USAID

U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT

March 5, 1997

Ms. Melanne Verveer
Deputy Chief of Staff
The First Lady
The White House
Washington, D.C. 20500

Dear Melanne:

Melanne, I wanted to update you on some of the activities here at USAID that might be of interest to you.

Event w/ UNICEF on Child Survival
USAID and UNICEF are joining together to release the decade report on our Child Survival Program titled, "Saving Lives Today and Tomorrow." On March 11, the Overseas Development Council is hosting a luncheon to announce the release of this report and UNICEF's own report on child survival. Carol Bellamy will join Administrator Atwood in celebrating the report release along with a number of our development partners, members of Congress and media interested in child survival issues.

I have enclosed a copy of the report along with a fact sheet. If the First Lady is interested in participating in this report release, there are three activities we could pursue: (1) we can set up another press roundtable similar to the microenterprise event you held in February. This roundtable could feature the First Lady, Administrator Atwood and Carol Bellamy briefing the press on our child survival activities around the world; (2) the First Lady could discuss the report in her weekly column; or (3) we would love to have her attend the luncheon on the 11th!

International Women's Day
As you know, March 7 is International Women's Day. I understand that the First Lady is committed to participating in a March 12 event hosted by the State Department and featuring Secretary Albright. We will be happy to provide you with talking points on some of our innovative women's programs throughout the world. International Women's Day might be a good opportunity for the First Lady to preview her March trip to Africa or again, be a feature in her weekly column.

World Health Day
Yet another International Day is on April 7 -- World Health Day. The U.S. has been a leader in the effort to eradicate polio around the world. Rotary International (headquartered in Chicago), one of our key partners, has put in $300 million of their own money in the fight and they plan on investing an additional $100 million (I have enclosed a recent New York Times story on this subject). As you may know, polio was eradicated completely in the Western Hemisphere in the early '90's, saving the U.S. $20-30 million a year in immunization costs. The international community's next task is to help fulfill the World Health Assembly's goal of global polio eradication by the year 2000. This would be a good opportunity to highlight the domestic and international commitment to polio eradication by scheduling an event with groups like Rotary, UNICEF, the American Academy of Pediatrics, the March of Dimes, HHS, USAID, and CDC. If you want suggestions of other World Health Day events not related to polio eradication, we would be glad to provide them to you.

Foreign Travel
We are in the process of drafting a summary of our program and visit options for the upcoming trip to Mexico. I understand the pre-advance team identified a comprehensive and creative schedule in Africa. Carol Peasley, the head of our Africa bureau, will continue to work closely with you and your staff on the visit. If you need any additional information from us on either of these trips, please let me know.

Testimony / 150 Account Outreach
I have enclosed copies of Brian's testimony this week to the House International Relations Committee, the Senate Foreign Relations Subcommittee on International Economic Policy, Export and Trade Promotion and the Senate Appropriations Subcommittee on Foreign Operations (3 days in a row!) I think that the overall 150 increase pitch was well-received by both the House and Senate. Senator McConnell went so far as to question why we aren't asking for more money for international development. Thanks to Secretary Albright, we think the tide is finally turning. We continue to participate in the 150 Working Group and Brian continues to speak out on the 150 increase.

Lessons Without Borders
We are in the process of developing an action plan for establishing the Lessons Without Borders Foundation, an independent unit capable of implementing and expanding the program so that communities across the country can benefit from best practices in development. Once we have identified our next steps, we would like to discuss a role that the First Lady can play in this exciting endeavor.

National Campaign for International Engagement

Finally, I am pulling together a small group next week, including a couple of people from outside of USAID, e.g. Terry Bracy, to discuss a possible national campaign to educate Americans on the benefits of international involvement. I had intended to do this long ago, but as you know, we've had an action packed year thus far at USAID. We'll try to attack this project with creative energy and speed!

If you have any questions or need additional information, please don't hesitate to call me at 647-4200.

Sincerely,

Jill Buckley

Jill Buckley
Assistant Administrator
Bureau for Legislative and Public Affairs

Enclosures: a/s

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USAID and Women in Development

The U.S. Agency for International Development's "Strategies for Sustainable Development" stresses that the success of women and girls is essential to sustainable development. The development process must focus on their social, economic, and political empowerment. USAID strives to address the needs of women and girls as part of its development assistance across all regions of the world.

Building Human Capacity: Education empowers women, increasing their income earning potential and enabling them to plan the number of children they bear. The children of educated mothers have a greater chance of survival, are healthier and more likely to complete school -- especially girls. Worldwide, women represent seven out of every 10 illiterate people. USAID's education projects have supported effective strategies to improve girls' schooling, including scholarships for girls, assistance of community development of local schools, teacher training and recruitment of female teachers, and approaches to overcome parental concerns regarding girls' safety at school.

> **Results:** USAID has been very successful in promoting girls' education in South Asia andAfrica. In Bangladesh, USAID provided 6,000 scholarships for girls in secondary schools. Within three years, girls' enrollment increased by almost 60 percent, and in five years, the dropout rate fell from 15percent to just 3.5 percent. In Mali, Malawi and Guinea, USAID supported social marketing programs to promote the demand for girls' education. In Malawi and Benin, school fees for girls in primary schools have been eliminated. As a result, in Guinea, girls' enrollment ratio has increased from 19 to 23 percent since 1990. The sixth grade promotion rate has increased from 55 to 64 percent, while the dropout rate fell from 15 to 11 percent.

Economic growth: Women now constitute over 33 percent of the global workforce. Their earnings are critical to their families. Women tend to invest in the health and education of their children. However, women entrepreneurs face serious obstacles to obtaining credit and other financial services.

> **Results:** To ensure women's access to business development capital, USAID assists them through its microenterprise programs. In the past two years, USAID has provided $300 million under its microenterprise initiative. The Bank Rakyat Indonesia, assisted by USAID in the mid-1980's to develop a new loan and savings program, now reaches about 12 million low-income customers, a majority of whom are women borrowing less than $500. In Bangladesh, the Women's Enterprise Development Project, has directly benefitted 162,000 women through credit, training, and technical assistance to their microenterprise activities. USAID provided $3 million which led to the creation of BancoSol in Bolivia, a licensed commercial bank which provides loan and deposit services exclusively to poor microenterprises. By 1994, after only three years, BancoSol had served 305,000 clients -- most of them Indian women -- with loans averaging $400. The bank makes more loans each month than the rest of Bolivia's banks combined. In all three cases, loan repayment rates are in the high 90 percentile.

Population, health, and nutrition: Attention to women's health, reproductive health and family planning reduces maternal mortality as well as fertility rates and increase children's survival and educational attainment. It also helps combat the impact of the HIV/AIDS pandemic.

Results: In the 28 countries that have received the largest amounts of USAID population assistance, average family size has decreased 40 percent between 1965 and 1993. More than 50 million couples worldwide have access to family planning as a direct result of USAID's population and health program. In Kenya, total fertility rates dropped from 8.1 in 1977 to 5.4 in 1993. This is due mainly to increased use of modern family planning methods of contraception. In Indonesia, each dollar spent for family planning has resulted in a $12.50 savings in public expenditures for health and education.

With support of USAID's Child Survival Initiative, which the World Bank has called a "public health revolution," infant mortality in Senegal has declined 30 percent and child mortality 32 percent since 1980. In Honduras, infant mortality rates have fallen 30 percent since 1985, while Egypt has experienced a 60 percent decline in infant mortality since 1980. USAID has made major contributions to the proportion of the world's children vaccinated against the major preventable childhood diseases, increasing from 37 percent in 1984 to 80 percent in the early 1990s.

Lack of access to drinkable water is one of the greatest impediments to sustainable development. In 1980, 1.7 billion people -- 40 percent of the world's population -- lacked access to potable water. USAID, in collaboration with the World Bank, the United Nations and other donors, committed themselves to the provision of increased access to safe water. By 1990, an additional 1.2 billion people had access to safe,clean water.

The HIV/AIDS pandemic is having catastrophic affects in countries around the world. By the year 2,000, 50 percent of HIV infections will be in women, while already in Africa, more women than men are infected. Since 1986, USAID has provided more than $800 million to HIV/AIDS prevention and research, making it the largest international bilateral donor. USAID has established nearly 400 prevention programs in 42 developing countries. Over 3 million people have received comprehensive HIV/AIDS prevention education and training.

