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# AN ASSESSMENT OF U.S. ECONOMIC ASSISTANCE

## HEARING

BEFORE THE

## COMMITTEE ON FOREIGN RELATIONS
## UNITED STATES SENATE

ONE HUNDRED FOURTEENTH CONGRESS

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ADDITIONAL MATERIAL SUBMITTED FOR THE RECORD

# AN ASSESSMENT OF U.S. ECONOMIC ASSISTANCE

**THURSDAY, JULY 7, 2016**

U.S. SENATE,
COMMITTEE ON FOREIGN RELATIONS,
*Washington, DC.*

The committee met, pursuant to notice, at 2:15 p.m., in Room SD–419, Dirksen Senate Office Building, Hon. Bob Corker, chairman of the committee, presiding.

Present: Senators Corker [presiding], Gardner, Cardin, Shaheen, Coons, Kaine, and Markey.

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

The CHAIRMAN. Senate Foreign Relations Committee will come to order.

We thank our distinguished witnesses for being with us today. I will introduce you in just a moment.

Today's hearing will consider whether our foreign assistance intended to promote economic growth in developing countries is working as intended. When Congress passed the Foreign Assistance Act of 1961, economic development was a core priority of our overall aid policy. The Act specifically calls for the promotion of conditions enabling developing countries to achieve self-sustaining economic growth as one of the five principal goals of U.S. foreign aid.

Today, 10 percent of our aid, by category, goes to economic development, but the question is, can we really say that we are achieving concrete results? Various commissions over the past decades have affirmed an unfortunate reality: our foreign assistance programs largely lack strategic focus and are not accomplishing their intended objectives as well as they could. More optimistically, there is also a consensus that focusing on long-term economic growth and job creation contributes the most to sustainable development. Our foreign aid policies today seem mired in a Cold War mindset that values buying friends in the developing world over establishing the right environment for foreign economic growth to occur.

For us to maintain support at home for these programs, obviously we need to demonstrate to the American people that this assistance can work and benefits our country. And, obviously, I think there is a lot of question about that.

We thank all three of you, again, for being with us and sharing your insights in that regard. This hearing will examine how we have lost our way on this important goal of fostering economic growth with our limited foreign aid dollars. I am sure you can assist us in helping think about it in a little bit different way.

With that, I will turn it over to our distinguished Ranking Member, and my friend, Ben Cardin.

**STATEMENT OF HON. BENJAMIN L. CARDIN, U.S. SENATOR FROM MARYLAND**

Senator CARDIN. Well, Mr. Chairman, thank you very much for calling this hearing. It is an extremely important subject.

And I thank our panelists for sharing their thoughts in this discussion.

I share your goal of getting development assistance right. And I believe we all agree that sustainable economic growth must be a top priority for U.S. foreign assistance. Development assistance is one of the most important tools we have to ensure that we are promoting economic growth, stability, and security in the developing world. It is part of our toolbox for national security. It includes our soldiers and our weapons, certainly the Department of Defense. It also includes diplomacy, but it also includes our foreign aid. And a significant part of our foreign aid is devoted towards economic development. The question is, "Are we doing it the right way?"

We, here in Congress, have laid out a number of clear mandates to guide our foreign assistance programs. The one we are examining today calls for the promotion of conditions enabling developing countries to achieve self-sustaining economic growth with equitable distribution of benefits. Today, we will look at a wide array of programs, under the jurisdiction of the committee, that are intended to fulfill this mandate. We are here to see whether we are getting things right, and what we can do better.

I want to make a couple of points before we hear from our witnesses.

First, I must point out that our foreign assistance is just 1 percent of our budget, but it pays large dividends. It is important to remember, with these relatively small investments, we have set goals of reducing maternal and child deaths, creating an AIDS-free generation and scaling up our investments to combat a host of global health challenges. We must make these investments not just because it is the right thing to do, but also because it helps contribute to economic growth and, just as importantly, stability.

Second, we must be clear-eyed to remember that fostering economic growth, especially in extremely poor and unstable countries, requires strategic investments and strategic patience. Former USAID Administrator Raj Shah used to say that the aim of our development assistance is to eventually put ourselves out of business. This is achievable in countries ripe for growth, but, in other countries, such as Haiti or Nepal, constraints to growth are monumental. It will take time. We do need strategic patience.

Third, while economic growth is, and must be, an important priority, it can be advanced through a variety of programs that contribute to the foundation of a functioning economy.

Mr. Chairman, when we look at our own economic success in the United States, still the model and envy of the world, I am struck by all of the many things we do right, the things that contribute to our economic success. At the top of the list, I think we all would agree, are open markets, property rights, a strong financial sector, the things that we all think of when we think—talk about economics. But, I also think our healthcare system, our educational system, our ongoing work to make our society open to everyone so that everyone can benefit from their own energies and talent is a critical part to the growth of our economy. Take any of these away, and our economy is weaker.

The same goes for countries where we are trying to promote economic growth. We cannot think just about the important elements of good business climate. If we do not help them fight corruption—we had a hearing on that last week, and I thank you for that—or to abide by the rule of law, to protect basic rights, then we will never attract the private investments or grow the workforce that is critical to ensuring the long-term success of our investments.

Our development programs, such as nutrition, global health and education programs, as well as traditional economic programs that foster entrepreneurship and help get goods to the market, like those supported by MCC and Trade-Africa, are all important contributors to a sustainable economic growth. We know that our governance programs in developing countries help create enabling policy environments that are absolutely critical to economic growth and stability. As we learned last week at our corruption hearing, anticorruption programs, in particular, are essential to effectively implementing economic policy reforms. By tackling these fundamental issues, we are getting at the root cause that constrains growth in so many countries.

I want to point to Feed the Future as an example of a development program that is getting it right when it comes to fostering sustainable economic growth. And, Mr. Chairman, I thank you for your leadership in the Global Food Security Act, which, yesterday, passed the House of Representatives, and is now on the way to the President of the United States for signature. That is a great accomplishment of this committee. And I thank you for your leadership on it. Feed the Future works with the private sector, governments, and civil societies to help countries develop their agricultural sectors to generate opportunities for broad-based economic growth and trade, which, in turn, supports increased incomes and helps reduce hunger and malnutrition, major impediments to economic growth.

And I hold up Feed the Future as the gold star because it is also an example of how our development dollars yield compound interest by investing in women. Women make up a large percentage of the world's small-holder farmers. And if women farmers have the same access to resources and land rights as men, it is estimated that the number of hungry in the world could be reduced by 150 million. Furthermore, decades of research and experience prove that when women are able to fully engage society, they are more likely to invest their income in food, clean water, education, healthcare for their children, and, by the way, to further build their businesses. This is just another example of the way our development investments are down payments on the building blocks for economic stability.

I look forward to examining how we can best support the full spectrum of policies that underpin inclusive economic growth.

The CHAIRMAN. Thank you so much. It was a team effort, on both sides of the Capitol, to make happen what happened yesterday. It is a great step forward, and I thank you so much for everything you did to make that happen.

So, today we have one panel with three private witnesses with significant experience in U.S. foreign aid programs. We will now turn to them.

Our first witness is Dr. Jeffrey Herbst, President and Chief Executive Officer of the Newseum, here in Washington. Our second witness will be Dr. Todd Moss, Chief Operating Officer and Senior Fellow at the Center for Global Development. And our third witness will be Ms. Alicia Phillips Mandaville, Vice President of Global Development Practice at InterAction.

I want to thank you all for being here. I think you all understand you can summarize your comments in about 5 minutes. Your written statement will be, without objection, entered into the record.

And, with that, if you would just begin in the order that I introduced you, we would appreciate it. And we look forward to your comments.

## STATEMENT OF DR. JEFFREY HERBST, PRESIDENT AND CHIEF EXECUTIVE OFFICER, NEWSEUM, WASHINGTON, D.C.

Dr. HERBST. Mr. Chairman, Ranking Member Senator Cardin, thank you very much for inviting me here today on this very important topic.

Addressing global poverty is a critical issue right now. In the past 10 or 15 years, we have seen massive reduction in global poverty. More people have been lifted out of poverty in the last few years than at any time in human history. Most of that has occurred in China and Asia, and not associated with foreign aid.

I have concentrated, in my career over the last 30 years, with the 48 countries of sub-Saharan Africa, where an increasing percentage of the world's poor people, given what has happened in Asia in poor countries, will be. Africa is an increasing focus of U.S. foreign assistance, and will be so in the future.

At the same time, we have seen two other critical developments. Population increases in Africa will continue. Most countries will see a doubling of their populations in the next 25 to 30 years. And the commodity boom which fueled high economic growth in the last decade is over. The role of foreign assistance, and well-designed foreign assistance, is therefore especially critical.

The overwhelming point I want to make to you is that, while it is important to focus on the design of our policies and to execute, as well as we can, the necessary condition for economic assistance is the political commitment of recipient governments to good governance. If the recipient country is not committed to private-sector growth in a dynamic economy, then, no matter what the design of foreign assistance is, no matter how well-intentioned the donor, the aid is not going to have a significant effect. It is much more important what they do, in many ways, than what we do. That goes against much of the thinking in this town, where we always think we are the primary movers, but it is critical to understand the governance record in other countries.

I should also note that we have often been wrong about the underlying commitment of good governance to countries, especially when the commodity boom of last decade covered up many flaws in many government policies. In Mozambique, for instance, which had been a recipient of significant amount of aid, an aid darling of the international community, we now see that public finance was badly mismanaged during the commodity boom. For United States economic assistance to be effective, we must recognize that, if a country is not committed to an economic policy that promotes, especially, private-sector growth and good infrastructure development, nothing else really matters.

