickly approaching \$17 trillion it's irresponsible for us to just borrow more money to fund initiatives if they are failing to provide results or real value for the taxpayers. The government must be a good steward of U.S. taxpayer funds. Every government branch and agency needs to be carefully evaluated and streamlined to eliminate duplication and wasteful spending.

I believe each program must be carefully analyzed to ensure it's being designed and implement in the most effective and efficient manner, the time for

unaccountable government spending must come to an end. In October of 2012, USAID's Office of the Inspector General indicated that one of the most significant challenges facing their agency is the ability to demonstrate results through performance management and reporting.

All foreign aid programs need to be rigorously evaluated. Most aid programs are not evaluated to determine the actual impact of the assistance. How can we determine whether taxpayer dollars are being used wisely when it is unclear if it has succeeded or failed? I believe Congress needs (1) to ensure that programs focused on U.S. priorities. Congress to evaluate the effectiveness of all the programs, we need to support programs that are getting real results, and we need to eliminate programs that aren't working.

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

Sen. Kaine: Thank you, Senator. We will not begin with witness testimony. We'll just move left to right: Dr. Moss, Mr. Murphy and Mr. Lane.

Dr. Moss: Thank you. Thank you, Chairman Kaine. Ranking Member Barrasso, distinguished Members of the Committee.

U.S. Development Policy is about more than foreign assistance, while it's important to maintain a robust bilateral aid program, it's probably more vital that we consider when not to use bilateral aid, and instead when it might better to use multilateral channels, or when non-aid development tools might be more effectively. U.S. Development Policy should be critical in promoting U.S. national interest around the world. This includes our security, economic and humanitarian interests and in remaining actively engaged around the world. Unfortunately our aid and development policies have too often underperformed.

Yes, there are bit successes where aid and development policy have helped achieve U.S. policy aims. For example, U.S. support for reconstruction in Liberia, or independence for South Sudan, and clearly well-run aid programs can save lives. PEPFAR is today providing life-saving drugs for some five million people. Those people would not be us were it not for this program; but there are also very severe limits on what we can do with aid and development policy.

We should be very humble about our ability to shape complex systems from the outside. There are also far too many examples of shameful failure. The U.S. promised \$3 billion for Haiti to build back better, yet some three years later we've got about 400,000 people still living in tents.

Mali as well, I had the tremendous honor to work in the State Department and I worked close on Mali, so I know how badly our efforts to fight terrorism and promote democracy in that country fell short. Now I believe that these disappointing records stand from a structural problem in how the U.S. Government approaches these issues. The current administration has launched several, very well-intentioned efforts to try to upgrade, USAID Forward, the first ever QDDR and a separate White House Presidential Policy directive on global development.

Now, USAID Forward is positive in pushing for open data and modern evaluation methods, but overall these are very, very modest steps. The QDDR after sapping momentum for aid reform by taking more than 18 months is probably making matters worse by adding to fragmentation and confusion in the system. The presidential policy directive is bold, and I believe very much in the right direction, but it's not really being implemented. I don't believe that these efforts will fix U.S. development policy.

I also don't believe that these problems can be solved by more money, by stronger anti-corruption oversight powers, or by another bureaucratic layer to try to coordinate U.S. agencies. In fact, I think any of these approaches are likely to make our tools and policy even less effective. Instead I see three fundamental problems.

First, there just too many federal agencies involved. Some 24 separate agencies report aid to the OECD, while the British model of a singular cabinet level development agency doesn't fit within the U.S. political system, having 24 agencies doesn't work either

Second, foreign aid has too many, often conflicting objectives. Lael Brainard, now Treasury Undersecretary found that U.S. foreign assistance had more than 50 different goals. When we have too many priorities then we have none. At Worse, our objectives are entirely divorced from the appropriations process. Instead of setting goals in a strategy and then allocation resources to meet those goals, our system, instead, is an aggregation of congressional directives and single-issue initiatives. Our strategy is just the sum of those disparate parts.

If our goals are to support girls' education in Pakistan, or fight malaria in East Africa, or promote electricity in Tanzania, it might most effective to use AID or it might be better to use the African Development Bank, or perhaps The Global Fund, but our system doesn't allow for that decision where you'd weigh tradeoffs and consider these different channels. It doesn't allow those decisions to ever be made.

The third problem is that the interagency process is broken. The interagency process is broken. The interagency that should work out tensions and tradeoffs

in U.S. policy is, as anyone who works in the Federal Government can attest, deeply dysfunctional. Every initiative is a fire drill and these require intense direction from a very small and heavily-overburden National Security Council Staff. The result is too often: delay of key decisions, duplication of effort and ultimately little accountability. If all agencies are collectively accountable, then no one is accountable.

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

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

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

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

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

The good is that many of these tools already exist. The bad news is that are spread across multiple agencies including: OPIC, TDA, USAID, Commerce, Labor, Treasury, USDA, USTR and many more. A simple first step would be to bolster OPIC with multiyear authorization, equity authority and perhaps a modest grant window. Even better would be to turn OPIC into a full-service U.S. development finance corporation by adding things like TDA's feasibility studies window, the

USAID's development credit authority and select programs from other agencies that promote the private sector.

A U.S. Development Finance Corporation could be built at no additional cost to the budget, but simply allowing OPIC to retain some of its profits. More importantly, this could provide a platform for coherence of all these U.S. policy tools in support of private sector degrees development. An approach like the U.S. Development Finance Corporation would not only be more efficient, but is probably necessary if the U.S. is going to achieve our ambitious goals such as creating business opportunities in the new emerging and frontier markets or promoting electricity in Africa.

For all the reason I've outlined, our current systems simply cannot deliver on those goals. U.S. development policy must be careful to remain ... to be careful not to remain stuck in the past, or the United States will find itself left behind.