U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT

TESTIMONY

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HOUSE INTERNATIONAL RELATIONS COMMITTEE
Remarks As Prepared by USAID Administrator J. Brian Atwood
Washington, DC
February 25, 1997

Chairman Gilman, Congressman Hamilton, and other members of the Committee, it is a pleasure to appear here today to defend the President's budget request for development and humanitarian assistance. I look forward to working closely with the Committee during the second Clinton Administration. It is my belief that we are entering a new and positive era in our international relations, and that our policies and approaches will be guided by the stabilizing hand of bipartisanship.

Recently, Secretary Albright noted, "In our democracy, we cannot pursue policies abroad that are not understood and supported here at home." I could not agree more. In that vein, I would particularly like to welcome this Committee's new members. I look forward to sharing with you today the reasons why the U.S. Agency for International Development's (USAID's) programs directly advance America's interests.

President Clinton's budget request for fiscal year 1998 includes $19.4 billion for programs in international affairs. This is a modest increase from the previous year, and represents just slightly over 1 percent of the federal budget. More importantly, this budget reverses the dangerous downward trend in funding for foreign affairs. USAID will manage $7.158 billion, or 37.5 percent, of those funds, including both USAID programs and programs administered by USAID in cooperation with other agencies. USAID's request for discretionary funding in the Foreign Operations appropriations bill includes $998 million for Development Assistance, $700 million for the Development Fund for Africa, $190 million for International Disaster Assistance, $11 million for credit programs, $473 million for operating expenses, $29 million for Inspector General operating expenses, $2.498 billion for the Economic Support Fund, $492 million for programs in Central and Eastern Europe and $900 million for programs in the New Independent States. USAID also requests $44.2 million for the FY 1998 mandatory contribution to the Foreign Service Retirement and Disability Fund. In addition, USAID will administer $867 million in PL 480 funds.

The total request for fiscal year 1998 USAID-managed programs represents an increase of $476 million over fiscal year 1997. This increase includes:

- *An additional $292 million for programs in Central and Eastern Europe and the New Independent States.* These transitional programs are designed to aid Central and Eastern European countries and the New Independent States through their difficult passage to democracy and market economies. Helping to secure free societies in this region remains one of America's highest foreign policy and national security priorities. This increased funding demonstrates the Administration's commitment to helping these nations move through this turbulent time and reflects a realization that such sweeping change has also been characterized by uneven political and economic progress. In Central and Eastern Europe support for Bosnian reconstruction and reform and efforts in the Southern Tier countries will be given special emphasis. In the New Independent States, the Partnership for Freedom effort will build on our achievements to date and reorient our assistance program -- beginning with Russia and then in the other New Independent States -- toward longer-term and more cooperative activities to spur economic growth and develop lasting links between our peoples.

- *$135 million more for the Economic Support Fund.* Economic Support Funds (ESF) advance key economic and political foreign policy interests of the United States by providing economic assistance to countries in transition to democracy, supporting the Middle East peace process and financing economic stabilization programs. The largest share of ESF will continue to go to supporting the Middle East peace process, including $52.5 million to be transferred to Middle East Development Bank. The Latin America region will receive ESF funding vital to support the democratic transition in Haiti and the breakthrough peace accords in Guatemala. ESF will also support programs in "fledgling democracies" such as Cambodia and Mongolia. Finally, ESF will be used for assistance in sub-Saharan Africa for elections, political party building and legislative training for countries in transition such as Angola.

- *An increase of $65.5 million in Sustainable Development Assistance*. These funds will support USAID's development goals by encouraging broad-based economic growth, protecting human health, slowing population growth, encouraging environmental protection and advancing democracy. By fostering free markets and open political systems, USAID's development programs are helping to shape a world that is more stable and open to U.S. trade and leadership. Specifically, the "Promoting Food Security" pilot initiative, aimed at improving food security in Africa, will in its first year target $30 million to five nations: Ethiopia, Uganda, Mali, Malawi and Mozambique. This initiative will support policy reform and a range of agricultural research that will benefit not only Africa, but other developing nations as well. Modernizing agriculture, the cornerstone of the economy in most developing nations, increases incomes of rural people, lowers the cost of food for the urban poor and conserves the environment. By furthering agricultural and, thus, economic growth in these countries, the initiative has the potential to both spark U.S. exports and save this country significant emergency relief food costs.

In sum, these modest increases in spending are all vital to helping secure a more prosperous and stable world during the next century. I would also note that this year's request includes a *decrease* of over $15 million in the agency's operating expenses. This decrease is due to a reduction in staffing levels combined with economies achieved by reengineering and the restructuring of our overseas operations.

Recognizing the importance of our unique mission, we have dramatically improved the management of USAID to make it the most effective foreign assistance agency in the world. We have overhauled the agency from top to bottom -- its strategic approach, organization and management. We have demanded that our programs produce demonstrable results. Since 1993, we have reduced staff by over 2,700. We have cut senior management by 38 percent. We have reduced project design time by 75 percent. We have reduced our regulations by 55 percent. We have closed 26 overseas missions and will close six more by the end of fiscal year 1998. Further, USAID is one of the pioneering agencies in implementing the Government Performance and Results Act. All of these actions are designed to ensure that every dollar appropriated to the agency can bring taxpayers the best possible return on their investment.

We know you have questions about our new management systems. Let me try to give you my perspective on what we are doing. You must first understand that our new management systems are not just designed to replace existing financial and procurement systems. We will indeed replace those systems but the NMS is much more than computers or software. Our new management systems are a new way of doing business. As you know, we have redesigned our old project design system to make it faster, simpler and customer-oriented. We have also redesigned our foreign missions to empower employees, to create strategic objective teams and to make our programs more results driven. The new computer system will facilitate these improvements. It is a management tool created to allow us to manage more effectively the other reforms we have adopted.

As we implement the computer portion of the NMS, we are bringing the agency's technology to the forefront of any used in government. We are in the process of deploying a management system that fully integrates project planning, budgeting, a single-entry financial system, a simplified procurement system, and our evaluation system. In the next few years, we will add workforce planning, personnel management and a training module to our current capabilities. All of this will be available to every USAID office worldwide. Deploying such a system in a worldwide operation is not easy, but we have made great progress.

Let me give you a brief status report.

As you know, we activated the NMS computer system worldwide on October 1, 1996. Since then we have been using a combination of the NMS and the old legacy systems to process transactions. To date we have processed 142 contracts and grants in the NMS totaling $252 million and have paid approximately $15 million in invoices plus the $1.2 billion cash transfer to Israel.

Since bringing the system up worldwide, we have been addressing two major challenges. One relates to the need to migrate consistent and accurate data from the old systems into the new. The NMS will not allow us to process any inconsistent or inaccurate data. This forces us to clean up and reconcile data and incorporate it into the new system. We have found this to be a more labor-intensive process than we imagined because the level of inaccuracy in the old systems was even greater than anticipated. Nonetheless, we have made great progress. We have migrated all 8,000 records from the old Financial Accounting Control System (FACS) and the 6,500 records from the Contract Information Management System (CIMS). We still have to reconcile this data and reconcile it with the data from the field Mission Accounting Systems (MACS), but we expect to finish that process by this summer.

Could we have waited until all this data was reconciled before we activated NMS? Could we have phased in the new system one module at a time? We considered both of these options. We rejected them because the integration process would have taken years, and we would still be using the old legacy systems and accumulating additional data of questionable accuracy that would have to be migrated later in a reconciled form. Activating the NMS has forced us to migrate the data more expeditiously and, in the long run, it will save us time and tax dollars.

The second challenge has been the need to create a worldwide, high-speed communications system. We have encountered problems with the two separate telecommunications systems we have been using, but we are making real progress in overcoming these problems. The time needed for transactions has been reduced, and we have several actions we are taking to further reduce this timeframe.

Mr. Chairman, when I came to USAID in 1993, the need for an integrated management system had already been identified. A plan developed in 1992 called for a fully integrated financial management, procurement and budget system but one that did not integrate operations or allow us to integrate field and headquarters capabilities. This much less ambitious system was estimated to cost approximately $100 million. Our judgment was that that plan would not have given the Agency what it needed in a reasonable timeframe and that the cost estimate would most likely have been exceeded.

What we have created is the full-fledged integrated management system I have described. We have consciously sought to deploy this system using state-of-the-art approaches. Each step of the way we have consulted with systems experts at OMB, GAO and the private sector, and we have been encouraged to move forward. My own Inspector General has offered superb advice on which we have acted to correct problems. He has also pointed out that our systems development approach is an unconventional one. That is his job.