The design of U.S. economic policy is complex because, of course, it goes hand-in-hand with other aspects of U.S. foreign aid. As the Chairman noted, economic assistance which concentrates on growth is only one component of our overall foreign aid portfolio. As a result, we often face conflicting priorities between economic growth, governance and democracy, investing in people, disaster relief, and other worthwhile priorities that the U.S. Government has. It is, therefore, very difficult at times for managers and executives in AID and elsewhere to make decisions to allocate aid solely on the basis of good governance.

If we are to have an economic policy which allows for a sunset of foreign assistance at some point, that we somehow get out of this business, then we will have to first make sure that we and recipient countries agree on the metrics necessary for improvement. There is only something of an agreement now, and a consensus is often missing between what the donor wants and what the recipient country is actually going to do. We will also have to have the discipline to reduce aid if we believe that the consensus is violated. So far, I would say, over many years, we have evidence only of partial discipline in cutting aid when countries violated their express commitments, because there are bureaucratic initiatives to promote and continue aid, and because there are many other priorities of the U.S. Government.

Overall, as my time is running to an end, I would say to you that the world is, in fact, awash with aid at the moment. The problem is not that there is not enough foreign aid. Over the last 10 years since the Gleneagles Summit, many Western countries, including the United States, have increased their assistance, and China and other actors have also come on board. Aid is, in fact, chasing projects which deserve to be funded. The question, going forward, is, can we manage that aid so that it only goes to those recipient countries that have a good governance record?

Thank you very much.

[Dr. Herbst's prepared statement follows:]

PREPARED STATEMENT OF JEFFREY HERBST

Mr. Chairman, Ranking Member Senator Cardin, other distinguished members of the Committee, it is a great honor for me to testify before the committee on the panel "An Assessment of U.S Foreign Economic Assistance." My observations are mainly based on my own academic work that has focused on the political economy of sub-Saharan Africa over the last thirty years.

Without a doubt, the necessary condition for economic growth in a developing country is the commitment of the government to create the enabling conditions for growth. In particular, governments must create policy environments that are attractive to local and foreign investors. We have seen, in Africa and elsewhere, that governments (e.g., Ethiopia, Rwanda) that create the necessary conditions are able to attract private investment even if there are very challenging historical legacies. We have also seen that countries that may seem more attractive (due to infrastructure and the existing private sector) but with a poor governance climates (e.g., South Africa) do not attract investment. Governments must also be able to make hard decisions, including a focus on building infrastructure rather than spending on consumption and be able to close state enterprises that are not viable. Finally, corruption must be kept to a low and predictable level.

Absent the necessary will to make economic reform, it can be guaranteed that there will not be sustainable economic growth. There are several dozen countries in the developing world that are currently trying to attract investment and many recognize that they are in a global competition for investment. There are only a few cases (mostly in mining but even then there are often choices) where a company has to invest in a particular country.

Whether U.S economic assistance promotes growth is a complicated question. It must first be noted that economic growth is not the primary goal of U.S foreign policy. The largest component of bilateral assistance (61% in FY2015) is devoted to global health, notably to support treatment of HIV/AIDS.[1] According to the State Department's own framework, promoting economic growth is a priority but so is promoting peace and security, investing in people, governing justly and democratically, and humanitarian assistance. Underneath these major priorities are no less than twenty-four sub-goals ranging from counter-terrorism to agriculture to health to good governance.

Many of these goals are aligned but not all. There are, for instance, some African countries that are growing but who cannot be considered democratic (again Rwanda and Ethiopia are examples). While all of these goals are admirable, it must be noted that the breadth of such priorities spread over many countries makes it very hard for U.S government agencies to focus on any one priority and therefore tie aid to results. For instance, the U.S was constrained from using aid to protest the unfair elections held in Uganda in February 2016 because of the important security role that Kampala plays in the region.

More generally, aid will be used well by countries that are committed to economic growth and will be wasted in countries where the government has other priorities. Outsiders can never instill a seriousness of purpose that is lacking in the national government.

As the U.S government has so many stated priorities it would be all but impossible to say that aid was sufficiently tied to outcomes and objectives. The U.S, whether deliberately or not, has developed a very broad portfolio of aims spread over a large number of countries. There are strategic advantages to such a posture—displaying American involvement globally, participating in a broad range of issues, and flexibility to move across different sectors depending on felt need—but policy coherence naturally suffers.

Economic assistance should only be expected to succeed when government is committed to having a private sector that thrives. Once that basic commitment is discerned, economic aid can be used in a variety of ways that would be productive, including building infrastructure, rationalizing and enhancing the competency of government ministries and state-owned enterprises, and fostering entrepreneurs. Foreign economic assistance cannot be expected to substitute for local political will.

A policy stance which aimed for a sunset on American assistance in a given country is an attractive idea but would have to be based on a much smaller set of priorities than is currently the case and greater discernment in the disbursement of funds. Greater capacity-building will only occur with governments that want to enhance their fundamental structures, as opposed to enrich leaders, develop patronage networks, or pump up the economy for an upcoming election.

A policy framework with a clear sunset would have to have well defined metrics that would be announced in advanced and then tracked. The U.S would also have to have the discipline to reduce aid if progress was not being made on the metrics.

The CHAIRMAN. Thank you.
Dr. Moss.

[1] A good review of overall trends can be found in Curt Tarnoff and Marian L. Lawson, "Foreign Aid: An Introduction to U.S. Programs and Policy," Congressional Research Service, June 17, 2016.

**STATEMENT OF DR. TODD MOSS, CHIEF OPERATING OFFICER AND SENIOR FELLOW, CENTER FOR GLOBAL DEVELOPMENT, WASHINGTON, D.C.**

Dr. MOSS. Thank you, Chairman Corker, Ranking Member Cardin. I appreciate the opportunity to highlight ways the United States can be more effective in supporting private-sector growth and promoting economic opportunity around the world.

I proudly served in the State Department, and I continue to work closely on global economic policy issues at the nonpartisan Center for Global Development. I have three points today. And this draws largely on my work at CGD with my colleague Ben Leo.

First, it is development finance, rather than traditional aid, that is the future. Aid is the right tool for tackling health challenges and for dealing with humanitarian crises, but aid has been much less effective at generating broad economic growth. However, when carefully targeted, aid can be useful in addressing very specific barriers to business and issues in the enabling environment. The Millennium Challenge Corporation model, which uses 5-year compacts to explicitly attack constraints to growth, is a great example of doing this. So, too, are the U.S. Treasury's technical assistance programs and also USAID's very laudable coordination of the Power Africa Initiative. Yet, it is development finance or the deployment of commercial capital for public policy purposes that is the most potent weapon we have for expanding markets and for spurring private-sector growth.

When the United States wants to encourage job creation in Tunisia, when we want to catalyze infrastructure investment in Nigeria, when we want to bring Pakistani women into the banking sector, we turn to development finance. And development finance is the future, because of the changing global landscape. Many previously poor countries are much richer today, and they are looking for more than aid. They want to partner with the United States to deliver jobs and roads and electricity. Development finance is the future, because of the rise of China, India, and other emerging powers. These countries, along with our traditional allies in Europe, are already using development finance to bolster their influence and to expand investment opportunities. The United States has made a start, but we risk falling further behind.

Most of all, development finance is the future because of who we are as a country. Americans believe in a model of private-sector-led capitalism. Our deep capital markets, our culture of entrepreneurship, and our belief in free markets all provide a unique platform for using development finance to promote prosperity.

Now, fortunately, the United States already has a very good development finance institution, the Overseas Private Investment Corporation. Since 1971, OPIC has provided political risk insurance and largely debt capital to private-sector projects around the world in support of U.S. foreign policy and U.S. development objectives. And for 38 years in a row, OPIC has returned money into the U.S. Treasury.

Our recent analysis at CGD has shown that OPIC has been investing principally in the exact sectors that are the leading constraints to growth in developing countries. Those are infrastructure and access to finance.

While some have worried that OPIC could become a boon for large U.S. corporations or could encourage corporate welfare, our recent analysis of OPIC's portfolio has shown this to be patently untrue. Instead, we find that less than 8 percent of OPIC commitments over the last 5 years have involved any of the Fortune 500 companies.

My second point is that, while OPIC is small and high-performing, it could be even better with a few tweaks that Congress could enact at no additional cost to U.S. taxpayers. Chief among these reforms is allowing OPIC limited authority to make equity investments rather than being restricted to only issuing debt. Many projects in the riskiest markets where the U.S. Government needs OPIC the most are at a stage where they require equity, not debt. And nearly every other development finance institution in the world has equity authority. OPIC is an exception, largely because of a holdover from a rule during the Nixon administration.

Another simple reform that would bring large benefits at no cost is multiyear authorization. Large, complex infrastructure projects take years to negotiate and implement, yet OPIC has been forced to rely on annual authorizations since 2007.

A final minor reform that would allow OPIC to—would be to allow OPIC to retain a slightly larger portion of its profits to add staff to clear a big backlog of potential projects. OPIC does not need more capital, it needs a few dozen more people to deploy that capital. The agency covers more than 150 countries, yet currently has only about 200 staff or less than what we would deploy to a midsized embassy.

My final point, if the United States is serious about promoting market solutions to poverty and insecurity, we need a modern, full-service U.S. development finance corporation that is worthy of the world's largest economic power. In the annex to my testimony, Ben Leo and I provide a series of options for how Congress could structure just such an institution, consistent with broad bipartisan support and budgetary realities. A U.S. development finance corporation could bring OPIC into the 21st century by consolidating all the existing tools and instruments that are currently spread across multiple Federal agencies, and enable their much more strategic deployment to promote private-sector growth. If we fail to update our development finance tools, the United States stands to lose out to other countries on potential opportunities. We would also be neglecting one of our most powerful levers to support prosperity and stability abroad. Modernizing America's development finance tools would cost nothing. It would bolster our fight against the remaining pockets of global poverty, and it would support our most pressing national security goals.