Thank you.

Sen. Kaine: Mr. Murphy. Welcome.

J. Murphy: Thank you, Mr. Chairman. Senator Barrasso. I'm pleased to speak today about the importance of funding a robust international affairs budget from the perspective of the U.S. business community.

No priority facing our nation today is more important than putting Americans back to work. As a nation the biggest policy challenge we face is to create the 20 million jobs needed in this decade to replace the jobs lost in the recent recession, and to meet the needs of a growing workforce.

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

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

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

However, U.S. companies risk falling behind if the Federal Government fails to maintain a significant diplomatic and economic presence overseas or to provide American businesses with the essential tools to level the playing field. Competition is fierce in fast-growing markets; in Southeast Asia, Latin America, Africa, and firms based in other parts of the world are actively working to boost their own market share, and this competition is only becoming more intense. Some studies estimate that China's Government-supported economic development programs in Latin America, Asia and Africa, grew 25 fold in the five-year period from 2002 to 2007.

In its first official report on foreign aid policy the Chinese Government indicated that its budgeted foreign aid grew by nearly 30 percent per year between 2004 and 2009. While the United States in most developed countries have been moving away from tied aid, China's development assistance is often contingent on requirements to purchase products or services from Chinese companies. For example, the Chinese government has offered loans to African governments on the condition that they buy telecommunications equipment only from Chinese companies.

Now, in this challenging environment, unilateral disarmament is not the answer; so we need the International Affairs budget. Let me give some examples. We see this with the Export Import Bank, EXIM, which provides vital financial guarantees to help American businesses export. Last year EXIM support export sales to sustain nearly 255,000 American jobs at 3,400 companies. EXIM is especially important to small and medium-sized businesses, which account for more than 85 percent of its transactions.

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

Further, far from being a subsidy for corporations, EXIM charges fees for its services that generated more than \$1 billion net, in revenue for the U.S. Treasury last year alone.

Similarly OPIC, the Overseas Private Investment Corporation provides U.S. investors with financing, guarantees, and political risk insurance when private sector financing is unavailable. Often this is in the supportive key foreign policy objectives. Now, partnering with the private sector is the hallmark of OPIC's work, and historically, every dollar of OPIC support has leveraged about \$2.70 in private sector investment. Like EXIM, companies that use OPIC's services pay interest fees and premiums for those services, and this allows OPIC to operate on a self-sustaining basis at no cost to the U.S. taxpayer. Last year OPIC earned a net profit of \$272 million.

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

Program supported by USAID, the MCC and other multilateral development banks offer many other examples which I'll leave aside given the short time. Just consider quickly the following examples of collaboration between U.S. companies, large and small, and programs supported by the U.S. International Affairs Budget.

In 2011, Walmart partnered with USAID on a regional agreement in Central America named Tierra Fértil, Fertile Soil, to support farmers in that region. The initiative helped farmers diversify their crops and improve their quality, all while meeting real market needs.

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

In conclusion U.S. companies and the workers they employ need the support of these agencies which are funded by the U.S. International Affairs Budget; they need them to be competitive. This partnership requires sustained, sufficient funding. The International Affairs Budget strengthens our economy by shoring

up these export markets, promoting development and good governance and reaffirming U.S. leadership.

At stake is America's standing in the world, our ability to exert positive influence; our reputation and our brand and our best hopes of reducing unemployment. The U.S. Chamber looks forward to working with members of the Sub-Committee on this and other issues.

Thank you very much.

Sen. Kaine: Thank you, Mr. Murphy. Mr. Lane.

Bill Lane: I'm Bill Lane, Caterpillar's Director for Government and Corporate Affairs.

I'm preparing today, but I'm also preparing today in my capacity as Co-President of the U.S. Global Leadership Campaign. An organization that brings together Republicans and Democrats, business and NGO leaders, veterans and retired military brass, and faith-based volunteer across the country.

What unites our strange bedfellow coalition is the conviction that development and diplomacy programs are vital to America's economy, our national security and our values.

I'm proud to have worked for Caterpillar for the past 38 years. As one of America's most successful exporters, Caterpillar has long realized that our prosperity is directly linked to economic currents and trends that are occurring outside of our borders. Today trade supports more than 38 million jobs in the U.S. and the emerging markets of the developing world are growing at a much faster rate than in the developed worlds.

Already they are the destination of more than half of U.S. exports and as I said before, growing at a much faster pace than what we are seeing in the traditional markets, but success in this requires engagement, persistence, commitment and at times support from the U.S. Government.

I recall 30 years ago, American business often said: *we believe in trade not aid*; in effect saying: U.S. Government programs should focus on reducing trade barriers, rather than fostering development. That may have been a great sound bite, but it didn't fully reflect the reality of international commerce. While we believe in the importance of free trade more now than ever before, we also know that countries that have been devastated by AIDS or malaria do not grow. Nor do countries that lack transparency or the rule of law.

While we must always make sure that U.S. Government resources are spent [wisely 00:47:19] the reality of international commerce is that trade and aid are

often mutually supportive. The State Department, USAID, the MCC, OPIC, just to name a few, are funded by just 1 percent of the U.S. budget.

At Caterpillar, we found that this teamwork approach, working with the government bears results. Teamwork has been demonstrated through private-public partnerships, where one can leverage government funds with the creativity, innovation and core business resources of the private sector. For example, last year Coca-Cola, the largest employer in Africa, committed millions of dollars on the Continent as part of a new partnership with USAID and the Peace Corps to expand sustainable access to clean water.

I must say, as part of my work on the HELP Commission, of all the brands I saw in this part of the world, the Peace Corps is one of the strongest brands I've seen anywhere, and it really does reflect well on our values and our priorities.