I want you to know that I understand the risks, and I believe that our approach will pay off. It reflects the latest thinking in systems development. I also understand there are risks in adopting conventional approaches as well. As business executive Hank Delevati of Quantum Corporation said recently, "The phased approach is longer -- and I contend riskier -- because you won't get everyone involved and coordinated." Quantum Corporation was one of many large organizations that has successfully deployed a new integrated management system using the "all at once" approach.

Last week we had our systems coordinators into Washington from around the world. We want them to know we understand the problems they are having and the solutions we are devising. They now have a better appreciation of the effort we are making. They and we are confident that we will accomplish what other government agencies have not.

Mr. Chairman, we do not seek to mask the difficulties we face in making NMS fully operational, but we are on the right track. This system will not only revolutionize the way we do business at USAID, it will lead the way for the development of similar systems in the U.S. Government. We have been pleased that so many Congressional staff have sat through detailed briefings on NMS. We welcome your vigorous oversight. We welcome it because we know that together we can vastly improve our capacity to fulfill our mission.

In short, we are doing everything possible on the management side to make America's international programs cost-effective. We want to achieve results that serve America's interests. Let me describe how we believe we serve those interests in today's world.

America's Stake in the World

The United States has a vital interest in maintaining a leadership role in the international community, and in seeing that the international community cooperates on the basis of shared values. Nowhere is this more true than in promoting development in poor nations and countries emerging from the long shadows of communism and totalitarianism. Why is this important to Americans?

It is important because we live in a world where trends toward globalization and increased interdependence are powerful and accelerating. This means international cooperation is increasingly important -- in areas as diverse as promoting trade, protecting the environment, fostering democratic governments, reducing rapid population growth rates, establishing market-based economies, stemming the flow of narcotics, slowing the spread of infectious diseases, coping with migration and protecting human rights. In all of these areas, the benefits of fruitful cooperation are significant and lasting, while the failure to work together will be increasingly costly and immediate.

During the Cold War, U.S. leadership was central and unmistakable as the protector of the free world against the threat of communist expansion. U.S. military power and economic dynamism were seen as essential to resisting that threat. But America's leadership then, as now, had a foundation stronger than our Army or our economy. The United States projected a compelling, and widely shared, vision of a world order where democracy and open systems were respected. Our vision of political and economic freedom, of social justice and respect for the individual was as powerful as any missile or any defense system. The United States offered the world not only security, but a better alternative to the Communist vision.

The Cold War is over. We still have the strongest military and the strongest economy in the world. But strength alone is not a substitute for leadership. America's position in the 21st century will depend more and more on the quality of our leadership; on the perception that we understand and appreciate the broad interests of the international community, and that we act with these interests in mind; and on the perception that we still have the best, most compelling vision of a global world order. Equally important, America's domestic interests are now, more than ever before, inexorably linked to events that take place far from our own shores.

Our modest and well-targeted foreign assistance programs directly advance America's interests -- your constituents' interests -- in three direct ways: by helping to prevent crises; by generating dynamic opportunities for expanded trade; and by providing protection from specific global health and environmental threats.

A Diplomacy of Crisis Prevention

One of the most profound areas of concern for the

United States and its allies is the growing phenomena of failed states. One need only open a newspaper on any given day to see the perilous state in which many nations now find themselves. Whether it is rebels fighting in eastern Zaire, hostage-taking in Tajikistan, street protests in Belgrade, Bulgaria and Albania or the constitutional crisis in Ecuador, we are confronted by potentially explosive situations with the potential to trigger conflict or economic collapse.

Since the mid-1980s, the number of man-made emergencies requiring a U.S. government response has doubled. The staggering human, financial and political cost of these conflicts is reflected in the increasing scope and complexity of peacekeeping operations, the loss of human life and the exploding numbers of refugees around the globe. Since the Gulf War, the United States has mounted 27 military operations as a result of ethnic conflicts and failed states. Up to 1 million people lost their lives through genocide in one year in Rwanda. In the former Yugoslavia, the loss of human life in less than four years was the greatest in Europe's post-World War II history. The number of refugees and displaced persons in the world now numbers close to 50 million.

As a nation, we know that we ignore the warning signs of crises only at our own peril. When potential crises erupt into genuine emergencies, it is the U.S. military most likely to be put in harm's way, it is U.S. economic interests that suffer and it is this nation that ends up providing the lion's share of humanitarian assistance to the victims of war and social collapse. It is abundantly clear: The United States has a compelling national interest in preventing and averting crises before they occur. Practicing a diplomacy of crisis prevention is one of our greatest challenges in this new era, and development programs have a lead role to play in these efforts.

As we know from our own daily experience, every country is subject to the internal pressures to some degree of stress from ethnic, religious, economic and other deep-seated conflicts among their own citizens. What distinguishes a country that can endure these internal tensions from one that cannot is the relative strength of its domestic institutions. By institutions, I mean not just government and political organizations, but also tradition, culture, social practices, religion and the depth of human capital. In many cases, conflict is a result of a failure to give people a stake in their own society.

The reality is that most nations in conflict simply lacked the institutional capacity to avoid escalating violence. We see prime examples of this in the former communist world. When communist institutions collapsed, and no strong institutions replaced them, conflict became commonplace. We obviously do not wish to see a return to totalitarian methods, so it is essential that we help these countries put democratic institutions and social conditions in place.

A second category of countries that fall into crisis include nations such as Rwanda, Somalia, Sudan, Zaire, Afghanistan and Liberia. What these countries have in common is that they are among the least developed countries in the world. And, by "least developed" we mean they have the weakest institutions and least developed human resources.

The findings of a recent CIA study of failed states confirm the role of underdevelopment in crises. The study attempted to find the indicators most commonly associated with a vulnerability to crisis. The three leading factors shared among nations who have succumbed to crisis were high infant mortality rates, a lack of openness to trade, and weak democratic institutions. Does this mean that if we simply promote trade, strengthen democracy and provide child health programs that crises would disappear? The study doesn't say that. What it does say is that these variables are reasonable proxies for a nation's relative level of overall development, including a country's willingness to invest in its own people, to concern itself with lower consumer prices and to create institutions to enable the people to participate in the development of their own society.

The implications of this analysis for our foreign policy are profound. Development programs are aimed at enriching human resources, strengthening open institutions, and supporting political and economic reform. By fostering stronger institutions, a richer human resource base and economic and social progress, countries are better able to manage conflict and avoid the dangerous descent into war. Development programs give us the tools we need to deal with the uncertain world around us. I am not here today to say that development programs are an ironclad guarantee against crisis and collapse. But it is entirely fair to say that successful development and transitions out of closed systems vastly improve the capabilities of a country to manage division and conflict. This is clearly in the best interests of the United States.

The challenge of crisis prevention is, in many respects, the logical successor to the paradigm of the Cold War. Through our democracy and governance programs, USAID seeks to strengthen the political, social and economic institutions on which management of conflict *directly* depends. Our efforts at promoting economic growth also encourage economic freedom. Our efforts at human resource development -- in education and health -- ensure that an increasing percentage of the population can take advantage of economic opportunity, social progress and political freedom. Our efforts to protect the environment and to give families the capacity to space their children help ensure that development progress is sustainable.

And there is strong evidence that U.S. foreign assistance programs have successfully helped develop functioning stable democracies. Political freedoms have increased significantly in the countries where development activities have been most focused. Between 1982 and 1996, Freedom House data demonstrates that political freedom improved in 48 countries and grew worse in 30. Of the 29 countries showing the most dramatic improvements in political freedoms, most were significant recipients of U.S. aid over the period. U.S. efforts helped nations such as the Philippines, South Africa, Jordan, Haiti, Bangladesh, Guatemala, Mozambique, Nicaragua, Uruguay and Malawi realize the dream of more open societies.

We have also adopted the policy that nations that do not embrace democracy, and that turn their backs on their citizens, will not receive U.S. assistance. We cannot achieve development results if we have poor partners. We will not work with governments that exclude their people from the development process.

International development cooperation works. In developing countries during the past 35 years, infant mortality has fallen from 162 to 69 per thousand; life expectancy has risen from 50 to 65 years; and literacy has climbed from 35 to 67 percent.