Thank you.

[Dr. Moss's prepared statement follows:]

PREPARED STATEMENT OF DR. TODD J. MOSS

Thank you Chairman Corker, Ranking Member Cardin, and other members of the Committee. I appreciate being invited to testify again and the opportunity to highlight ways the United States can more effectively support private sector growth and economic opportunity around the world. I proudly served in the State Department under Secretary Condoleezza Rice and continue to work closely on global economic policy issues at the nonpartisan Center for Global Development. I have three points today, drawing on my work at CGD with my colleague Ben Leo.

*First, development finance, rather than aid, is the future.*

Aid is the right tool for tackling health challenges and humanitarian crises. Aid has been much less effective at generating broad economic growth. However, when carefully targeted, aid can be useful in addressing specific barriers to business. The Millennium Challenge Corporation model, which uses five-year compacts to explicitly attack constraints to growth, is a great example. So too are the U.S. Treasury's technical assistance programs and USAID's laudable coordination of the Power Africa initiative.

Yet it is development finance—or the deployment of commercial capital for public policy purposes—that is the most potent weapon we have for expanding markets and spurring private sector growth. When the United States wants to encourage job creation in Tunisia, wants to catalyze infrastructure investment in Nigeria, wants to bring Pakistani women into the banking sector, we turn to development finance.

Development finance is the future because of the changing global landscape. Many previously poor countries are richer today and are looking for more than aid. They want to partner with the United States to deliver jobs, roads, and electricity.

Development finance is the future because of the rise of China, India, and other emerging markets. These countries, along with our traditional allies in Europe, are using development finance to bolster their influence and to expand investment opportunities. The United States has made a start, but risks falling further behind.

Most of all, development finance is the future because of who we are as a country. Americans believe in our model of private sector-led capitalism. Our deep capital markets, our culture of entrepreneurship, and our belief in free markets all provide a unique platform for using development finance to promote prosperity.

Fortunately, the United States already has a very good development finance institution, the Overseas Private Investment Corporation. Since 1971, OPIC has provided political risk insurance and debt capital to private sector projects around the world in support of U.S. foreign policy and development objectives. For 38 years in a row, OPIC has returned money into the U.S. Treasury. Our recent analysis at CGD has shown that OPIC has been investing principally in the very sectors that are the leading constraints to economic growth: infrastructure and access to finance.[1]

While some have worried that OPIC could be a boon for large U.S. corporations or engender corporate welfare, our recent analysis of OPIC's portfolio has shown this to be patently untrue. Instead, we find that less than 8 percent of OPIC commitments over the last five years have involved Fortune 500 companies.[2]

My second point is that while OPIC is small and high-performing, it could be even better with a few tweaks that Congress could enact at no additional cost to taxpayers.[3] Chief among these reforms is allowing OPIC limited authority to make equity investments rather than be restricted to only issuing debt. Many projects in the riskiest markets where the U.S. Government needs OPIC the most are at a stage where they need equity, not debt. In fact, nearly every other development finance institution in the world has equity authority, which accounts for nearly all of their project commitments in the poorest countries. OPIC is an exception because of a holdover from the Nixon administration.

Another simple reform that would bring large benefits at no cost is multi-year authorization. Large infrastructure projects take years to negotiate and implement, yet OPIC has been forced to rely on annual authorizations since 2007. OPIC should be authorized for an initial five-year period, with the goal of moving to permanent authorization.

A final minor reform would be to allow OPIC to retain a slightly larger portion of its profits to add staff to clear the backlog of potential projects. OPIC does not need more capital. It needs to hire a few dozen more people to deploy that capital. The agency covers more than 150 countries yet currently has only about 200 staff, or less than what we deploy to a mid-sized embassy.

My final point: if the United States is serious about promoting market solutions to poverty and insecurity, we need a modern, full-service U.S. Development Finance Corporation worthy of the world's largest economic power. In the annex to my testimony, Ben Leo and I provide a series of options for how Congress and the next

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[1] Ben Leo and Todd Moss, "Inside the Portfolio of the Overseas Private Investment Corporation," CGD Policy Paper, April 2016.

[2] Ben Leo, "Is OPIC Corporate Welfare? The Data Says . . ." CGD blog post, April 19, 2016.

[3] Ben Leo, Todd Moss, and Beth Schwanke, "OPIC Unleashed: Strengthening US Tools to Promote Private-Sector Development Overseas," CGD Policy Paper, August 2013.

President could structure such an institution consistent with bipartisan support and budgetary realities.[4] A U.S. Development Finance Corporation could bring OPIC into the 21st Century by consolidating existing tools and instruments—currently spread across multiple federal agencies—and enable their strategic deployment to promote private sector growth. If we fail to update our development finance tools, the United States stands to lose out to other countries on potential opportunities in the next wave of emerging markets. We would also be neglecting one of our most powerful levers to support prosperity and stability abroad. Modernizing America's development finance would cost nothing, it would bolster our common fight against the remaining pockets of global poverty, and it would support our most pressing national security goals.

Annex: Ben Leo and Todd Moss, "Bringing U.S. Development Finance into the 21st Century," CGD Policy Brief, White House and the World 2016 Briefing Book, July 2015. [The Annex is located in the Additional Material Submitted for the Record section at the end of this trancript.]

The CHAIRMAN. Thank you.
Ms. Mandaville.

**STATEMENT OF ALICIA PHILLIPS MANDAVILLE, VICE PRESIDENT, GLOBAL DEVELOPMENT PRACTICE, INTERACTION, WASHINGTON, D.C.**

Ms. MANDAVILLE. Chairman Corker, Ranking Member Cardin, and members of the committee, thank you for the opportunity to speak today about U.S. economic assistance and the pursuit of inclusive economic growth.

I would like to recognize, on behalf of InterAction and its members, the leadership of this committee with regards to foreign assistance in general. We recognize it as a vital part of our values abroad and our national interests, and so I want to thank you for that.

I should also say up front that InterAction is an alliance of about 180 different U.S.-based, nonprofit organizations that are working around the world, both in humanitarian and development settings. Our membership's views are as diverse as the membership itself, so my remarks today should not be construed as reflective of the views of any individual organization. I will take responsibility for them myself.

With that said, and recognizing the written testimony has been submitted for the record, I would like to make three brief points.

The first is to call out that, over the last several years, we have seen increasing evidence that, if we want targeted economic assistance to be effective, we need to put economic analysis at the center of things. And I appreciate that is possibly the most deadly-boring statement that you will hear, so let me give you an example that will bring it to life a little bit and show you why it is important.

If you look at several landlocked countries in West Africa, it is obvious that a major constraint to economic growth is the high cost of getting goods from point A to point B. And if you visit any of these countries, you will find that when you look at the road system, they are too narrow to hold modern trucks, they are two-lane with no bypass in case of an accident, and they are in a condition that suggests slow speeds are the way to drive. So, if you went and you looked at this, you could conclude right away, "Well, this is an infrastructure problem. If I want to reduce costs, I need to make

[4] Ben Leo and Todd Moss, "Bringing U.S. Development Finance into the 21st Century Proposal for a Self-Sustaining, Full-Service USDFC," CGD Policy Paper. March 2015.

an infrastructure investment." And we would be right—but only partly. Because if you follow the economic analysis down into what is actually driving high transport costs over one particular transit corridor, what you find is that, in the first segment, the problem is that there are three different ministries allowed to set up safety checkpoints. This has tripled the instances for graft and slowed down speeds by threefold. And if you look at the second segment of the transit corridor, you find that the single greatest problem in terms of cost, is that there is a trucking monopoly. So, if we had acted before the analysis level, we would have done the high-dollar investment in infrastructure, but missed the thing that is actually constraining businesses' ability to grow by moving goods from point A and point B.

So, if the first point is that economic analysis matters, and matters dramatically, for targeting assistance, then the second point has to be that we have tools available to do this. We have seen them deployed more and more frequently in the cases of U.S. bilateral assistance, and that they can be deployed even more frequently.

In this category I would put things like growth diagnostics (which is what I just described), looking specifically at the items that either constrain or drive economic growth in a particular geographic area. But also things like basic cost-benefit analysis, which tell you a lot about value for money over time. I would also put in this category something you have already moved on through the passage of the Foreign Assistance Transparency and Accountability Act. And by that I mean rigorous and transparent monitoring and evaluation practices. Transparency and rigor in monitoring and evaluation not only provide accountability, "Have we done through a program what we set out to do?"—but they also tell us lessons for the future, "What should we do more of, what should we do less of?"

Point three is one of context. Economic assistance is one part of the broader U.S. foreign assistance portfolio, which also includes things like security assistance, humanitarian relief, and democracy support. And all of these are things that we hold dear as advancing U.S. values abroad and our own national interests. When they come up, I think people tend to talk about them in terms of their own intrinsic merit. And I wholeheartedly support those intrinsic merits and the case for that based on them. What I want to elevate in the context of an economic conversation, however, is that sometimes making investments in things that do not immediately appear to be economic can have positive economic consequences and outcomes for the very economic goals we have set for ourselves with the economic assistance.

So, for example, if you look at measures to prevent stunting, those measures prevent the long-term mental and physical impairments that can haunt a workforce for a generation and fundamentally reduce productivity levels. So, preventing that outcome is wholly growth oriented and economically very favorable. Or if you consider programs that are designed to promote social accountability, social accountability matters dramatically in cases of pandemics, when you need citizens to trust their governments enough to follow public health instructions. And following those instructions not only prevents the spread of a disease, but prevents economic losses over time.