At Caterpillar we are working closely with the global communities to build infrastructure and the International Youth Foundation to train young people in the developing world. For me, the best example that illustrates the importance of the international budget is Columbia. In the late 1990s, Columbia was on the verge of being an anarcho terrorist state. With the leadership of President Clinton and Speaker Hastert, the U.S. and Columbia began a multifaceted partnership called Plan Columbia.

It was a sustained program that included security and development assistance to tackle narcotics-funded insurgency, the bottom line is, it worked. Thanks to the substantial improvements in the equipment ... equipping, training and professionalism of the Columbian security forces, the drug lords and the associated guerilla groups effectively lost control of the countryside.

At the same time, U.S. Development Assistance helped Columbians build infrastructure, provide education and medical care, and put in place judges and police who respected the rule of law and human rights. USAID assisted rural farmers in developing alternative crops to the coco plant which has helped lead to a sharp decline in the smuggling of Columbian narcotics to the United States.

During the same time, U.S. trade with Columbia tripled, reaching over \$14 billion in 2011. The U.S. is now Columbia's largest trading partner and the Free Trade Agreement that went into force last year is expected to add billions more in annual commerce between our two countries. For the folks living in Peoria, Illinois, Plan Columbia and the reforms embraced by the Free Trade Agreement meant that Caterpillar now has a destination that consistently ranks as one of its top ten export markets. Perhaps more remarkably, Americans also have proof that in Washington, Republicans and Democrats can work together over a sustained period of time and get results.

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

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

Thank you.

Sen. Kaine: Thank you, to all the witnesses. We'll begin two rounds of questions, seven minutes, and I'll just begin with the picking up on Mr. Lane's ... actually a combination question.

Dr. Moss you talked about the fragmented nature of the number of agencies within the Federal space that work on the international development area, and in looking at that testimony and the chart that you provided it was the kind of thing that makes you think, boy, this is a complicated system.

Mr. Lane you talked about Columbia and the obvious success in Columbia, and that was a sort of a full government approach from the United States that involved military, it involved other security agencies like DEA. It involved trade, it involved Congress taking steps with respect to the Free Trade Agreement, so there ... USAID, a lot of different parts of the U.S. Government played a role in this comprehensive plan and it's been a success story.

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

Dr. Moss: When we think about our relations with partners in difficult states overseas, we are going to have complex interests. It's not going to be ... we are never going to have a single interest, and agencies that we can bring to bear have different objectives, DOD and State very often their complimentary what they're looking at, but their objectives are very often, different; same with USAID.

To just give you one example: DOD is obviously going to be interested most in security and looking at very short-term security concerns. USAID, perhaps they're going to take a longer-term development perspective. Maybe they're thinking about long-term transformation of trying to build a capable partner over 10 or 20 years. The State Department is trying to ensure that we have solid partnership with as many friends around the world at the same time, so AID might want to focus our resources in places where they think they can be transformative over the long term.

They would want to, perhaps, close missions that are too small or aren't working, whereas State to see our AID missions as part of our international diplomacy, part of making friends around the world, their preference would be to spread it around the world. DOD of course wants to go where the action is, so you have the triple-Ds of defense, diplomacy and development, sometimes they come together, but very often they don't. Perhaps in the case of Columbia that these things came together and they worked quite well, but those are, more often than not, the exception rather than the rule; and so I think we should build the system in a way that can manage those tensions and make those tradeoffs rather than assuming, you know: we are one big, happy family, we have the same objectives and we are all moving in the same direction. Those were the exceptions.

Sen. Kaine: Mr. Lane.

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

You moved over the Egypt, it was the exact opposite. It seemed to be we have very bifurcated operations. You go to Honduras, where the focus was on infrastructure, AG development, here too; results that were quantifiable and positive, so it really varied quite a bit. As far as the reorganization that Dr. Moss talks about there has to be some consolidation that takes place. What is realistic and what's not given the preview of the State Department is subject to debate, but where foreign assistance works, it works.

In Africa, taking on the plague of AIDS, you went to small towns in Northern Uganda which were coming back to life and it was because of the PEPFAR program, and at the time, and this was in 2007, I found that President George

Bush was more popular in Northern Uganda than he was in Texas, and I think that's probably still true.

Sen. Kaine: Mm-hmm (Affirmative). Yeah. Good example. Mr. Murphy I want to drill down on something you testified about the degree to which other nations provide more export assistance than we do. Was the stat that European nations generally about triple, and India and China about four times the kinds of export assistance to their private sector. If you could elaborate on that a little bit.

J. Murphy: Sure. I was referring in that case particularly to trade finance.

Sen. Kaine: Trade finance?

J. Murphy: Just about every country around the world has an official export credit agency. In fact, I think China has three or four of them, and it's been very notable that there's been a huge increase in the resources that countries are making available to finance exports. OECD has estimated there's a trillion dollars of this trade finance swashing around the global economy today.

In the case of China, that's one estimate that it's four times as much as our little EXIM Bank is providing and [EDS 00:57:26] similarly, so what we find is that there are many circumstances where U.S. exporters are going head-to-head with competitors from other countries. Those other countries, they have secured the finance that they need to make the deal, often on very generous terms, and if the U.S. Company doesn't have that same kind of backing they're going to lose the bid.

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

Sen. Kaine: In hearing your testimony, the notion that we are bringing down trade barriers, which is generally something I strongly support, that is important but if the financial assistance provided is wildly different among nations, that's a different kind of a trade barrier that takes a leveling playing field.

J. Murphy: Yes.

Sen. Kaine: Then it makes unlevel again.

J. Murphy: I would just add that securing that level playing field is an important goal of this administration as I understand it. There have been negotiations conducted in OECD, for instance, on large aircraft, and those agreements have resulted in

aircraft manufacturers in the United States and in Europe being obliged to pay much higher fees, such that the financing terms are now really on a par with commercial financing.