We cannot prevent every crisis, but we can avert many. Investing in these efforts is a small price to pay for a foreign policy that advances our interests in a more stable world.

Advancing U.S. Economic Interests

Let me turn now to the role development programs play in directly supporting U.S. economic interests. For both trade and investment, developing countries provide the most dynamic and rapidly expanding markets for U.S. goods and services. U.S. exports to developing countries in the 1990s have expanded at 12 percent annually, more than double the export growth to industrial countries. This is not just a short- term phenomenon, but reflects a trend that began emerging in the mid-1980s.

U.S. exports to countries that receive U.S. assistance have boomed -- rising by 76 percent in the last five years alone. Between 1990 and 1995, American exports to transition and developing countries increased by $98.7 billion. This growth supported roughly 1.9 million jobs in the United States. Work in agriculture has a particularly high return. Forty-three of the 50 largest importers of American agricultural goods formerly received food aid from the United States -- that's over $40 billion a year of U.S. agricultural exports. A recent study by the International Food Policy Research Institute found that for every dollar invested in agricultural research for developing countries, the export market available for donor countries expands by more than four dollars, of which more than one dollar is for agricultural commodities.

The bottom line is that by the year 2000 -- three short years from now -- four out of five consumers will live in the developing world. USAID's programs are helping these people become America's next generation of customers.

As Latin American economies have prospered, so have U.S. exports and jobs. The region is the fastest-growing market for U.S. exports of goods and services, and also one of the largest. In 1995, the Latin American and Caribbean region accounted for more than 70 percent of all U.S. exports to USAID-assisted countries. Exports of goods to all countries in the region reached $95 billion in 1995, more than three times the level 10 years ago.

Creating the enabling environment for markets is a principal focus of USAID's programs. The connection with development programs, and USAID in particular, is quite significant. U.S. exports are growing much more rapidly to some developing countries than to others. What accounts for these differences? The major portion of the variation is explained by progress in terms of improved policies and institutions -- i.e., the enabling environment for markets.

USAID-assisted countries have been among those that have made the greatest progress in policy and institutional reform over the past decade, including Thailand, Jamaica, Bolivia, El Salvador, Guatemala, Peru, Ghana, Costa Rica, the Philippines, Morocco, Sri Lanka, Belize, Panama, Tanzania, Tunisia, Indonesia, Mali, Botswana, and Uganda. Because of our field presence, technical expertise and experience, USAID can have significant influence in encouraging economic policy reform.

The international financial institutions have also played a vital role in supporting economic reform and restructuring weak economies, especially in countries in transition from authoritarian regimes or from conflict. In response to effective U.S. leadership within the donor community, they have increasingly put their weight behind governance reform, investment in social capital, and environmental sustainability -- significantly complementing U.S. bilateral efforts. U.S. investments in both bilateral and multilateral assistance programs are fundamental to maintaining U.S. leadership within the donor community and to strengthening this complementarity.

There are some who have argued that private capital flows can simply replace the need for foreign assistance programs. However, it is important to remember that foreign assistance and private investments are complements -- not alternatives. By and large, private investment is flowing today into the emerged markets of the developing world, not into countries where there is no rule of law, no financial institutions, no private sector and no predictability. It is only when the enabling environment for markets has been well established -- by recipient self-help efforts often supported by foreign aid -- that private flows begin to accelerate. Eventually private investment and trade will replace foreign aid, and this is what a development program should strive to achieve. But the issue for most of the developing world countries is not best captured by the phrase "trade, not aid." The phrase "aid, then trade" is closer to their reality.

Our development efforts have contributed to economic freedom worldwide. Of the 27 countries with large improvements in economic freedom between 1975 and 1995 (as measured by an index from the Fraser Institute), 22 have been major recipients of U.S. foreign aid. Continued Clinton Administration efforts to promote U.S. job creation through trade and investment abroad must focus on emerging markets in Asia, Latin America, Eastern Europe, the New Independent States and Africa. Hastening the fuller emergence of these dynamic new markets is an essential element of a long-term U.S. economic and foreign policy strategy for the United States. Private capital will play the largest role in bringing the markets of developing nations into the mainstream of trade and investment, but some of the most promising developing markets are still hampered by trade barriers, other policy distortions and human capacity constraints that discourage trade and private capital flows.

U.S. development assistance is useful in removing these structural and policy barriers. By reducing barriers that keep out foreign trade, by fostering fair and transparent regulatory and legal regimes, and by building capital markets, USAID has been at the cutting-edge of the continued steady growth of America's economy.

Protecting America Against Global Threats

Foreign assistance programs are also vital in protecting the United States against dangers that are global in scope. By treating infectious diseases like AIDS, polio, and emerging viruses like ebola before they reach our shores, USAID lowers health costs here at home. Our environmental programs help protect the air and water that Americans share with the rest of the world. Our family planning programs help slow rapid population growth and make for healthier and better-cared-for families around the globe, ultimately reducing instability, migration and refugee flows.

Let me give you several specific examples of how all Americans can benefit from our development efforts abroad. USAID has long been the leader in the battle to eradicate polio around the globe. Working with our neighbors, the Pan American Health Organization, American organizations like Rotary International and many others, we successfully wiped polio out in the Americas. But did you know that U.S. taxpayers still spend $230 million a year to immunize our children against the threat of polio reoccurring on this continent?

USAID, working with a rich variety of partners, is helping to lead the effort to eradicate polio globally by the year 2000. This is an ambitious goal, but an achievable one. So by making modest resources available for foreign assistance, the United States stands to save $230 million a year in domestic immunization costs. This is clearly a case where foreign assistance is an investment in our own self-interest.

Or consider that USAID has reached more than 3.2 million people with HIV prevention education and trained more than 58,000 people to serve as counselors and health providers in the developing world. Recent computer modeling shows that USAID helped Kenya avert over 110,000 HIV infections in just three years. Ultimately, our HIV/AIDS programs result in fewer Americans exposed to the virus, and lower health care costs for American families.

By preventing crises, by boosting America's economy, and by protecting the United States from truly global threats, we are working abroad to keep America strong at home and abroad.

Building the Institutions that Serve Us Well

In closing, I would say to this Committee that today we have the chance to shape the international institutions and programs that will protect America's prosperity, security and stability for years to come. This includes not only bilateral institutions such as USAID, but equally vital multilateral mechanisms such as the United Nations, the World Bank and other international financial institutions.

It is fitting that this year we will celebrate the 50th anniversary of the commencement of the Marshall Plan. All now agree that the Marshall Plan was a stunning, unprecedented example of enlightened leadership. The United States understood the benefits to the United States of economic recovery in Europe and Japan, and the threats in terms of crisis and instability that would result from economic stagnation in these regions.

During the Marshall Plan, foreign economic aid amounted to more than 1.5 percent of U.S. gross national product. Now, foreign aid is about one-tenth of 1 percent of our gross national product, and well below one-half of 1 percent of federal expenditures. Fortunately, and precisely because the Marshall Plan was such a success, there are many other nations to help us carry the mutual burden of international leadership. But we should still do better if we want to maintain our leadership role and defend our interests.

Development cooperation, including support for countries making the transition from communism, and humanitarian assistance for countries in crisis, remains an essential part of a credible and compelling vision of how the international community should function. A lead role for the United States in development cooperation is a vital part of American leadership in the post-Cold War era, arguably more important now than ever.

I urge your support for the President's budget request and I look forward to working with you to strengthen our nation's foreign policy capacity.

Thank you.

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U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT
STATEMENT

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HOUSE INTERNATIONAL RELATIONS COMMITTEE
Oral Statement by USAID Administrator J. Brian Atwood
Washington, DC
February 25, 1997

Thank you very much, Mr. Chairman.

But I do thank you for all of your kind comments and those of Mr. Gejdenson, and I certainly will try to address the question that Mr. Bereuter raised.

The first thing I'd like to say is that I very much want to work with this committee, and I believe I speak for the entire administration in saying that we want this committee to pass an authorization bill, a Foreign Aid Authorization Bill, a State Department Authorization Bill, and one that the president can sign. We, I think, have lost something in our foreign policy process over the years when this committee isn't able to do that and when the Senate Foreign Relations Committee is not able to do that. I think that the people who want to serve on this committee have a much more natural interest in our foreign affairs, in our foreign policy, and want to contribute to it. And I think it's very, very important for the administration to do everything it can to help you to do your job, and I think the feeling is mutual on your part; you want to help us do our job. So I want to work with you very, very closely.