So, as you look at ways to make sure U.S. economic assistance is maximally effective, I would ask you to bear in mind that there are some investments that the United States makes through other vehicles or other instruments, that do not appear to be immediately economic, that have intrinsic value of their own and are supported by the American public—Americans give something like $15 billion a year to charitable causes abroad. And, sometimes these other USG investments support the very favorable economic outcomes that we have set for ourselves through the economic portfolio, as well.

With that, I thank you for the opportunity to speak, and I look forward to our discussion.

[Ms. Mandaville's prepared statement follows:]

PREPARED STATEMENT OF ALICIA PHILLIPS MANDAVILLE

Chairman Corker, Ranking Member Cardin, and Members of the Committee, thank you for the opportunity to appear before you this morning to speak about something as critical as the shape and impact of the U.S. Governments' foreign economic assistance programs.

I serve as Vice President for Global Development at InterAction, an alliance of nongovernmental organizations (NGOs). Our 180-plus members work around the world and in every country that receives economic assistance from the United States. What unites us is a commitment to working with the world's poor and vulnerable, and a belief that we can make the world a more peaceful, just, and prosperous place—together. InterActions' members range in size from 4 employees to 40,000 employees and—through a combination of private fundraising and official donor financing—they are collectively responsible for the delivery of billions of dollars in development and relief programs around the world.

InterActions' membership is as diverse as it is strong, and the views of our membership organizations are equally extensive. Consequently, my remarks today are informed by the experiences and lessons of InterActions' members, but they should not be taken to represent the specific view of any individual member organization.

Because the specific key drivers and constraints to inclusive economic growth vary by country, the U.S. can maximize support for positive economic outcomes with a diverse portfolio approach to economic assistance. In essence, this is the same approach taken by any investor who diversifies his or her assets to ensure some level of return. To be effective, this requires more purposeful application of analysis, transparent evaluation and reporting, and a willingness to add legislative authorities that would allow existing assistance mechanisms to be responsive to global economic changes. Finally, given the ever deepening relationships among global economic, political, and societal changes, it remains in the U.S. national interest to provide both economic development assistance, as well as other types of support.

In order to inform your assessment of U.S. economic assistance, I have organized my remarks around responding to three broad questions:

- What drives and constrains economic growth in developing countries?
- What does a diverse portfolio approach for U.S. economic assistance entail?
- How can U.S. assistance respond to todays' reality that economic and non-economic issues are deeply intertwined?

WE KNOW THAT DRIVERS AND CONSTRAINTS TO INCLUSIVE ECONOMIC GROWTH VARY BY COUNTRY

Questions about what drives or constrains national, inclusive, economic growth are the fundamental basis of an ever growing collection of economic research. While others on the panel are better positioned to provide details on the breadth and depth of current research, it is worth noting here two key research findings that continue to have significant implications for how the U.S. constructs its economic assistance programs, both in policy and in practice.

The first is a tangible shift in recognizing the variety of policy combinations that other countries can adopt to effectively drive sustained and inclusive economic growth. While macroeconomic research in the 1980s and 1990s often focused on a specific combination of policies that correlated with growth and stability, research in the 2000s began to recognize more diverse paths to growth. The World Bank Growth Commission, for example, concluded in 2008 that, ". . . . no generic formula exists. Each country has specific characteristics and historical experiences that must be reflected in its growth strategy." [1] This recognition of countries' unique drivers and constraints to growth is significant because it opened a new door to how growth diagnostics can shape assistance programming outside of multilateral economic institutions.

The second key development was a growing body of research on the effect of foreign assistance itself on economic growth. A seminal American Economic Review article in 2000 by Burnside and Dollar found that assistance leads to more growth in countries with good policies, but is ineffective elsewhere.[2] The article was so influential that many credit it with inspiring the establishment of the Millennium Challenge Corporation, which is explicitly focused on promoting economic growth as a model of foreign assistance, and uses a data driven approach to make large investments in "the most well governed poor countries." Since then, the field has seen a proliferation of econometrically rigorous studies, ably summarized by my fellow panelists' colleagues from the Center for Global Development in 2014 as, "the majority of studies on aid are positive—but the impact of aid is often modest." [3]

Based on this, we cannot say that a single type of foreign assistance intervention is the one silver bullet for all countries that produces sustainable, inclusive economic growth. However, in policy terms, over the last 10 years there has been a clear recognition that inclusive growth fundamentally underpins a variety of foreign assistance, and therefore foreign policy, goals. Whether looking at the 2010 Presidential Policy Directive on Global Development, or either of State and USAIDs' first two Quadrennial Diplomacy and Development Reviews (QDDR),[4][5] advancing inclusive economic growth is stated as a clear U.S. foreign policy priority.[6]

Practically speaking, this sentiment also informs the way providers of economic development funds consider the structure of their programs. Specifically, the last ten years brought greater application of preliminary economic assessment as a means of designing assistance programs that better contribute to sustainable, inclusive economic growth.

While economic analysis in general is certainly not new to U.S. foreign assistance agencies, the MCCs' "growth diagnostics," first implemented in 2007,[7] put research about a countrys' binding constraints to growth at the center of decision making about how to allocate assistance dollars. By transparently basing the entirety of its (often half billion dollar) investments on economic research into what specifically constrained inclusive economic growth in a country, MCC provided a proof of concept that U.S. bilateral assistance programming could be based on publicly available evidence.[8] Similar diagnostics were subsequently adopted by a variety of presidential initiatives (PFG, SGI), and now play a key role at USAID as well.[9]

Over this same time frame, the notion of inclusive growth as a precursor to nearly all human development outcomes has also been increasingly recognized by non-profits, foundations, and advocates. While individual organizations may disagree on the best way to promote inclusive growth, or how to manage the gains from economic growth, there is clear recognition that inclusive growth itself is a fundamental element of global development and poverty reduction.

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[1] The Growth Report: Strategies for Sustained Growth and Inclusive Development. The Commission on Growth and Development. The World Bank. 2008. Overview: p 2.

[2] Burnside, Craig and David Dollar, "Aid, Policies, and Growth," American Economic Review 90(4) (September 2000): pp. 847-68.

[3] http://www.cgdev.org/blog/1385-billion-question-when-does-foreign-aid-work.

[4] Presidential Policy Directive #6. http://fas.org/irp/offdocs/ppd/ppd-6.pdf.

[5] Quadrennial Diplomacy and Development Review http://www.state.gov/documents/organization/153139.pdf 6 2015 Quadrennial Diplomacy and Development Review http://www.state.gov/documents/organization/241430.pdf 7 https://www.mcc.gov/our-impact/constraints-analysis.

[6] The results of these analysis further supported the notion that individual countries have distinct binding constraints to growth by ranging from a lack of electricity, to poor population health outcomes, to over-regulated labor markets.

[7] http://www.state.gov/r/pa/prs/ps/2011/11/177887.htm.

[8] http://www.state.gov/p/af/rls/2016/253906.htm.

[9] "USAID increasingly looks to inclusive growth diagnostics (IGD) to sharpen its strategy development process." https://www.usaid.gov/who-we-are/organization/bureaus/bureau-economic-growth-education-and-environment/office-economic.

## AS AN INVESTOR, THE U.S. NEEDS A PURPOSEFUL, DIVERSE, ECONOMIC ASSISTANCE PORTFOLIO

Because the specific drivers and constraints to inclusive economic growth vary by country, the U.S. can maximize support for positive economic outcomes with a diverse portfolio approach to economic assistance. In essence, this is the same approach taken by any investor who diversifies his or her assets to ensure some level of return.

This does not imply that we want a haphazard proliferation of overlapping programs. Capacity constraints in partner countries are real at the human resource, organizational, and system levels, and disorganized U.S. efforts to simultaneously support economic activity with all available tools are likely to lead to both haste and waste. Maintaining a diverse economic assistance portfolio means recognizing the primary value of different tools and deploying them in the country contexts in which they can have maximum impact. Key to this is the continued recognition of the different roles for public and private investments in stimulating economic activity, such as:

- *Non-profit initiatives to identify and expand financial tools for traditionally under-banked populations:* Although sometimes not directly supported by USG assistance, non-profit implementers of economic development programs are increasingly experimenting with new financial services. For example, Mercy Corps launched an early stage impact investment fund focused on East Africa in 2015,[10] while Habitat for Humanity used its own seed money and expertise to partner with OPIC and the Omidyar Foundation to create MicroBuild, a mortgage fund for low income families in the developing world.[11]
- *Funding for public goods:* MCC provides public capital for large scale, multiyear investments in public goods such as infrastructure, sustainable public services, or institutional and market reform. Such funds support investment in large, often multifaceted public works that are unlikely to be independently supported by private sector actors because the gains cannot be captured, or even realized in the absence of government led policy reform. These investments are prioritized for the greatest growth potential through a politically-insulated cost-benefit analysis tool that estimates the return for each dollar investment
- *Integrated approaches:* USAID, present in nearly every country and capable of supporting year on year programming and sustaining long term relationships is perhaps the most flexible. In recent years USAID has not only provided both public funds and technical capacity building, but has also prioritized efforts to bring private sector actors to the table for joint investment. Whether looking at the agencys' big push to build public-private partnerships for investment in Power Africa, the way USAID moved ahead with USAID forward reforms to better align its operating styles with the private sector, or new momentum at the Global Development Lab to bring break through innovations to bear in development, the agency has taken significant steps over the last several years to maximize the economic growth impact it can have within its current mandate and earmarks.
- *Facilitation of U.S. private investment:* OPIC leverages funding to stimulate U.S.-based private sector activity in a country by providing U.S. companies with debt financing, loan guarantees, political risk insurance, and support for private-equity investment funds. Such funds not only crowd in U.S. investors, but support expansion of U.S. businesses, and generate income for the U.S. treasury.
- *Focus Areas:* Though they are not always economic growth focused, some recent sectoral initiatives explicitly recognize the need to address binding constraints to growth in multiple countries. This includes Power Africa as codified through the Electrify Africa legislation, or Feed the Future and the (pending) the Food Security Bill, which explicitly calls out the importance of functional markets in ensuring food security for populations and livelihoods for small holder farmers.