That effort is ongoing, but we also see that, just sticking with aircraft for a moment, China is developing a huge domestic aircraft, civil aircraft ... agency and they are not going to be ... there is no sign that they are going to be committing in the near term to follow those same kinds of disciplines to keep the financing at a commercial level.

Sen. Kaine: Senator Barrasso.

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

Dr. Moss: Yes. Thank you. The traditional way that we measured projects was on inputs. How much money did we spend? How many things we deliver? The next level was, which is still a leap in many areas, is let's measure outputs. Okay, we spent \$10 million for school construction. Did those schools actually get built? How many teachers actually got trained?

That would be a big leap forward if we were going to say: look, we will pay only for the number of teachers trained, only for the number of kilometers of road actually built and we'll come after and do that. Our system doesn't handle that all that well, because it's contingent finance it might be multiyear, so certainly we should be thinking about flexibility to allow our budget system to handle these contingent financial obligations, but the golden chalice here is not to go to outputs, but to go one step further to outcomes.

Outcomes are the real results that we are looking at, and what cash on delivery ... the cash on delivery model does it pays for outcomes. What do I mean by that? Let's say, we want to support girls' education in Pakistan, what we would pay is not for ... we wouldn't say how much are we going to spend on education, we wouldn't even say how many schools are we going to build or teachers we are going to train, we are actually going to pay for educated girls in Pakistan by ... perhaps through how many children take an additional test and are those test results published?

What that would do is not only would we only be paying for what we hope to achieve, but we would ... there's no way sitting in Washington, we are going to

figure out: how do we actually get girls educated in Pakistan? We would put the onus of that onto the authorities there to figure out.

Is it building schools? Is it training teachers, is it something else? Usually it's something else that we don't recognize, and cash on delivery puts that there and also in terms of taxpayer value it guarantees you're only paying for things that you actually get. The trick is going to be, trying to make this fit within the U.S. Budget system.

Dr. Moss: ...There's no way sitting in Washington, we are going to figure out: how do we actually get girls educated in Pakistan? We would put the onus of that onto the authorities there to figure out. Is it building schools? Is it training teachers, is it something else? Usually it's something else that we don't recognize, and cash on delivery puts that there and also in terms of taxpayer value it guarantees you're only paying for things that you actually get. The trick is going to be, trying to make this fit within the U.S. Budget system.

Barrasso: You had mentioned so many conflicting and competing policy objectives that sometimes you're not able to achieve any of them, and it's clear that we have to streamline and focus our top priorities, so when I think about assistance, what objectives should be left to others to handle? Where should we work on our core competencies? Someone mentioned Tanzania and electricity. I've had a chance to be there with Melinda Gates and see what the Gates foundation is doing there, in terms of agriculture work, in terms of disease prevention and treatment and early detection. How do you see that playing out?

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

You don't want to do electricity in Tanzania with grant financing, you want it to be commercially viable, but you need that public policy nudge. OPEC would be the logical lead, but given that OPEC is a small agency, the State Department, I just want to make my former colleagues, the State Department, very expansive and imperial, in a sense, within the inner agency.

Everybody wants to take the lead, I'm sure USAID thinks they could take the lead there too, but I do think projects that should be largely commercial and business driven an agency like OPEC makes the most sense, and we need to be able to give them the tools to achieve that.

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

J. Murphy: I think that there are ... yes that I think there are a number of elements in U.S. foreign policy that can and should be brought into play to support U.S. companies when they're faced with expropriation. It's a matter of public statute, for instance, that the generalized system of preferences; the preferential access to the U.S. market, that those benefits should not be given to a country that expropriates without compensation. I think in the area of foreign aid as well, that's something should be taken very much into consideration.

Sen. Barrasso: Mr. Lane, you talked about what we needed to do in terms of foreign aid, from your past experience not just with Caterpillar, but from the Commissions on which you serve, and you talked about economic development for national security as well as for [inaudible 01:05:13] consistent with our values.

Then you mentioned the free trade agreement with Columbia, I had a chance to visit with President Santos in Cartagena, in January of 2011 and at that time he was saying: the United States has made this incredible investment to turn what could be an anarcho state around, and was saying: what we were delaying, the free trade agreement for extended periods of time, and at what point do ... sometimes we've invested wisely, and through either a political position that we take or a military position, kind of, undermine what another branch of our government is trying to do and accomplish with the country.

Just if you could comment?

Bill Lane: As a businessman this is the source of frustration, because what we often find in any kind of negotiations or trade agreements or the implementation thereof, we often fall prey to notion that the perfect is the enemy of the good. At some point you've just got to take a good deal, but often we wait and wait. In business we never wait and wait. Once it's a good deal we take it, and we start getting results. It should not take longer to expand the Panama Canal than pass a Free Trade Agreement with Panama, and that's nearly what happened.

Sen. Barrasso: What happened?

Bill Lane: By the way, for a couple years we found that our exports ... expanding the Panama Canal was a big deal for Caterpillar, anything that moves that kind of dirt really gets our attention, and we were, at times, exporting more to Panama with three million people went to Korea which is one of the 10 largest economies. We wanted a sense of urgency, and I think that's what we all need to do at some

point. It's always seductive to hold out for the perfect, but at some point let's take a good deal and move on, and it took way too long to get a lot of those FTAs through. I hope when we move forward with the agreement with Europe, and the TPP and others we get to a point where we can actually get something to where it starts benefiting the U.S. economy and the global economy.

If could just end with one observation, in my entire career at Caterpillar, exports are important, we have always taken export market seriously, but the places where we used to export were developed countries. It was Europe; it was Japan, Canada, Australia, and oil-producing countries.