I want to thank you in particular, Mr. Chairman, for setting up a session this afternoon for new freshmen members of Congress to talk about our foreign aid programs. I'm going to be there with General Nash, who has been our chief commanding officer in Bosnia; and former AID administrator Peter McPherson (sp); who served for six years during the Reagan administration; Julia Taft (sp), the head of Interaction; and Terrence Bracy (sp), who is the head of the Business Alliance in support of federal aid. I think that's a -- you've provided us with a very important opportunity to talk to freshmen members of Congress who have not yet had an opportunity to get into these issues in depth. So I really believe that symbolizes the fact that we're getting off to the right foot in this new Congress.

The budget request that we've submitted, Mr. Chairman, I believe will help us achieve equilibrium at USAID. We've gone through some very, very difficult years. We've had very severe budget cuts in fiscal '96. We've had to have a reduction in force. And you mentioned that we have overall reduced our presence around the world. I think we've gone too far in that direction and now it's important for us to begin to build back our program so that we can indeed serve America's interests.

The total increase that we are requesting for USAID managed programs in this budget totals $476 million. This includes $292 million for the Eastern European and NIS countries; $135 million for important transitional countries under the Economic Support Fund; and $65.5 million for development assistance, the bulk of which is for a very new food security initiative. And I want on that point to stop and emphasize the word "agriculture."

Agriculture is an important part of development assistance. It's an important part of America's interest, as well. We have had -- because of various pressures on our budget over the years, we've had to reduce our contribution to agricultural development. The consequence has been that emergency food assistance has gone up, and increasing tensions have existed in countries as diverse as Rwanda and South Africa in recent years. And so it's extremely important, especially in Africa, that we contribute to the food security of these nations.

These nations suffer from urbanization and the types of agricultural policies that have been pursued by certain governments, slash and burn techniques that have forced people away from farms and into the cities.

And I believe it's extremely important for us to serve our own agricultural interests. Our farmers plant one out of every four acres for export abroad. Forty-three of the top 50 importers of American agricultural products were former AID recipients. So we can really tie our own agricultural interests to our development overseas.

The final point I would make is that in many of these developing- world countries, 80 percent of their GNP is in the agriculture sector. So if we can't help them there, we're really not going to be leaders in the development community. It seems to me that our budgets in the past few years have gone a bit out of balance and that we need to build back our capacity to do work in the agriculture sector.

Mr. Chairman, over the last few years, obviously, one of the great worries that I've had is that we were losing our leadership capacity in the development field. Now our nation leads because we have ideas, because we have new approaches, because we are optimistic as a people, and because the world needs our input. We are, as the president has said, an indispensable nation because of that optimism and because of the rich vein of intellectual accomplishments that we represent.

But it is has been even more difficult to lead when we are not contributing resources to comport with the size of our own economy. We have traditionally been close to last place in terms of the percentage of our GNP that we contribute to official development assistance. We are in dead last place now, with only .1 percent of our GNP going to development assistance. More importantly, though, we've fallen to fourth place, behind nations that have economies half the size of ours, in terms of our overall contribution to development assistance. We're now behind Japan, France and Germany. It seems to me that those countries are not more altruistic than we are. They, however, are pursuing their own interests through development assistance programs. We need to also pursue our interests in that way.

I'm very proud in the last year that the Development Assistance Committee of the OECD has adopted a report that was largely driven by our country. It's entitled, "Shaping the 21st Century, the Contribution of Development Cooperation." This report sets various goals for the entire donor community, including the World Bank and the UNDP and all of the other bilateral donors.

The goals are such important items as reducing by one-half the number of people living in extreme poverty. That now today is 1.3 billion people living under $365 per year. That's about a dollar per day. That report also urges us to make sure that everyone has access to universal education. There are many girls, in particular, in the developing world who do not have access to that. It calls for every nation to have a national environmental policy, and it goes on and lists several other goals that I think are reachable in the next 20 years if we are going to be at the forefront in leading.

This is the U.S. approach. We don't believe in simply counting what we do in foreign aid by establishing an arbitrary goal for resource contributions. The goal that had been set previously was .7 percent of our GNP. What we want to do is to see results achieved, no matter what the costs. And so the world has now adopted our approach.

I'm also very pleased that I can come to this committee and to the Congress and ask for less operating expense money than we spent last year. We're asking for $15 million less than you appropriated last year. That is a direct result of what you had suggested, that we have overhauled the agency from top to bottom. We didn't close it, but we did rebuild it. We have adopted a strategic approach. We have reorganized and we have changed the management. We've demanded that our programs produce demonstrable results. And since 1993, to be exact, we have reduced our staff by 2,700 people. We've cut senior management by 38 percent. We've reduced project design time by 75 percent. We've reduced our regulations by 55 percent. We've closed 26 overseas missions and will close six more by the end of fiscal year 1998. And USAID is one of the pioneering agencies in implementing the Government Performance and Results Act.

All of these actions are designed to assure that every dollar appropriated to our agency can bring taxpayers the best possible return on their investment.

We also feel very proud of where we are in deploying the most modern, integrated management system in government.

Now, Mr. Chairman, you have indicated that there are flaws, that there are problems, and that you are undoubtedly hearing from some of our employees about the difficulties of changing the way they do business and operating with this brand-new management system, this new computer system that has modules covering many aspects of the way we manage our business. Let me tell you, Mr. Chairman, that you would not be hearing complaints from other government agencies about their computer systems, because they're not at the stage yet of actually deploying the system. When you try to introduce a new system of this type, yes, you're going to get complaints. And we're very well aware of them. We're trying to deal with them. But we feel, as my written statement gives you in some detail, that we've made great progress, more progress than any other government agency. And I feel very good about where we are.

We're not going to be isolated from the State Department. In fact, with my friend Secretary of State Madeleine Albright in that office, we're going to be closer to the State Department than ever before.

But let me tell you that moving into a new building doesn't even physically separate us. We now have 11 different buildings -- I think the State Department has closer to 20 -- scattered all over Rosslyn and Washington, DC. We're trying with the State Department to consolidate our operations. We'll be able to collapse our 11 different buildings, all operating under the agreements we've reached for commercial rental rates, into one government building, the Ronald Reagan Building.

Now it was Congress and the executive branch that built that building. It is a government building. It is an important government building, in the sense that it is going to be focusing on international trade. And I think it underscores the fact that our agency makes a major contribution to international trade. Over the long run we're going to be able to save money by doing this, Mr. Chairman, and I don't at all apologize for the fact that we are moving into the Ronald Reagan Building.

Most importantly, Mr. Chairman, I'm very proud that I can assert that our agency today serves our people's interests. We serve our foreign policy interests by helping to prevent, to mitigate, and to transit from crisis situations. Our long-term development aid clearly has an impact on preventing crisis. Our humanitarian relief aid certainly helps to mitigate the many crises that we're fighting all over the world, and we have really developed a capacity to help our government and to help other governments transit from crisis situations, as is the case in Haiti and Bosnia and South Africa and Cambodia and the West Bank and Gaza, et cetera.

We also serveAmerica's interests, as Mr. Gejdenson indicated, by creating a demand for American exports in the developing world. The development successes that we've had over the last 30 years are the reason that we have been able to double the amount of exports in the last 10 years and why the fastest-growing export market for American goods is the developing world.

We also serve America's interests in providing our citizens protection from global health and environmental threats. We watched with great fear as we saw the outbreak of the ebola virus. This is only one of many diseases that threatens the American people. Just the other day, I met with the head of the Rotary International to talk about our efforts to eradicate polio around the world. We're making a major contribution there, and when we achieve that goal, sometimes around the year 2000, Mr. Chairman, we'll be able to stop spending about $230 million a year to immunize our children against polio. We've done that in the case of smallpox, and I think it should be a major goal of our country to help in the effort to eradicate polio.

Mr. Chairman, my written testimony offers many examples of specific programs that serve America's interests. Let me sum up here by saying that USAID is not, if it ever was, a Cold War relic. We're dealing with today's threats to America. We're dealing with today's opportunities for increased exports in a global economy. We're dealing with today's foreign policy challenges. The end of the Cold War gives us a unique opportunity to attack development challenges with good partners overseas. We don't want to work with partners that have frittered awayithe resources that they've had available to them. We don't want to work with governments that abuse human rights. We don't want to work with governments that don't accept the need to reform their economic systems and their political systems to achieve market democracies. And we want to achieve tangible results with the taxpayers' dollars. Never again do we want to expend taxpayers' dollars in a country where the government's conduct undermines development.