To be effective without feeling chaotic, this approach requires more purposeful application of analysis and coordination, transparent evaluation and reporting, and a willingness to add authorities that would allow existing assistance mechanisms to respond to global economic changes.

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[10] https://www.mercycorps.org/sites/default/files/Mercy-Corps-Social-Venture-Fund-Overview-May-2016.pdf.

[11] http://www.habitat.org/sites/default/files/2015-microbuild-fund-annual-report.pdf.

Prioritizing the results of economic analysis over politically popular solutions can feel counter intuitive, but may serve as a tangible way to push greater coordination and impact. For example, over a particular transport corridor in West Africa, a visual inspection would suggest that the primary driver of high shipping costs was the roads' condition (too narrow to bear the largest modern trucks, pot holes that required serious reduction in speed, and lack of shoulders for accident bypass). But deeper analysis shows that the greater constraint for the first stretch of transit was the sheer number of police check points at which bribes were solicited, and the greater constraint for the second stretch was the grip of a national trucking monopoly. Simply trusting the visual inspection would have led to a heavy dollar investment that feels satisfying to donors and is politically easy for recipient countries—but would have missed maximum impact by overlooking the effects of corruption or monopolistic behavior. Identifying the totality of the constraint also makes it possible to coordinate across actors who provide infrastructure funding, technical assistance, and support for regulatory reform.

Once programs start, transparent, rigorous monitoring and evaluation is the most significant tool available to determine whether economic assistance is achieving intended outcomes. Impact evaluations and rigorous monitoring are more common at MCC and USAID, but are still mostly underfunded and therefore mostly un-adopted by other agencies responsible for funding or implementing economic assistance. This information, on whether programs achieved the specific impacts they set out to accomplish, is fundamentally necessary if the U.S. is to first understand the effectiveness of different interventions intended to support inclusive growth, and eventually make cost benefit decisions about subsequent investments. To this end, the passage of the Foreign Assistance Transparency Act is a positive step and has been broadly supported by InterAction and its members.

Finally, keeping the portfolio up to date will also require more creative thinking about the authorities required for the U.S. to support national level financial instruments as tools, and to respond to evolving global trends. This may include new authorities for OPIC to self-fund expanded administrative services, regional or sub-national investment authorities for MCC, and greater flexibility for operational and program budgets for USAID so that it can begin a shift to the kind of systematic evaluation which would eventually allow the agency can to make evidence-based decisions about continuing and adjusting programming.

U.S. ASSISTANCE AS A WHOLE MUST RECOGNIZE THAT ECONOMIC AND NON-ECONOMIC ISSUES ARE EVER MORE INTERTWINED

Economic development assistance represents only one part of the broader U.S. foreign assistance tool box, which also includes humanitarian relief, security assistance, and support for democracy and good-governance. These other tools not only alleviate human suffering, but they remain critical pieces of maintaining U.S. leadership abroad. Interventions in traditional human development sectors have also had tremendous impact—scholars document the eradication of small pox, a near doubling of the proportion of children enrolled in school in Sub-Saharan Africa, and planet wide improvements in life expectancy.[12]

There are compelling and credible cases to be made for a each these of investments, from maternal health, to water and sanitation, to post-conflict community development. What may be less immediately intuitive is that there are also economic rationales for supporting the broader range of U.S. foreign assistance. Economic growth doesn't happen in a social or political vacuum. Consequently, when considering the efficacy of U.S. economic assistance, it is worth bearing in mind the following inter-relationships, and the implications they have for how to ensure economic assistance funds generate positive economic outcomes.

*Reform, political will, and democratic societies*

When it comes to economic reform—even at the micro-regulatory level—no amount of U.S. economic assistance can compensate for a lack of political will. Because it is ultimately the other-country government that reforms and enforces new laws, decisions about which economic assistance tool to deploy should take incentive structures into account. Critical reforms—like subsidy reduction or tariff structure reform—are domestically controversial. In some places, a governments' desire to secure public funding for infrastructure or to attract international investors serves as sufficient incentive. In other places, domestic politics may mean that governments can only take difficult reforms if they are accompanied by popular traditional devel-

[12] Getting Better: Why Global Development is Succeeding and How we can Improve the World Even More. Charles Kenny. Basic Books. 2012.

opment programs that support health, education, or agricultural services. In this same vein, no amount of economic assistance to a government will fundamentally alter the degree of space for civil society actors, or respect for the rights of citizens. Democracy support remains a critical, and separate, way for the U.S. to support our values abroad.

*Exclusion, inequality, and economic opportunity*

Because there are fewer economic opportunities for traditionally excluded populations (women, youth, minorities, the elderly) many development programs designed to support these groups have an economic dimension to them. Consequently, a variety of development programs that appear non-economic at first glance may in fact directly support economic goals. For example, an agricultural program in the Sahel that focuses on small holder women farmers adopting more efficient irrigation practices may directly increase community incomes.

*Pandemics and economic loss*

While the health of a labor force has known implications for economic productivity, we have recently seen how the state of a countrys' health system has deeper implications in the face of a pandemic. For example, the economic consequences of the Ebola outbreak in West Africa were staggering, with Sierra Leone, Liberia, and Guinea estimated to have lost some $2.2 billion in forgone economic growth in 2015. While traditional economic assistance before the outbreak would not have reduced the negative economic consequences later, health interventions might have (either long term support for health infrastructure systems or faster response to the initial outbreak).

*Our own national security goals*

In 2015, three countries received roughly 40 percent of U.S. economic development funding: Jordan, Afghanistan, and Pakistan.[13] From a national security perspective, the U.S. has multiple goals for providing all types of assistance in these three countries, which not only affects the level of funding, but also the choice of aid vehicles through which the assistance is provided. When U.S. goals around economic growth converge with goals around stability and national security, many of the best practices implemented in other purely economic development programs cannot be replicated.

This list goes on—urbanization, climate change, social accountability, demographic shifts—these are all intertwined with macroeconomic forces to affect the way U.S. economic assistance programs function. In that context, the U.S. must maintain a diverse portfolio of economic assistance tools while preserving other types of assistance which complement and deepen their impact.

*Conclusion*

I wish to thank the committee for this opportunity to provide testimony. InterActions' diverse membership strenuously and unanimously supports the United States'continued engagement in the world. To a person, our members recognize that that U.S. global leadership must include assistance designed to lift people out of poverty—and the $15 billion in charitable donations that citizens direct abroad every year suggests the American people do too. In that context, we believe both in the economic necessity of growth, and the human imperative of ensuring that growth is inclusive.

The CHAIRMAN. Thank you.

I might ask just a couple of questions and then move on, and then interject some.

But, in a sentence or two, could each of you tell me the purpose of United States giving economic assistance to other countries? Seriously, in just a sentence or two.

Dr. MOSS. It should be about trying to generate economic opportunity, but all too often it is trying to do lots of things at once, and therefore, you wind up not achieving any of those goals. So, just—very briefly, just——

The CHAIRMAN. But, now you are more than a couple of sentences.

Dr. MOSS. Okay, I will stop there. Yes.

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[13] Based on data from the Foreign Assistance Dashboard at http://beta.foreignassistance.gov/

The CHAIRMAN. Okay.

Dr. HERBST. I think it has been to show that the United States is committed to a broad range of goals across a broad range of countries. Actual performance has taken backseat.

The CHAIRMAN. Ms. Mandaville?

Ms. MANDAVILLE. I believe it is to support actual generation of economic growth, and also to demonstrate our commitment to the factors that drive that growth.

The CHAIRMAN. Okay. So, you think it is to—Dr. Herbst would say, to show; and you would say, to create actual.

Ms. MANDAVILLE. I would——

The CHAIRMAN. I mean, it does appear that much of what we do is to gain influence. And I think all the people who serve on this committee, generally speaking, support us being involved around the world. I mean, it is the purpose. But, it does appear that much of what we do is—you say "actual," I think Dr. Herbst will say it has been a total failure in sub-Saharan Africa. Would you—or a major failure, or——

Dr. HERBST. I would say the actual performance has been well below what we might think is reasonable.

Dr. MOSS. It varies from country to country. Some countries have used that aid well——

The CHAIRMAN. Yes.

Dr. MOSS [continuing]. But I think there have been a lot of disappointments along the way.

The CHAIRMAN. Well, let me ask you this. Do we—do you think, as we begin at the top, when we look at economic aid, do you think that we have done a good job ourselves of internalizing what the purpose is, and then ensuring that, through all the activities that we carry out, that is carried through?

Dr. HERBST. No. According to the State Department's own rubric, we have over 20 subgoals in five different categories for our foreign assistance. By the way, I agree, all of those goals are laudable. However, the notion that they are all aligned, that all good things go together, seems implausible to me. And so, we face confusion internally, and we confuse our recipients also.

The CHAIRMAN. Yes.

Any other comments before——

Dr. MOSS. I would just add that I think the Millennium Challenge Corporation is a pretty big exception to this. It is pretty clear about what they are trying to achieve, and the metrics that they assign to their compacts are aligned with what the goals are. And that does not apply to a lot of our other assistance programs.

Dr. HERBST. And I would agree with that.

The CHAIRMAN. Dr. Herbst, if I could, you said something that I think was probably surprising to most people in our audience in here. And you said the same thing in our office, when we met a few weeks ago. Your comment was that the world is awash in aid. That is not something that you would think, based on the types of crises that we deal with around the world. But, do you believe that the fact is there is a vast amount of aid that is being delivered, probably more so than even is necessary, at present?