Today, exports are more important to Caterpillar than ever before, well over half of what we produce we export, but over half of our exports now go to non OECD countries. Columbia, Chile, Peru, South Africa, these are important markets that are driving employment in the United States, driving employment in Illinois, and it is absolutely critical that we recognize at some point that while it's not a perfect process, when we engage in countries and we help them develop, it pays dividends down the road, and at times big dividends.

Sen. Barrasso: Mr. Chairman, if you get a chance to look at the book ... the path between the [inaudible 01:08:07] and the building of the Panama Canal, I think it was the first time a President of the United States left the United States during his presidency, and it was Teddy Roosevelt, and he's there operating a steam shovel in this picture. I don't if it was [crosstalk 01:08:16].

Bill Lane: If I could do a commercial it was, it's a Bucyrus steam shovel, and we just ... we acquired that fine company about two years ago, and it's just an outstanding organization. We thought we made big products until we bought Bucyrus and the steam shovels they produce make some of the largest trucks in the world look small.

Male: Thank you, Mr. Chairman.

Sen. Kaine: Thank you, Senator Barrasso. Senator Murphy?

J. Murphy: Thank you very much, Mr. Chairman, Ranking Member, thank you, for holding this hearing. I'm sorry, to the Panel; that I was delayed in getting here, but I trusted it's been a good discussion.

I wanted to maybe raise a general point and it up to all three panelists, having not heard your testimony, I'm not exactly sure who to direct this to, but as the Arab Spring turns into the Arab Summer and Fall, and Winter, and as we continue our withdraw from Afghanistan, and transition our role in Iraq, you were going to be in a position in which we are providing more and more economic aid and political support to very new Democratic Governments, and

frankly very imperfect Democrat Governments, and though we've been doing this for a long time, Pakistan probably the best example, we are likely going to be doing it more and more.

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

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

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

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

Everywhere else you had enormous excesses. We are going to have to show patience with what's going on in the Mideast, and that means we are going to have to stay engaged, we are going to have to constantly readjust our policies, but more than anything else, we have to have a sense of consistency and patience in order to results. Whether we do this ... whether we provide assistance directly or through NGOs or what have you, there are better experts on that. More than anything else, we have to make sure that we don't get ourselves in a position where it's our way or no way, we've got to stay engaged to make sure that that part of the world starts benefiting from the benefits of the global economy and democracy.

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

Dr. Moss: This gets to the point about what are we actually trying to achieve if you're trying to have an immediate humanitarian response, and the government doesn't have capacity and you don't have confidence, you obviously have to use contractors or NGOs, but if the point, as it will be in most of the Arab Spring countries, that we are trying to help build a capable state, going around the state actually undermines our long-term objective.

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

This is where I think ... what I mentioned earlier that these innovative pay-for-performance contracts can balance the need for a taxpayer ... getting taxpayer value, while also trying to achieve the results we are trying to get; which is, things like service delivery, but also building the capacity of or partner states. It doesn't help for the U.S. to come in and build a gold standard healthcare system, but when we leave there's nothing left behind, so we have to do that slow, hard work, with partner governments that we are trying to bolster and we have to find mechanisms to link those to results, otherwise we are going to be chasing our tails.

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

That passed the Foreign affairs Committee against my objection and many others. I just want to ask the simple question: do any of you think that that

would be a good United States policy to condition aid upon the particular country voting with the United States more than 50 percent of the time at the United Nations.

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

Sen. Kaine: Mr. Moss.

Dr. Moss: Yeah, I'll just add ... look, if our sole objective was to win U.N. votes then that makes perfect sense, but that is way down on the list of U.S. national security interest. It's irritating but it's certainly not our sole objective.

D. Murphy: Thank you. Thank you, Mr. Chairman.

Sen. Kaine: Thank you, Senator Murphy. We'll have a second round of questions, and will do it as a five-minute round. The whole issue of metrics and accountability and measuring the success of your investment, Senator Barrasso raised that in his opening question, and that's something that we should seek across every line item in the Federal Budget and we need to seek it here. It strikes me that as the model is changing so heavily where less than 20 percent of the expenditures are governmental expenditures, and 80 percent private. The question of coming up with the right metrics is a little bit challenging, or at least it's a different kind of a challenge than existed before.

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

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

It's also that we are trying to achieve difficult things always under short time constraints with lots of unknowns. What do we want in that situation? We want people to have the flexibility to experiment, innovate, try to figure out what's working and what's not working, stop doing what's not working and plus up what is working; but our system ... This is what former USAID Administrator calls the counter-bureaucracy.

The system has made it that everyone is so scared of having a bad project that they're very, very risk averse, and so it's the specter of the Auditor General hanging over every project that means that we are not getting creative projects and frankly, if things start going badly, the incentives are not to cut things off but to try to sweep things under the rug a little bit, so what I think the answer is to be very, very clear on what the objectives of the project of effort will be, try to come up with some metrics that you think would indicate success or failure, and then we need to step back a little bit and judge it based on those metrics.

I think of it more like venture capital. No venture capitalist would run a fund where their Board wasn't nit-picking every single project, because they would expect 80, 90 percent of those to fail, but what you want are those 10 percent winners that are going to really hit, and that's how we need to think about our development assistance as venture capital, and we want to judge that portfolio. That's why I mention the MCC, Compact which have indicators, there's a five-year period, and there are going to be some failures, but a couple of big successes are going to make the entire system work better, and that's the kind of approach that I think we should try to give to our development agencies.

Bill Lane: If I could, because this is a great question. When we were looking at systems programs around the world, initially when your minders take you out in the field, they want to show you the best project they've ever seen, so you do that for a while, and you say, show us the worst.

Show us the biggest of waste of American tax dollars you've ever participated in, and there's always this pregnant pause, and then they go, "We'll show you a U.N. project, and it always worked out that way. What I think you have right now, I think Rajiv Shah as Director of USAID has done a terrific job in trying to bring in matrix, and get a results-oriented programs, but I found that the best programs are where you don't measure success based on any one matrix, you do it based on the overall success of the country or the program.