So I think there have been major changes. We have achieved equilibrium. We are at the stage now where we must be more creative than ever before to make the dollars that we have go further. We must begin to use modern information technology such as the Internet to do the development job. And I think we can succeed in doing that.

But the most important thing we must do -- and the president's budget this year reflects it -- is to maintain American leadership in the development field because without that leadership, we will not see those goals set by the DAC (sp) report achieved. We will continue to see, in a world that will have 2 billion more people in the next two decades no matter what we do -- really suffering with food-security problems, with refugee migrations, and with increasing threat of disease and environmental deterioration.

Mr. Chairman, I believe that this program serves America's interests. I believe that the president's budget request warrants your support. I thank you very much.

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U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT
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SENATE APPROPRIATION COMMITTE ON FOREIGN OPERATIONS
Remarks As Prepared by USAID Administrator J. Brian Atwood
Washington, DC -- February 27, 1997

Chairman McConnell, Senator Leahy, and other members of the subcommittee, it is a pleasure to appear here today to defend the President's budget request for the U.S. Agency for International Development's (USAID's) fiscal year 1998 economic assistance request. I look forward to working closely with the subcommittee during the second Clinton Administration. It is my belief that we are entering a new and positive era in our international relations, and that our policies and approaches will be guided by the stabilizing hand of bipartisanship.
Recently, Secretary Albright noted, "In our democracy, we cannot pursue policies abroad that are not understood and supported here at home." I could not agree more. I look forward to sharing with you today the reasons why USAID's programs directly advance America's interests.

President Clinton's budget request for fiscal year 1998 includes $19.4 billion for programs in international affairs. This is a modest increase from the previous year, and represents just slightly over 1 percent of the federal budget. More importantly, this budget reverses the dangerous downward trend in funding for foreign affairs. USAID will manage $7.158 billion, or 37.5 percent, of those funds, including both USAID programs and programs administered by USAID in cooperation with other agencies. USAID's request for discretionary funding in the Foreign Operations appropriations bill includes $998 million for Development Assistance, $700 million for the Development Fund for Africa, $190 million for International Disaster Assistance, $11 million for credit programs, $473 million for operating expenses, $29 million for Inspector General operating expenses, $2.498 billion for the Economic Support Fund, $492 million for programs in Central and Eastern Europe and $900 million for programs in the New Independent States. USAID also requests $44.2 million for the fiscal year 1998 mandatory contribution to the Foreign Service Retirement and Disability Fund. In addition, USAID will administer $867 million in P.L. 480 funds, although this funding is not under the jurisdiction of this subcommittee.

The total request for fiscal year 1998 USAID-managed programs represents an increase of $476 million over fiscal year 1997. This increase includes:

- *An additional $292 million for programs in Central and Eastern Europe and the New Independent States.* These transitional programs are designed to aid Central and Eastern European countries and the New Independent States through their difficult passage to democracy and market economies. I know this subcommittee understands both the importance and challenges inherent in securing lasting change in these nations. Helping to secure free societies in this region remains one of America's highest foreign policy and national security priorities. This increased funding demonstrates the Administration's commitment to helping these nations move through this turbulent time and reflects a realization that such sweeping change has also been characterized by uneven political and economic progress. In Central and Eastern Europe support for Bosnian reconstruction and reform and efforts in the Southern Tier countries will be given special emphasis. In the New Independent States, the Partnership for Freedom effort will build on our achievements to date and reorient our assistance program -- beginning with Russia and then in the other New Independent States -- toward longer-term and more cooperative activities to spur economic growth and develop lasting links between our peoples.
- *$135 million more for the Economic Support Fund.* Economic Support Funds (ESF) advance key economic and political foreign policy interests of the United States by providing economic assistance to countries in transition to democracy, supporting the Middle East peace process and financing economic stabilization programs. The largest share of ESF will continue to go to supporting the Middle East peace process, including $52.5 million to be transferred to the Middle East Development Bank. The Latin America region will receive ESF funding vital to support the democratic transition in Haiti and the breakthrough peace accords in Guatemala. ESF will also support programs in "fledgling democracies" such as Cambodia and Mongolia. Finally, ESF will be used for assistance in sub-Saharan Africa for elections, political party building and legislative training for countries in transition

such as Angola.

- *An increase of $65.5 million in Sustainable Development Assistance.* These funds will support USAID's development goals by encouraging broad-based economic growth, protecting human health, slowing population growth, encouraging environmental protection and advancing democracy. By fostering free markets and open political systems, USAID's development programs are helping to shape a world that is more stable and open to U.S. trade and leadership. Specifically, the "Promoting Food Security" pilot initiative, aimed at improving food security in Africa, will in its first year target $30 million to five nations: Ethiopia, Uganda, Mali, Malawi and Mozambique. This initiative will support policy reform and a range of agricultural research that will benefit not only Africa, but other developing nations as well. Modernizing agriculture, the cornerstone of the economy in most developing nations, increases incomes of rural people, lowers the cost of food for the urban poor and conserves the environment. By furthering agricultural and, thus, economic growth in these countries, the initiative has the potential to both spark U.S. exports and save this country significant emergency relief food costs.

In sum, these modest increases in spending are all vital to helping secure a more prosperous and stable world during the next century. I would also note that this year's request includes a *decrease* of over $15 million in our agency's operating expenses. This decrease is due to a reduction in staffing levels combined with economies achieved by reengineering and the restructuring of our overseas operations.

Recognizing the importance of our unique mission, we have dramatically improved the management of USAID to make it the most effective foreign assistance agency in the world. We have overhauled the agency from top to bottom -- its strategic approach, organization and management. We have demanded that our programs produce demonstrable results. Since 1993, we have reduced staff by over 2,700. We have cut senior management by 38 percent. We have reduced project design time by 75 percent. We have reduced our regulations by 55 percent. We have closed 26 overseas missions and will close six more by the end of fiscal year 1998. Further, USAID is one of the pioneering agencies in implementing the Government Performance and Results Act. All of these actions are designed to ensure that every dollar appropriated to the agency can bring taxpayers the best possible return on their investment.

We know you have questions about our new management systems. Let me try to give you my perspective on what we are doing. You must first understand that our new management systems are not just designed to replace existing financial and procurement systems. We will indeed replace those systems but NMS is much more than computers or software. Our new management systems are a new way of doing business. As you know, we have redesigned our old project design system to make it faster, simpler and more customer-oriented. We have also redesigned our foreign missions to empower employees, to create strategic objective teams and to make our programs more results-driven. The new computer system will facilitate these improvements. It is a management tool created to allow us to manage more effectively the other reforms we have adopted.

As we implement the computer portion of NMS, we are bringing the agency's technology to the forefront of any used in government. We are in the process of deploying a management system that fully integrates project planning, budgeting, a single-entry financial system, a simplified procurement system, and our evaluation system. In the next few years, we will add workforce planning, personnel management and a training module to our current capabilities. All of this will be available to every USAID office worldwide. Deploying such a system in a worldwide operation is not easy, but we have made great progress.

Let me give you a brief status report.

As you know, we activated NMS computer system worldwide on October 1, 1996. Since then we have been using a combination of NMS and the old legacy systems to process transactions. To date we have processed 142 contracts and grants in NMS totaling $252 million and have paid approximately $15 million in invoices plus the $1.2 billion cash transfer to Israel.

Since bringing the system up worldwide, we have been addressing two major challenges. One relates to the need to migrate consistent and accurate data from the old systems into the new. The NMS will not allow us to process any inconsistent or inaccurate data. This forces us to clean up and reconcile data and incorporate it into the new system. We have found this to be a more labor-intensive process than we imagined because the level of inaccuracy in the old systems was even greater than anticipated. Nonetheless, we have made great progress. We have migrated all 8,000 records from the old Financial Accounting Control System (FACS) and the 6,500 records from the Contract Information Management System (CIMS). We still have to reconcile this data and reconcile it with the data from the field Mission Accounting Systems (MACS), but we expect to finish that process by this summer.

Could we have waited until all this data was reconciled before we activated NMS? Could we have phased in the new system one module at a time? We considered both of these options. We rejected them because the integration process would have taken years, and we would still be using the old legacy systems and accumulating additional data of questionable accuracy that would have to be migrated later in a reconciled form. Activating NMS has forced us to migrate the data more expeditiously and, in the long run, it will save us time and tax dollars.