Dr. HERBST. Well, more would be useful if governance was better and recipients could perform better. But, since the mid-2000s, when there was a commitment on part of the Western countries to increase aid, aid has increased massively. The number of non-Western donors, China and the like, has come on board, increased. The absolute number of poor people decreased. On the ground, when you are talking to aid officials, American or otherwise—in my case, in a variety of African countries—they find it very difficult to deploy all the aid that they have been given. If the government's records of the countries they are operating in was better, there would be more projects. But, they find it very difficult, in many cases, to allocate aid which they believe will have a high impact. They face other bureaucratic imperatives, of course, to spend the aid, but they find it very difficult to spend it on projects which they believe are worthwhile.

The CHAIRMAN. And, if I could, we obviously have gone through a period of time where the fiscal situation in the West, generally speaking, has hugely deteriorated, right? I mean, balance sheets in developed countries have gone negative, not positive. What is it that is driving the fact that there is so much economic assistance that is available to countries around the world? What is driving it going in the opposite direction, if you will, of what is happening domestically within these countries?

Dr. HERBST. Well, Mr. Chairman, as you—as I think the Ranking Member mentioned, the actual percentage of our budget going to foreign assistance is very small. It is bigger in other Western countries, but it is hardly driving the fiscal problems. I think the increased fiscal commitment has come through a really human-values commitment that we should try to do more to address poverty. That is laudable. Execution of that laudable aim has proven to be very difficult.

The CHAIRMAN. Do you want to say something?

Ms. MANDAVILLE. Yes. As—I think, also, that we need to distinguish between foreign direct investments and private capital flows and public support that is provided through direct—through overseas development assistance, in that private capital flows tend to focus on economic opportunities and business opportunities that are not necessarily always public in nature, and so there is a portion of the economy which can grow, but, in terms of long-term sustainable, inclusive economic growth, it can be hard to marshal those kinds of forces for the type of broadbased investment that is needed. If you think about, kind of, base public infrastructure as opposed to the infrastructure of an industrial park.

That said, as a result, I think that, in instances where the United States has taken a specifically economic-focused approach, like the Millennium Challenge Corporation, made a decision that is targeting a particular economic outcome, a level of return on investment, and stayed the course over a period of time, over a 5-year duration, that is when we have seen success, in terms of actually contributing to the economic growth. I would agree that that does not necessarily characterize all of our assistance, but I do think that, in the last several years, we have seen, not just the MCC, but other parts of the U.S. economic and foreign assistance portfolio pick up some of that same analytical and selectivity elements of their investments.

The CHAIRMAN. Thank you.

Senator Cardin.

Senator CARDIN. Well, once again, thank you all for your testimony.

I am following up on the Chairman's point and your testimonies, and that is, there seems to be a common theme, here, that the way that a lot of our development assistance has been handled over a long period of time is layering additional programs upon, or commitments upon commitments, spread thin around the world, to show our interest around the world, since we are a global power, and with little accountability and little expectation that there will be a strict accountability on the use of those funds that they serve there. The difference with the Millennium Challenge Corporation grants is, these are defined, specific commitments, where you have defined, achievable goals, and they are competitive, from the point of view that there are not a lot of them around the world and they are a significant amount of funds. So, for all those reasons, it is a little bit easier to get the type of results we are talking about.

I would suggest that, in the health arena, PEPFAR was a similar type of commitment, where we could see specific results from a significant commitment, where the U.S. dollars were dominant, at least in starting the programs in these countries. And it is the same thing on the specific projects under the MCC. The other development programs are not quite as easy to follow.

So, Dr. Herbst, following your point and the point that was made by Ms. Mandaville, on accountability—I mean, I could not agree with you more that if there is corruption and you cannot get the good governance, you should pull out of a country, rather than just continue to pour money in which is not going to get the return for the investments that we are making. So, we passed, as Ms. Mandaville pointed out, the Foreign Aid Transparency and Accountability Act. It is now in the Senate. It requires the President to—establish and implement guidelines with measurable goals, performance metrics, and monitoring and evaluation plans. It also requires the public posting of information on the Internet by the Secretary on these individual projects. Will this help us in trying to establish more accountability and transparency in these programs? What is your confidence level that this could make a difference?

Ms. MANDAVILLE. I do think that we are—things which encourage not just rigorous monitoring and evaluation, but also transparency of them, basically require learning. So, I think, in general, there can be a first-mover problem associated with publishing the results of work that you have done. If you are the only aid agency that is showing how effective your work has been, and no one else is showing how they are doing, then anytime you do not hit 100-percent success rate, it is very—there is—it is difficult for you to continue moving forward.

You know, when you look at the success rate of small business in the United States, at the 5-year mark, 50 to 60 percent of them have shut their doors. But, if you have a foreign assistance program that is at less than 100 percent, then, accountability-wise, people are very concerned about it.

So, I do think that requiring accountability and a publishing of the results and the analysis underneath it will fundamentally improve not just what that single agency itself does, but actually ability to learn across the portfolio.

Senator CARDIN. Dr. Herbst, I will let you respond. We all know it is challenging, politically, to cut off funds, and there are reasons why economic assistance is given to countries, other than the specific purpose for which those dollars are made available. Can transparency and requirements of more direct expectations help us in trying to get greater governance-use changes in these countries?

Dr. HERBST. I will have to admit, despite the good work of this committee, that I am skeptical.

First, to the extent that money is fungible, governments move money around, you are not necessarily funding the project that the check goes to; you are funding the least—the lowest-priority project of the government, because it may have funded that project, the aid-recipient project, itself. You are freeing up money for project—you are freeing up money to go to other projects or to other purposes.

Senator CARDIN. But, would not the transparency perhaps demonstrate that and, therefore, if there is proper oversight, not just by Congress, but by NGOs, that, with more transparency, we could get to the point—well, I agree with you, I am prepared to cut off funds if we are not getting the intended results and if we do not have governance improvement.

Dr. HERBST. I think that level of oversight is very difficult. I think that we underestimate the degree to which we are played by our aid recipients. They read our legislation. They follow these hearings. They are very sophisticated. They provide us with what we want to hear.

I think going down the path of ever greater accountability, Web sites, and the like, while it is appealing, it suggests a basic lack of trust between the donor and the recipient. And I would be more comfortable being able to say we trust this recipient government to use the money in a proper way. I am afraid ever more measures, Web sites, investigations—I do not know if that is not a rabbit hole down which we will go, where we just try to make ever more observations on a relationship——

Senator CARDIN. I would just point out that——

Dr. HERBST [continuing]. That we fundamentally do not believe in.

Senator CARDIN. Yes. Well, if you look at past history, we have been continuing the programs, so I am not sure—and I think you and I would both agree that there are many countries that would not qualify if it was our dollars directly going into these countries.

I want to get one final question to Dr. Moss, and that is—your point on leveraging the private investment, I think, is an extremely important point. And a lot of the programs that do that are working fairly effectively. On OPIC, your suggestions there are ones that I hope we will follow up on, because I think they make a great deal of sense. I just want to get your assessment on one program, and that is the Global Development Lab, it leverages the private-sector, NGOs, and local actors to solve development challenges. Is that a model that could be improved, or is that a model that is working well?

Dr. MOSS. I do not have any great insight into how well that is working, but one of the things that we have seen is a lot more experimentation. I think the frustration that the committee has with some of the ineffectiveness of our aid programs in the past has—one of the good things we have seen is a lot more testing of new models, piloting things, trying them out, and marrying that with good evaluation. So, you at least get a sense of, Did this project work, and what can we learn from it? So, I think as part of that effort, that has been positive.

Senator CARDIN. Thank you, Mr. Chairman.

The CHAIRMAN. Thank you.

Senator Gardner.

Senator GARDNER. Thank you, Mr. Chairman.

Thanks, to the witnesses, for being here and your time and testimony today.

Dr. Herbst, in your testimony, you state that, and I quote, "It must be—it must first be noted that economic growth is not the primary goal of U.S. foreign policy. The largest component of bilateral assistance is devoted to global health, notably to support treatment of HIV/AIDS." Did you make that statement because you think that is the right priority? Is it the wrong priority? I mean, should we be doing more, or less, in terms of economic assistance?

Dr. HERBST. That priority reflects the priorities of the legislative bodies and the President. And so, I take it as a—as important to the U.S. If—it came about because of a global health emergency, obviously, in the last two decades. And that program did save the lives of a significant number of people. I do not think there is any doubt about that. I am not sure how many other U.S. programs we could say about it.

So, I applauded the development of the program. And I think that money is relatively well spent. I just do not think we should then say to ourselves that economic growth is the highest priority.

Over time, as the Senator and the Ranking Member said, I think there is no escaping the conclusion that economic growth is the fundamental necessary condition for all of human improvement, that we can address other issues. They are important to address. But, if countries do not have a sufficiently high rate of economic growth, none of the other improvements we hope to see is—are going to occur.

But, the HIV crisis was unique. We understand that. And the U.S. money was allocated accordingly.

Senator GARDNER. Thank you, Dr. Herbst.