If you were to look at a plant in Columbia on a day-to-day basis or month-to-month basis, there'd be lots of frustrations, but you look at it from a 10-year perspective it may have been the greatest turnaround story of our generation. You know when it's occurred and then people start talking about the program, like we need to know the plan in Columbia or another Marshall Plan or what have you. During the Marshall Plan there were a lot of problems with the Marshall Plan which no one recalls anymore.

MCC I think really has been a breakthrough policy, it's not being funded to the degree that it was envisioned initially, but when you see that the countries have a stake, and they get to set the priorities and they are accountable, you're starting to see a sort of template, whether it's micro-finance, whether it's AG development programs, whether it's infrastructure, whether it's more

transparency and corporate governance. There seems to be a desire all over the world for essentially the same things. I think it's a plus, I think it's something we can really build upon, but I would be cautious about having any one measure that's going to define success or failure. Whether you're moving the ball down the field, not at what point you score a field goal.

Sen. Kaine: Thank you. Senator Barrasso.

Sen. Barrasso: Just following up on that, Mr. Chairman, because I agree with you in terms of the metrics and the accountability, and as you just said, Mr. Lane, it has to do with the overall success of the country, and then you used the word accountability, accountable to whom? Is there a point where ... and I think, Mr. Moss, you wrote about this at one point, is there a point where too much money raised from either other countries, others in the international community that want to be helpful, that too much aid detracts from accountability, say, to the citizens of the country itself. I don't know if you could comment a little bit about that.

Dr. Moss: Thanks for that question. Look, whenever anybody faces a windfall gain, it changes the dynamics of everything. I went in with some neighbors on the \$600 million lottery last week, we didn't win, I think I could handle the pressures of winning the lottery but I know that that would change all of my relationships. My son is here with me today, he's going to look at me differently, I think these relatives and old friends come out of the woodwork. The pressures become enormous when you have money fall out of the sky for you.

That is true for aid, if you have an external donor that is supporting the majority of your funds, or if you have some offshore natural resource gain, and you're all of a sudden getting these dividends. You didn't do anything to deserve that, you're just getting these windfall gains. That undermines, in the case of a lottery winner, it undermines your incentives to work, like a normal participant in society. That works for countries as well. What countries should be doing is building a vibrant local economy, and having a fair and broad-based tax system; when you get a windfall gain from the outside that undermines that system.

Absolutely having too much money sloshing around in the system, especially in weak states that do not have systems to spend money well, can make things much, much worse, I think we need to be very, very cautious about that.

Sen. Barrasso: Thanks. Either of you want to add to anything ... no. Okay, thank you. Thank you, Mr. Chairman.

Sen. Kaine: Two additional questions that I wanted to follow up on, Dr. Moss, in your opening testimony you really focused toward the end about the need to ramp up our efforts in development finance, and you indicted that we are short of falling behind. I'd like for you to elaborate a little bit on that. What are other nations

doing in the developers finance area? You talked about some of the assets that we have, but what could we do more and why is development finance now such a critical component of a successful development program?

Dr. Moss: Thank you. Development finance is the future of a development policy right now. It's not ... we are still going to need traditional grants but it's not ... that's not where things are moving. China certainly has very large resources and they can bring all kinds of assets to bear. OPEC's competitors, one example, many of them can participate in projects through equity. OPEC has borrowed from participating in equity; they have to use a debt instrument. That puts them in a subordinate position and it makes it very difficult for some of the other partners to work with them.

It's just a minor difference, but in practical terms it can make a big deal, and multi-year authorization. The Agency is always looking for just one, it's got one more year of lifeline that makes it a little bit more risk averse, it makes it viewed and a less reliable partner to outsiders. If it had multi-year, or dare I say permanent authorization, then that would make it a better partner on the outside, and it would I've it some more confidence to take some greater risks. The reason I think that the time is right here is trying to reorganize the Federal Government, massive lift.

The kinds of proposals that we are talking about with creating a U.S. Development Finance Corporation is basically just bolstering OPEC; OPEC is most of the way there and you could just take programs that are sprinkled across the inner agency, put them under OPEC and get a lot more bang for your buck, and I don't think that you would instigate all of the antibodies that you always get when you start talking about restructuring.

Sen. Kaine: Other thoughts on the Development Finance side? Second question is, from any of you, probably the most significant policy change that's part of the President's Development Budget, Foreign Aid Budget, is the Food Aid Policy change, in the status quo. Food Aid largely U.S.-produced and U.S. flag-shipped food aid. The proposal is to mandate that at least 55 percent of food aid be in that ... sort of in that structure, but more of a focus on local food production, and as I've heard Dr. Shaw described it, sort of for two purposes.

One, the development of an indigenous agricultural sector is one of the best guards against hunger, and second, you deal with some of the other ... you get food to the ultimate recipients quicker. Your thoughts on that policy proposal?

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

Sen. Kaine: Your thoughts, Mr. Murphy?

J. Murphy: I would just add that ... my real background is in trade policy and in Geneva at the World Trade Organization where there are efforts underway in connection with having some kind of package of deliverables for a ministerial conference at the end of the year. The long-running agricultural negotiations are still a part of that, and it's clear that it is a priority of many countries around the world, to have some kind of limitations on food aid, because ... and I sight that just to ... this is a recognition that comes through companies ... countries that we need approaches that are more similar to what the President is approaching when it comes to delivering food aid, otherwise the disruption in local markets can be significant and it's ... there's a broad close-look consensus among WTO Members on that.

Sen. Kaine: Mr. Lane, any additional comment?