The second challenge has been the need to create a worldwide, high-speed communications system. We have encountered problems with the two separate telecommunications systems we have been using, but we are making real progress in overcoming these problems. The time needed for transactions has been reduced, and we have several actions we are taking to further reduce this timeframe.

Mr. Chairman, when I came to USAID in 1993, the need for an integrated management system had already been identified. A plan developed in 1992 called for a fully integrated financial management, procurement and budget system but one that did not integrate operations or allow us to integrate field and headquarters capabilities. This much less ambitious system was estimated to cost approximately $100 million. Our judgment was that that plan would not have given the Agency what it needed in a reasonable timeframe and that the cost estimate would most likely have been exceeded.

What we have created is the full-fledged integrated management system I have described. We have consciously sought to deploy this system using state-of-the-art approaches. Each step of the way we have consulted with systems experts at OMB, GAO and the private sector, and we have been encouraged to move forward. My own Inspector General has offered superb advice on which we have acted to correct problems. He has also pointed out that our systems development approach is an unconventional one. That is his job.

I want you to know that I understand the risks, and I believe that our approach will pay off. It reflects the latest thinking in systems development. I also understand there are risks in adopting conventional approaches as well. As business executive Hank Delevati of Quantum Corporation said recently, "The phased approach is longer -- and I contend riskier -- because you won't get everyone involved and coordinated." Quantum Corporation was one of many large organizations that has successfully deployed a new integrated management system using the "all at once" approach.

Last week we had our systems coordinators into Washington from around the world. We want them to know we understand the problems they are having and the solutions we are devising. They now have a better appreciation of the effort we are making. They and we are confident that we will accomplish what other government agencies have not.

Mr. Chairman, we do not seek to mask the difficulties we face in making NMS fully operational, but we are on the right track. This system will not only revolutionize the way we do business at USAID, it will lead the way for the development of similar systems in the U.S. Government. We have been pleased that so many Congressional staff have sat through detailed briefings on NMS. We welcome your vigorous oversight. We welcome it because we know that together we can vastly improve our capacity to fulfill our mission.

In short, we are doing everything possible on the management side to make America's international programs cost-effective. We want to achieve results that serve America's interests. Let me describe how we believe we serve those interests in today's world.

America's Stake in the World

The United States has a vital interest in maintaining a leadership role in the international community, and in seeing that the international community cooperates on the basis of shared values. Nowhere is this more true than in promoting development in poor nations and countries emerging from the long shadows of communism and totalitarianism. Why is this important to Americans?

It is important because we live in a world where trends toward globalization and increased interdependence are powerful and accelerating. This means international cooperation is increasingly important -- in areas as diverse as promoting trade, protecting the environment, fostering democratic governments, reducing rapid population growth rates, establishing market-based economies, stemming the flow of narcotics, slowing the spread of infectious diseases, coping with migration and protecting human rights. In all of these areas, the benefits of fruitful cooperation are significant and lasting, while the failure to work together will be increasingly costly and immediate.

During the Cold War, U.S. leadership was central and unmistakable as the protector of the free world against the threat of communist expansion. U.S. military power and economic dynamism were seen as essential to resisting that threat. But America's leadership then, as now, had a foundation stronger than our Army or our economy. The United States projected a compelling, and widely shared, vision of a world order where democracy and open systems were respected. Our vision of political and economic freedom, of social justice and respect for the individual was as powerful as any missile or any defense system. The United States offered the world not only security, but a better alternative to the Communist vision.

The Cold War is over. We still have the strongest military and the strongest economy in the world. But strength alone is not a substitute for leadership. America's position in the 21st century will depend more and more on the quality of our leadership; on the perception that we understand and appreciate the broad interests of the international community, and that we act with these interests in mind; and on the perception that we still have the best, most compelling vision of a global world order. Equally important, America's domestic interests are now, more than ever before, inexorably linked to events that take place far from our own shores.

Our modest and well-targeted foreign assistance programs directly advance America's interests -- your constituents' interests -- in three direct ways: by helping to prevent crises; by generating dynamic opportunities for expanded trade; and by providing protection from specific global health and environmental threats.

A Diplomacy of Crisis Prevention

One of the most profound areas of concern for the

United States and its allies is the growing phenomena of failed states. One need only open a newspaper on any given day to see the perilous state in which many nations now find themselves. Whether it is rebels fighting in eastern Zaire, hostage-taking in Tajikistan, street protests in Belgrade, Bulgaria and Albania or the constitutional crisis in Ecuador, we are confronted by potentially explosive situations with the potential to trigger conflict or economic collapse.

Since the mid-1980s, the number of man-made emergencies requiring a U.S. Government response has doubled. The staggering human, financial and political cost of these conflicts is reflected in the increasing scope and complexity of peacekeeping operations, the loss of human life and the exploding numbers of refugees around the globe. Since the Gulf War, the United States has mounted 27 military operations as a result of ethnic conflicts and failed states. Up to 1 million people lost their lives through genocide in one year in Rwanda. In the former Yugoslavia, the loss of human life in less than four years was the greatest in Europe's post-World War II history. The number of refugees and displaced persons in the world now numbers close to 50 million.

As a nation, we know that we ignore the warning signs of crises only at our own peril. When potential crises erupt into genuine emergencies, it is the U.S. military most likely to be put in harm's way, it is U.S. economic interests that suffer and it is this nation that ends up providing the lion's share of humanitarian assistance to the victims of war and social collapse. It is abundantly clear: The United States has a compelling national interest in preventing and averting crises before they occur. Practicing a diplomacy of crisis prevention is one of our greatest challenges in this new era, and development programs have a lead role to play in these efforts.

As we know from our own daily experience, every country is subject to the internal pressures to some degree of stress from ethnic, religious, economic and other deep-seated conflicts among their own citizens. What distinguishes a country that can endure these internal tensions from one that cannot is the relative strength of its domestic institutions. By institutions, I mean not just government and political organizations, but also tradition, culture, social practices, religion and the depth of human capital. In many cases, conflict is a result of a failure to give people a stake in their own society.

The reality is that most nations in conflict simply lacked the institutional capacity to avoid escalating violence. We see prime examples of this in the former communist world. When communist institutions collapsed, and no strong institutions replaced them, conflict became commonplace. We obviously do not wish to see a return to totalitarian methods, so it is essential that we help these countries put democratic institutions and social conditions in place.

A second category of countries that fall into crisis include nations such as Rwanda, Somalia, Sudan, Zaire, Afghanistan and Liberia. What these countries have in common is that they are among the least developed countries in the world. And, by "least developed" we mean they have the weakest institutions and least developed human resources.

The findings of a recent CIA study of failed states confirm the role of underdevelopment in crises. The study attempted to find the indicators most commonly associated with a vulnerability to crisis. The three leading factors shared among nations that have succumbed to crisis were high infant mortality rates, a lack of openness to trade, and weak democratic institutions. Does this mean that if we simply promote trade, strengthen democracy and provide child health programs that crises would disappear? The study doesn't say that. What it does say is that these variables are reasonable proxies for a nation's relative level of overall development, including a country's willingness to invest in its own people, to concern itself with lower consumer prices and to create institutions to enable the people to participate in the development of their own society.

The implications of this analysis for our foreign policy are profound. Development programs are aimed at enriching human resources, strengthening open institutions, and supporting political and economic reform. By fostering stronger institutions, a richer human resource base and economic and social progress, countries are better able to manage conflict and avoid the dangerous descent into war. Development programs give us the tools we need to deal with the uncertain world around us. I am not here today to say that development programs are an ironclad guarantee against crisis and collapse. But it is entirely fair to say that successful development and transitions out of closed systems vastly improve the capabilities of a country to manage division and conflict. This is clearly in the best interests of the United States.

The challenge of crisis prevention is, in many respects, the logical successor to the paradigm of the Cold War. Through our democracy and governance programs, USAID seeks to strengthen the political, social and economic institutions on which management of conflict *directly* depends. Our efforts at promoting economic growth also encourage economic freedom. Our efforts at human resource development -- in education and health -- ensure that an increasing percentage of the population can take advantage of economic opportunity, social progress and political freedom. Our efforts to protect the environment and to give families the capacity to space their children help ensure that development progress is sustainable.