And I recently had the chance to visit Myanmar—Burma—with a number of our colleagues, and we talked about the urgent needs that they face, in terms of economic and development assistance, to help make sure that the new democratic government can succeed. According to the State Department's 2017 budget request for Burma, U.S. efforts—and I quote here, "U.S. efforts aim to strengthen political reforms, advance the national peace process, expand economic opportunity, and improve the health and welfare of all the people of Burma." And I think these are obviously very important topics that I agree with, but wonder if we are properly aligning these efforts to address the most urgent needs in Burma that would result in the immediate deliverables for the new democratic government. We also met with a number of key leaders and supporters of Aung San Suu Kyi, and we talked about what success looks like for—at the end of the 5-year period of this administration. For instance, according to the Asian Development Bank assessment in 2015, per-capita electricity consumption in Myanmar remains among the lowest in Southeast Asia, reflecting poverty-level per-capita incomes and an electrification rate of only 31 percent. Lacking electricity, most rural households burn firewood and animal dung for lighting and cooking, causing widespread acute respiratory problem. Yet the '17—the fiscal year '17 request does not speak to any initiatives in this area.

So, which economic sectors do you believe should be the near-term priority for U.S. development initiatives in Burma?

And this should go to all the witnesses, if you would like.

Ms. MANDAVILLE. Maybe, then, the right place to start—and I will confess to not being an expert in this particular—in Burma, in particular. But, I think this is a space where it is thinking about both efforts to actually promote actual economic growth and the conditions which, in the long term, support economic growth. And so, I think that is—those are the right pair of questions to ask around how to prioritize the investments. Whether the—if you are looking at it from an economic perspective, what are the things that, at this moment, for the next 3 to 5 years—these are the characteristics of that economy that an investment does alter its ability tto have a stronger growth path. But, in addition to that, there is a question about what sustains those conditions, or, as conditions change, given the world around it, given the country itself and its own changes over time, what supports those conditions in the long run. So, I think there are probably two stages to the investment.

Senator GARDNER. And, given what you just said, can we more effectively utilize existing State and USAID programs, or can—better use them as they are today, or do we need to change course and establish a new program for Burma, itself?

Ms. MANDAVILLE. In my view—and again, not being a specific expert in Burma—this is something where I think USAID's more recent adopting of country-specific strategies, which dig in quite deeply into a variety of aspects about the different things that the U.S. Government is supporting over time in a country, be they economic or other, is possibly—is probably the right place to start thinking through this, which suggests that it also—these strategies also allow both State and USAID to look across the tools and instruments that they can use, and bring them together.

Senator GARDNER. And so, I do not know if you want to answer the next question, or perhaps the other two, as well, but it kind of leads into what you were saying—or builds off of what you were saying. With that country-specific approach that we have been developing through our aid dollars, is something like the Power Africa Initiative—could that be useful to assist the needs of Burma as we talk about the electrification rate and economic development, those kinds of things—would that be a good approach to develop sort of a prescriptive Power Burma kind of approach?

Dr. HERBST. Not—again, although I have been to Burma, not being an expert in it, I will say that President Obama was right to point out that electricity was a primary constraint to economic growth, and that infrastructure development, which the aid community has had an ambivalent relationship to over many years, is an absolute necessity. So, if we or others are not going to be part of helping Burma grow its electrical power generation, assuming that it can do so efficiently, that is going to be a major constraint on growth. And we have seen that elsewhere in the developing world also.

Senator GARDNER. Thank you.

Dr. MOSS. If you look at what the Power Africa Initiative tries to do, which is—and this was Alicia's point—you start from an analysis of what is holding back electricity. What is it that the U.S. could do? Is it put a technical advisor in a utility? Is it provide some political risk insurance to a private power producer? Is it investing something in the grid? It is starting from an analytical base and then figuring out what tools we need to bring to bear. That approach—I do not know if you need a White House initiative for it, but that kind of approach would certainly apply in a country with a 31-percent electrification rate.

Senator GARDNER. Thank you, Mr. Chairman.

Thank you.

The CHAIRMAN. Thank you.

There is no question that Electrify Africa is one of those things that can make a massive difference in people's lives—over 50 million, we hope, in the next 4 years, 600 million people in sub-Saharan Africa without electricity. It is hard to have economic growth, hard to have healthcare, hard to have education without electricity. And the way this is construed with very little, from the standpoint of U.S. actual dollars, is fascinating, and a great model. And I appreciate Senator Gardner's leadership on all things Asia, and his focus in that regard.

Senator Coons.

Senator COONS. Thank you, Chairman Corker, Ranking Member Cardin, both for convening this important discussion and for your real leadership in this committee.

I was pleased to see the Foreign Aid Transparency and Accountability Act just passed the House, and the Global Food Security Act has also passed the House, both of which I hope will be signed into law by the President soon. It is a reminder of the solid, sustained bipartisan work done by this committee.

The CHAIRMAN. You have been involved in a lot of good things as a freshman Senator from——

Senator COONS. The small State of Delaware.

The CHAIRMAN. That is right. Very small State. [Laughter.]

Senator SHAHEEN. No longer a freshman.

Senator COONS. No longer freshman, my good colleague Senator Shaheen reminds us all.

But—and Electrify Africa was one of the things I was proud to play some very small role in.

Like many members of this committee, I am a strong believer in the potential of U.S. foreign assistance, not just to provide vital, even lifesaving, support, but also to strengthen our leadership role in the world. But, I also believe that U.S. taxpayers should not be committed indefinitely to assistance without reasonable metrics for its impact and its outcome. And there are ways we can, and should, work together to strengthen the transparency, the accountability, and the impact of our aid.

I have been particularly impressed with the Millennium Challenge Corporation, its metrics-based approach. And later today, I will be joining some House colleagues at an OPIC event, presenting awards at the U.S. Chamber of Commerce to companies that have made real progress through OPIC.

So, let me ask two questions. First, if I might, Mr. Moss, about Electrify Africa. The Obama administration's Power Africa Roadmap is very ambitious, 30,000 megawatts, 60 million connections by 2030. And yet, we have heard that, in some countries, business leaders I have met with do not feel that the governments are taking advantage yet of the strong incentives we have offered. There has been real progress towards a more market-based approach in some of the most active and engaged countries—competitive tenders, deregulation. But, I am concerned about meeting this aggressive timeline.

Is it structured—the Power Africa Initiative—the right way to achieve this roadmap? Is it possible—this is what I think Senator Gardner was asking—to replicate this model in confronting other development challenges? And how do we get the public and private sector to work more closely together in addressing key challenges like power?

Dr. MOSS. Thank you for that question, Senator Coons.

You know, I think that the general approach of Electrify Africa Act and of the Power Africa Initiative, which is to try to tackle what—tackle the barriers, kind of, one at a time in each country. In Nigeria, the problems are very different than in Liberia, and we are going to need different tools to help countries get to their ambitious energy goals. I do not know whether the 2030 is—you know, it is ambitious. I think it is a—it is certainly achievable under certain conditions. I would say what my principal concern about it is that it relies on an extremely ad hoc set—a coordination mechanism that I worry will not last into the next administration. There is no—unlike PEPFAR, there is no strong home that is going to carry on the work of Power Africa in the same way—you know, the team at USAID, I think, has done a tremendous job. Their roadmap, I actually was expecting it to be a government whitewash. I thought it was a really honest, terrific, analytically solid document. I have been very impressed. But, if Power Africa and Electrify Africa is going to be sustained through 2030 and reach these ambitious goals, it needs to—it needs a bit more political heft. It needs to have a home. And I am definitely worried that, in the next year or two, we could see a lot of that momentum lost.

I have heard, both from governments in Africa and from people in—power-sector executives, that some of that early excitement has been lost. The summit is over, we are toward the end of the administration, there is a natural tapering of energy. I am worried that that will not get sustained.

Senator COONS. Well, let me ask one follow-on question about OPIC, if I might. You suggest, in your testimony, OPIC should be able to make equity investments. Why equity? And what is the difference, in terms of leveraging private capital? And why would that, at, as you say, no cost to the taxpayers, significantly expand its reach?

Dr. MOSS. So, it is kind of a wonky answer, but when you are crowding in lots of investors, say in a power project, and most of them are coming in with equity, OPIC is forced to come in and, by statute, has to issue first-tier debt, which means they have to get paid back first, which means you have just aggravated all of your other partners, and it actually means that OPIC often has to—it gets pushed out of deals——

Senator COONS. Right.

Dr. MOSS.—and it is not able to leverage that in the same way. It is just a—it is a flexibility that you would want, especially in the poorest countries. When you look at development finance institutions, like the Germans, the Dutch, the British—in the poorest countries, they are doing almost entirely equity, very little debt, and the U.S. is just unable to have that capability, because of this rule that goes back to the Nixon administration.

Senator COONS. One more question, if I might?

Mr. Herbst, if I might, I just—I was struck by the forcefulness of your repeated statement that the world is awash in aid. Let me make sure I hear you right. Did you mean relative to the amount of human need, the world is awash in aid? Or did you mean relative to opportunities to make clear, high-impact investments that will have a positive outcome, the world is awash in aid?

Dr. HERBST. The latter.

Senator COONS. Because I——

Dr. HERBST. The latter.

Senator COONS.—I just do not want those who might be watching or listening to get the mistaken impression that there is just huge amounts of excess aid. Given 65 million refugees, I am struck at just how much human need continues to spread into previously unexpected places in ways—and I think one of our biggest challenges now is confronting that humanitarian work and sustainable development need to blend in ways they have not previously, that we are confronting a generation of refugees living outside their home countries for 10 or 20 years, and we need to look differently at how we do emergency response for refugees and how we do sustainable development.

Ms. Mandaville, have any closing comment on that convergence?