Bill Lane: The only nuance I would add, and this would be subject for probably another hearing, but the restrictions, the myriad restrictions dealing with EXIM Bank and in all sorts of transportation diminishes the value of the bank. It causes bureaucratic slow-ups and much higher costs, and it really does undercut the effectiveness our ability to use the EXIM Bank in a lot of projects. At some point modernizing the way in which some of these agencies work, whether it deals with content requirements or using U.S. ship bottoms, is something that could really be reformed and allow the agencies to be much more effective.

Sen. Kaine: Great, thank you. Senator Coons has joined us, so we had a seven-minute opening round, we'll just let you roll. Senator Crooks.

Sen. Coons: Thank you, Senator Kaine. Is this your maiden hearing?

Sen. Kaine: It is. It is.

Sen. Crooks: I'd like to congratulate Senator Kaine, who has joined us on the Foreign Relations Committee, and who I very much look forward to working closely with on the issues before this Sub-Committee.

I chaired the Sub-Committee in Africa and have the last Congress and this Congress and particularly focused on how we can be more successful on our development goals, our security goals, our diplomacy, and values goals in Africa, and I think if I understand correctly, you've already had a vigorous conversation about some duplication and overreach in our assistance agencies, some challenges in terms of focus and efficiency and the potentially, very constructive role of the private sector in achieving these goals.

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

Mr. Murphy, if I might just start with you. If you; share a little bit how in the context of the Continent of Africa, the U.S. Government and the public sector side, could do a better job of streamlining and focusing in order to promote an effective and meaningful partnership with the private sector in order to make sure that we are taking advantage of the huge opportunities of the Continent.

Of course Mr. Lane and Dr. Moss I would encourage you to comment on that as well. I recently came out with a report on the 10 at least, agencies that have some handiness, EXIM, OPEC, USTDA, and a raft of others. Any particular things you would urge us to do in this way?

J. Murphy: Senator, first off I just want to say thank you, for your leadership particularly with regard with Africa there, and I know that my colleagues that are focused that program, have greatly appreciated that.

Clearly the case that could be made here for a more strategic approach to U.S. Foreign Policy objectives and commercial objectives in Africa to wed that together, it's a powerful one. You mentioned your efforts in the space in legislation that you've had a hand in that the Chamber has supported. What's needed is the kind of concerted approach that the United States had in the case of Columbia, and we had a very positive conversation about this.

What worked in Columbia was that an approach was established that was bipartisan, that was ongoing over many years, and that received adequate resources from across a variety of U.S. Government agencies, and on top of that as well, a very important ingredient is that the Columbians, they owned the strategy, and it evolved over time, it shifted away gradually from the Military towards ... in that case towards a more economic development front, and now of course we have just celebrated the first anniversary of the Free Trade Agreement and U.S. exports were up 20 percent last year.

We are starting to see other kinds of benefits, and we would ... I think we, in the private sector, would really hold that up as a kind of a model that if there can be the staying power of a concerted strategy that cuts across different agencies that engages the private sector, that makes trade, and commercial engagement a key driver and that we see that as great resources. Those would be top of our list.

Sen. Coons: Thank you. You certainly raised an important underlying theme: receive, adequate, resources and sustained, if I might, Mr. Lane, as you move to this

topic; USGLC has done a wonderful job, I think, at building and sustaining bipartisan support at a time when there isn't bipartisan support for much of anything here. For what is at times difficult to fight for in the 150 accounts are often the target of political rhetoric. Help me understand what's made that successful for Caterpillar, for you as Chief [audio skip 01:33:38], why that's important.

Bill Lane: The U.S. global leadership coalition really serve a unique operation, I mean, I've never been involved in something where NGOs and businesses work so well together, where actually Republicans and Democrats have sort of walled off the political ranker and moved forward in a way that has been positive. I'd like to say, given my experience in Washington and Caterpillar that at the time, I don't think I appreciated this, but on reflection, and I say this as a moderate Republican if there's any left, but I now believe Bill Clinton was America's greatest Free Trade President, and George Bush 43, did more to help poor people around the world, especially in Africa; and neither one of them got one vote for those signature accomplishments.

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

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

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

Sen. Coons: I think that's a good observation. If I might, Dr. Moss, just to your point, I think in your written testimony that USAID and this is mostly in Sub-Saharan African, has saved roughly five million lives, so one of the signature accomplishments of the Bush Administration was the launch of PEPFAR. We are, today, at a point where, there are some obvious potential ways that we could be more efficient more streamlined, and thus help more people at a time when we are under persistent budget.

One of the development models that I think holds some real promise is the Millennium Challenge Corporation in terms of it having clear standards and clear accountability. In a recent meeting with the President of Liberia, she was clearly, intimately familiar with what had to be done in order to achieve a Compact, and I think it is [salutary 01:36:32] thing to have a clear and measurable standards and procedures and outcome.

What's been most successful, and what's been least successful about the MCC is it wasn't listed by Mr. Lane as one of the best-known, most memorable changes in development policy ...

Sen. Coons: ... but I do think it has, there were initially, there was a lot of wasted time and effort in terms of fighting over prioritization and culture. I view it, in the few countries I've been able to visit MCC projects and in my conversations with folks in MCC it has begun to harmonize and be complimentary to other preexisting development structures. How is it working out and is it worth sustaining in its current form or growing?

Dr. Moss: Well, I'm overall a very, very big fan of the MCC. I don't think it was an accident that they decided to set up the MCC as a separate agency, they were trying to start fresh and not be bound by some of the problems that occur in the existing system that I mentioned earlier but I think the lesson of MCC is not the one that we all expected initially. I think it was initially sold as the innovation was going to be the eligibility for Compacts would be based on clear, third party criteria if you are over the hurdle you're in, if you're not over the hurdle you're out.