And there is strong evidence that U.S. foreign assistance programs have successfully helped develop functioning stable democracies. Political freedoms have increased significantly in the countries where development activities have been most focused. Between 1982 and 1996, Freedom House data demonstrates that political freedom improved in 48 countries and grew worse in 30. Of the 29 countries showing the most dramatic improvements in political freedoms, most were significant recipients of U.S.

aid over the period. U.S. efforts helped nations such as the Philippines, South Africa, Jordan, Haiti, Bangladesh, Guatemala, Mozambique, Nicaragua, Uruguay and Malawi realize the dream of more open societies.

We have also adopted the policy that nations that do not embrace democracy, and that turn their backs on their citizens, will not receive U.S. assistance. We cannot achieve development results if we have poor partners. We will not work with governments that exclude their people from the development process.

International development cooperation works. In developing countries during the past 35 years, infant mortality has fallen from 162 to 69 per thousand; life expectancy has risen from 50 to 65 years; and literacy has climbed from 35 to 67 percent.

We cannot prevent every crisis, but we can avert many. Investing in these efforts is a small price to pay for a foreign policy that advances our interests in a more stable world.

Advancing U.S. Economic Interests

Let me turn now to the role development programs play in directly supporting U.S. economic interests. For both trade and investment, developing countries provide the most dynamic and rapidly expanding markets for U.S. goods and services. U.S. exports to developing countries in the 1990s have expanded at 12 percent annually, more than double the export growth to industrial countries. This is not just a short- term phenomenon, but reflects a trend that began emerging in the mid-1980s.

U.S. exports to countries that receive U.S. assistance have boomed -- rising by 76 percent in the last five years alone. Between 1990 and 1995, American exports to transition and developing countries increased by $98.7 billion. This growth supported roughly 1.9 million jobs in the United States. Work in agriculture has a particularly high return. Forty-three of the 50 largest importers of American agricultural goods formerly received food aid from the United States -- that's over $40 billion a year of U.S. agricultural exports. A recent study by the International Food Policy Research Institute found that for every dollar invested in agricultural research for developing countries, the export market available for donor countries expands by more than four dollars, of which more than one dollar is for agricultural commodities.

The bottom line is that by the year 2000 -- three short years from now -- four out of five consumers will live in the developing world. USAID's programs are helping these people become America's next generation of customers.

As Latin American economies have prospered, so have U.S. exports and jobs. The region is the fastest-growing market for U.S. exports of goods and services, and also one of the largest. In 1995, the Latin American and Caribbean region accounted for more than 70 percent of all U.S. exports to USAID-assisted countries. Exports of goods to all countries in the region reached $95 billion in 1995, more than three times the level 10 years ago.

Creating the enabling environment for markets is a principal focus of USAID's programs. The connection with development programs, and USAID in particular, is quite significant. U.S. exports are growing much more rapidly to some developing countries than to others. What accounts for these differences? The major portion of the variation is explained by progress in terms of improved policies and institutions -- i.e., the enabling environment for markets.

USAID-assisted countries have been among those that have made the greatest progress in policy and institutional reform over the past decade, including Thailand, Jamaica, Bolivia, El Salvador, Guatemala, Peru, Ghana, Costa Rica, the Philippines, Morocco, Sri Lanka, Belize, Panama, Tanzania, Tunisia, Indonesia, Mali, Botswana, and Uganda. Because of our field presence, technical expertise and experience, USAID can have significant influence in encouraging economic policy reform.

The international financial institutions have also played a vital role in supporting economic reform and restructuring weak economies, especially in countries in transition from authoritarian regimes or from conflict. In response to effective U.S. leadership within the donor community, they have increasingly put their weight behind governance reform, investment in social capital, and environmental sustainability -- significantly complementing U.S. bilateral efforts. U.S. investments in both bilateral and multilateral assistance programs are fundamental to maintaining U.S. leadership within the donor community and to strengthening this complementarity.

There are some who have argued that private capital flows can simply replace the need for foreign assistance programs. However, it is important to remember that foreign assistance and private investments are complements -- not alternatives. By and large, private investment is flowing today into the emerged markets of the developing world, not into countries where there is no rule of law, no financial institutions, no private sector and no predictability. It is only when the enabling environment for markets has been well established -- by recipient self-help efforts often supported by foreign aid -- that private flows begin to accelerate. Eventually private investment and trade will replace foreign aid, and this is what a development program should strive to achieve. But the issue for most of the developing world countries is not best captured by the phrase "trade, not aid." The phrase "aid, then trade" is closer to their reality.

Our development efforts have contributed to economic freedom worldwide. Of the 27 countries with large improvements in economic freedom between 1975 and 1995 (as measured by an index from the Fraser Institute), 22 have been major recipients of U.S. foreign aid. Continued Clinton Administration efforts to promote U.S. job creation through trade and investment abroad must focus on emerging markets in Asia, Latin America, Eastern Europe, the New Independent States and Africa. Hastening the fuller emergence of these dynamic new markets is an essential element of a long-term U.S. economic and foreign policy strategy for the United States. Private capital will play the largest role in bringing the markets of developing nations into the mainstream of trade and investment, but some of the most promising developing markets are still hampered by trade barriers, other policy distortions and human capacity constraints that discourage trade and private capital flows.

U.S. development assistance is useful in removing these structural and policy barriers. By reducing barriers that keep out foreign trade, by fostering fair and transparent regulatory and legal regimes, and by building capital markets, USAID has been at the cutting-edge of the continued steady growth of America's economy.

Protecting America Against Global Threats

Foreign assistance programs are also vital in protecting the United States against dangers that are global in scope. By treating infectious diseases like AIDS, polio, and emerging viruses like Ebola before they reach our shores, USAID lowers health costs here at home. Our environmental programs help protect the air and water that Americans share with the rest of the world. Our family planning programs help slow rapid population growth and make for healthier and better-cared-for families around the globe, ultimately reducing instability, migration and refugee flows.

Let me give you several specific examples of how all Americans can benefit from our development efforts abroad. USAID has long been the leader in the battle to eradicate polio around the globe. Working with our neighbors, the Pan American Health Organization, American organizations like Rotary International and many others, we successfully wiped out polio in the Americas. But did you know that U.S. taxpayers still spend $230 million a year to immunize our children against the threat of polio reoccurring on this continent?

USAID, working with a rich variety of partners, is helping to lead the effort to eradicate polio globally by the year 2000. This is an ambitious goal, but an achievable one. So by making modest resources available for foreign assistance, the United States stands to save $230 million a year in domestic immunization costs. This is clearly a case where foreign assistance is an investment in our own self-interest.

Or consider that USAID has reached more than 3.2 million people with HIV prevention education and trained more than 58,000 people to serve as counselors and health providers in the developing world. Recent computer modeling shows that USAID helped Kenya avert over 110,000 HIV infections in just three years. Ultimately, our HIV/AIDS programs result in fewer Americans exposed to the virus, and lower health care costs for American families.

By preventing crises, by boosting America's economy, and by protecting the United States from truly global threats, we are working abroad to keep America strong at home and abroad.

Building the Institutions that Serve Us Well

In closing, I would say to this subcommittee that today we have the chance to shape the international institutions and programs that will protect America's prosperity, security and stability for years to come. This includes not only bilateral institutions such as USAID, but equally vital multilateral mechanisms such as the United Nations, the World Bank and other international financial institutions.

It is fitting that this year we will celebrate the 50th anniversary of the commencement of the Marshall Plan. All now agree that the Marshall Plan was a stunning, unprecedented example of enlightened leadership. The United States understood the benefits to the United States of economic recovery in Europe and Japan, and the threats in terms of crisis and instability that would result from economic stagnation in these regions.

During the Marshall Plan, foreign economic aid amounted to more than 1.5 percent of U.S. gross national product. Now, foreign aid is about one-tenth of 1 percent of our gross national product, and well below one-half of 1 percent of federal expenditures. Fortunately, and precisely because the Marshall Plan was such a success, there are many other nations to help us carry the mutual burden of international leadership. But we should still do better if we want to maintain our leadership role and defend our interests.

Development cooperation, including support for countries making the transition from communism, and humanitarian assistance for countries in crisis, remains an essential part of a credible and compelling vision of how the international community should function. A lead role for the United States in development cooperation is a vital part of American leadership in the post-Cold War era, arguably more important now than ever.

I urge your support for the President's budget request, and I look forward to working with you to strengthen our nation's foreign policy capacity.

Thank you.

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