That's useful that there's been some fights over that, but the real innovation for MCC and where I think you can take the MCC model to other agencies and other context, is this five-year Compact where you have an actual partnership with the partner or government on the ground. You have a set of agreed metrics and the compact is judged over a multi-year period based on those metrics. That is the kind of model that can work even in countries that would never meet MCC eligibility criteria.

I think that we can learn a lot from that, and I also think that the MCC has pushed the evaluation agenda, Administrator Shah has done pretty well within USAID to get an evaluation policy within AID, but the ... using a rigorous independent evaluation, is the way that you can actually figure out, do these results, how were they achieved, what lessons could we learn and apply going forward. The MCC has also really led the way there, so I think it's really been a tremendous success, but necessarily in the ways that we always think.

Sen. Coons: Thank you, Dr. Moss. If I might just, sort of one last question about how our values agenda lines up with our development diplomacy security agenda and the role of the private sector. I often say that we are in race in Africa with a number of competitors trying. China is the most visible, but certainly Russia and Brazil and India and others are very actively engaged in the Continent, see its potential, and yet when an American potential development partner comes in they are often accountable for compliance with the Foreign Core Practices Act and Transparency Standards, accountable to their shareholders or the American Press for environment impact of a proposed development project.

In certain cases they simply choose not to, there was one in Uganda recently that I was familiar with where an American oil development company chose not to continue with the project, in part, because there were some very difficult tradeoffs with environmental standards. They stepped back and there was, I believe, a Chinese company right behind them willing to take it on.

In instances where we declined to provide funding for Compact, because of non-compliance with human rights standards, or freedom of the press, or democracy, or following the constitution in terms of succession. There are other sources of funding which stand immediately next to us and provide an alternative. How can American companies successfully compete in an environment where, at times, their competitors are not bound by comparable standards in terms of transparency and promoting a multi-party democracy and respect for human rights? How can our work through State, AID, MCC and others reinforce that constructive environment?

I see no immediate volunteers.

Dr. Moss: Volunteer. I actually think the SCPA is a good example where a lot of the initial concerns about competitiveness, is flipped. What the U.S. has done through the SCPA is actually raised the global standards and in a way has helped to protect companies from getting themselves in trouble. I think if we based our rules and regulations on transparency, respect for human rights on our values and we implement those, we can help to raise the bar across the marketplace, and if there is a company from another country that's willing to come in pay bribes and asset strip to get it done, that is not going to succeed in the long term.

I don't believe that ... I think the point is, we should take the long view here, and not be mercantilist about individual political deals. We should not sell out our values in order to get a particular deal, because in the long run, if we are right the world will move towards our standards, just like we've seen on anti-corruption. I don't believe that companies that undermine the rule of law to get contracts now will succeed over the long term. It will come back to bite them, that's part of the reason that we with the FPCA in the first place, so I think we should stick to our guns.

Bill Lane: Senator, the issue has been around a long time, Caterpillar in 1974 was one of the first companies to have a worldwide code of conduct and it was right after the Gulf oil, and I'm really dating myself now, scandals in the early '70s. It's amazing, it occurred, that type of activity occurred all over the world, it still occurs in some parts of the world, but during the same time period by playing by the rules, it's amazing to still become a successful organization, and where a country really gets explosive growth, is where they get enough things right, where they start attracting for an investment in a big way.

When that happens that's where you see the transformations really take place. Earlier we were talking about the promise of the MCC and I really think there's a lot of promise, but if you can start getting a lot of the little things, little things or big things, really, right, at some point the combustion takes place and you start attracting foreign investment. Where we did the biggest deep dive in the HELP Commission was in Honduras, and North South Highway, the they Puerto Cortes improvement, you had the AG Development Programs, where we are trying to encourage people to grow something other than corn and rice, and start growing sweet potatoes and cucumber and what have you.

It started raising incomes two three times for farmers that have two or three hectares, and it really makes a difference, and at some point the foreign investment kicks in, and when it kicks in, in a big way, you really do see enormous growth, and the first thing you have when you have enormous growth, is the need for more infrastructure, and the best way to get more infrastructure is to buy Caterpillar products. Let me end with a commercial.

Sen. Coons: I'll note you're the only witness today who brought an actual, physical embodiment of the underlying product and managed to work the ...

Bill Lane: The reason why I brought that, just so you know, and we spent a lot of time talking about Columbia, but these are ... this is a D-11 bulldozer and the biggest bulldozers in the world. They're produced in East Peoria, Illinois, and in Columbia, with the coal mines in Columbia, there are more D-11 bulldozers there than anywhere else in the world. It's amazing how this international commerce really does lift all ships, and even some that are bulldozers that are very heavy.

Sen. Kaine: Any other questions, Senator Coons?

Sen. Coons: If I might just, in closing, I'll reference back to Dr. Moss' point. Of course, I think we should stick to our guns. Of course I think ... but I think we need all of the taxpayer dollars that we are spending across a dozen agencies, and with our partners in the private sector, we need to be pushing in the same direction and we need to be welcoming and encouraging those voices, those institutions and those groups within developing countries, particular in Africa, which is my primary focus, that also have that value, that also have that priority of improving

worker protection, improving environmental protection, improving transparency, because on that playing field I think we will always win.

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

Thank you so much. We just want to say thank you, for a chance.

Sen. Kaine: I want to thank my colleagues for participating, and to the witnesses. You've given us a lot of think about. You've made the case very strongly that the U.S. Foreign Development programs and budget are important, the notion that you mentioned, Bill, a bit ago, that in the past you might talk about trade not aid, and aid done right promotes trade, lays the groundwork for trade, builds the road on which then trade occurs, that testimony comes through loud and clear.

You've also give us some examples of things that have worked and why, and things that aren't working as well as they can and how we can improve them. This is an important topic for American continuous global leadership, we appreciate all your testimony and look forward to doing more work together and with that, just as ... we are about to now vote.

On the floor the hearing is adjourned.