Ms. MANDAVILLE. No, certainly. And I think, actually, this goes to a question about how—if part of our challenge is identifying the opportunities where resources can have the most impact, then I think that there is—this goes, actually, to a question about the Global Development Lab, and something that both the Global Development Lab and MCC are good at, which is structuring the way it thinks about a new undertaking or a new investment so that there is a point in time where you ask the question about whether the counterpart government or the recipient government has undertaken the policy steps it needs to for your own investment to proceed and have solid impact. And so, I think this actually supports this point that, you know, generating growth is not just about what the United States can bring to bear, it is also about what the country picks up and takes responsibility and brings to bear on its own. And so, something that Global Development Lab does quite well and the MCC does quite publicly is to make this point that, if you look even at Power Africa investments, the power infrastructure that MCC has invested in, there are tariff reforms associated with that, there are regulatory body reforms associated with that. And they are politically difficult for many of these countries to undertake. But, it is when we pair them together that we are able to identify, given the possible things that we could direct our resources to, this is one where both parties have skin in the game.

Senator COONS. Thank you.

Thank you, to the panel.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you.

Senator Shaheen.

Senator SHAHEEN. Thank you.

Thank you all very much for being here. And I am sorry that I missed your presentations, but—so, I think this question may be for you, Mr. Moss.

I was on a presentation this morning, talking about the success of enterprise funds after the fall of the Soviet Union and some of the eastern European countries. And can you talk a little bit about what was it about those funds that made them a success, and whether there is the ability to duplicate that. And should we be looking at enterprise funds again as we think about some of the need in some of the places that we are looking at?

Dr. MOSS. So, I have not looked in detail at the enterprise funds; however, there is a kind of general consensus among the development community that the initial fund in Poland was a great success.

Senator SHAHEEN. Right.

Dr. MOSS. And we have yet to see that replicated ever again. The southern Africa development enterprise fund, the post-apartheid fund, was a total disaster, a complete washout. I know that some of the other funds that have been tried have not worked out. Part of that, I think, is that they are not structured in a way that allows—you are essentially making venture capital into very, very risky markets. There is some reason you need to even organize that. And there are going to be a lot of losses. As Alicia mentioned, you have to have a very, very high tolerance for loss for venture capital to work, and you have to give the fund the autonomy and time to make those investments, and you hopefully—maybe you only have a 20-percent hit rate, but those—that 20 percent makes it worthwhile. USAID, as an agency, is not structured in a way to allow that to happen. They are in a 1-year, no-failure, no-corruption, no-problem mindset, in part because of congressional hammering.

Senator SHAHEEN. Right.

Dr. MOSS. And so, I have actually been much more impressed by the private equity funds that have been seeded and started by OPIC, where they will provide up to a third of the capital for a fund. They have done this very well in African infrastructure. They will provide up to a third of the initial capital if the third-party fund manager can go out and raise the other two-thirds, and they are given 10 years to go do that. And that has actually been a much better model. And OPIC, because of its structure, is just better set up for that than USAID.

Senator SHAHEEN. Well, I know that we have been talking about Africa and Asia. I happen to be the Ranking Member on the European Affairs Subcommittee, with—and there are still pockets in Europe—the Balkans, in particular—where there is significant need. So, talk about the model that you have seen that you think may be more—or maybe it is the same model, but maybe—may work better in place like Europe, the Balkans, where—where they have different challenges than Africa.

And I do not know who wants to try and respond to that.

Ms. MANDAVILLE. I spent the first part of my career at NDI working in the Balkans, so maybe I should go first.

So, I think that, in some ways, it comes back to the same question about taking a country strategy approach. And one of the things that characterizes the Balkans is its proximity to an extraordinarily well-functioning, highly-dynamic market. And so, that has to be a fundamental piece of how you think about what countries in that space—what sustains their growth when they are in that context.

And the, kind of, I think, relevant, maybe, Africa example, then,—or "comparison" is not the right word, but point to make would be—if you think about the way people invest in economic opportunity and growth in Lesotho, which is surrounded by a dynamic South African economy, it is much more focused on how you think about labor-force development, ability to work inside of markets that are around it, and work with markets that are around it, to take advantage of—comparative advantage. So, I think that that kind of lesson would probably be one of the best starting points.

Senator SHAHEEN. You talked a little bit about the connection between incentive for reform and assistance. Can you talk about how the two are connected? Now, I appreciate that there has to be commitment in country to make those reforms, but how important is it for us to tie our economic assistance to the need to reform in the countries that we are supporting?

Ms. MANDAVILLE. I think that there is, kind of, two different types of assistance. And one is most effective when it is quite closely connected to policy reforms undertaken by countries, and the other is what it makes sense to do when it is not possible to make that tie. So, to be more specific, I think that when we think about large-scale investments that have a macro-effect, large-scale infrastructure, things that would require, over the long-time regulatory reform or anticorruption efforts in order for them to be practical, in those instances—and, like I said, this is something both MCC—MCC does well, and Global Development Lab does well because it is an actual technical approach, right?—is to look at, what is the point by which, if a certain paired reform is not in place, the rest of the investment makes less sense? MCC does this well by looking first at the policy environment as a whole in the country, but even inside investments, also looking at the specifics of regulatory reform and: "Will our investment have a return if they do not put this in place?"

However, there are countries where—which are fragile, where we still care about economic activity for the population. And we may believe that it is not—it is not as possible to have high-level economic growth outcomes, but we believe strenuously in supporting economic activity and income-generation outcomes. And, in those spaces, that is where I think it is—it is more important to think through what allows for economic activity at a community or regional—local level, and put support behind programs that reach to that space.

Senator SHAHEEN. Thank you.

Dr. HERBST. I would be more skeptical of the latter's programs. I think many of the poor, fragile countries that Ms. Mandaville mentioned are that way because of a lack of reform over time and that, while we cannot ignore human suffering and destitution, as a country and as a people, I do not think that countries—even poor countries—that do not take basic reforms will get themselves out of the trap of being poor and fragile. And I think we have seen this with Haiti for a very long time now. So, I do not think that the level of economic development should, at any point, give country immunity from us looking very carefully at what senior leadership government officials are doing. They may be asked to do different things, and the bar may be lower, but I think the—all countries should be on a reform trajectory.

Senator SHAHEEN. I assume you would feel differently about countries that are in the midst of a crisis like Syria or Iraq?

Dr. HERBST. Well, I do not think, there, you are talking—those countries—Syria a functioning country at the moment, so I think that those are different. But, if you look at a country I know fairly well, Zimbabwe, where I have been on and off for 30 years, they are in the midst of a crisis right now that has come about because of lack of government reform. And we will continue to give food aid and other things, because we care about the people there. But, we should be under no illusions that it was the very government's policies that got them into this——

Senator SHAHEEN. Right.

Dr. HERBST.—spot in the first place.

Senator SHAHEEN. Thank you.

I am actually out of time.

The CHAIRMAN. Okay.

Senator Markey.

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

And we thank the panel for joining us here today. And we thank you for your expertise on ways that—of our foreign economic assistance can more effectively advance the growth of prosperous societies around the world.

Here in America and throughout the developed world, Internet access has been an enormous driver of economic growth, including to a recent Boston Consulting Group report. This year, the Internet contributed an estimated $4.2 trillion in annual growth to the economies of the G20 countries, adding between a—5 and 9 percent to GDP. But, in February, a report from the Alliance for Affordable Internet found that, without immediate and urgent action, the world will miss the newly agreed global goal of universal Internet access by 2020, and, on current trends, the world's least developed countries will only achieve universal access by 2042. Even then, persistent income inequality within and between countries may mean that millions of people will continue to be priced out of participating in the digital revolution. In the modern era, the Internet is like oxygen to the economy of every single country and every single individual within those countries.

So, the United States has multiple tools which can lead in this area, including the State Department's Global Connect Initiative, USAID's Global Development Lab, the Millennium Challenge Corporation, and the Overseas Private Investment Corporation, to name just a few.

Can you give us, from your perspectives, how you view the role that the United States can play in pushing along this agenda and ensuring that universal Internet access is something that can be realized by every country on the planet?

Dr. Moss.

Dr. MOSS. I know this is not a very Washington thing to say, but I do not really have a strong view on that. I think a lot of the countries that I deal with, Internet access is far from the top of the list of people's priorities. A lot of the countries I am—I work in, you know, less than half of the people have any meaningful electricity. And so, Internet is something that people aspire to, but would not be—you know, would not be—would not—probably not make the top five. I realize there are lots of markets where that is not the case, but I think the others are probably better placed to say.

Senator MARKEY. Okay.

Yes, sir.

Dr. HERBST. I am pleased to report, Senator, that the Newseum, in conjunction with ITI, the internet trade association, is now conducting a project on expanding broadband access across the world. And we convened our first meeting, which included major technological companies as well as Ambassador-level representation of a variety of countries. And we will be having our second meeting in conjunction with the October World Bank meetings.

I take a somewhat different approach to my friend, and agree with you, Senator. I think broadband access has become the fundamental avenue for free expression in the world, and is the link to the world economy. Our perception, after talking with companies in a certain number of countries in a project that is still going on, is that regulatory and political obstacles in developing countries are first-order problems, and that financing is a second-order problem, that there is money out there, some from official, a lot more from the private sector, but that the fundamental issue, when you look at countries where—and countries at the same per-capita income level do have different levels of broadband penetration. Some of that is geography, but some of it is regulation. And I think the role we can play is in providing models of how governments can regulate or deregulate their telecom sectors to allow for the kind of universal access which I think is going to be absolutely critical for the future. There are going to be further developments in mobile that are going to make this easier, but also going to raise the stakes, because the developed world's Internet infrastructure is advancing at such a rate that, if the developing world does not get into this race, the actual digital divide is going to get worse.

Senator MARKEY. Ms. Mandaville.

Ms. MANDAVILLE. Yes, I would agree with Dr. Herbst on the—a point that there is a lot of private capital, I think, interested in this space, largely because it is a big piece of how they move in through economies, as well. And so, I think the question, then, to ask about, What is the role of thinking through U.S. assistance, in terms of what it provides to increase accessibility, universal access, moving into spaces that are more remote and not just urban centers, is to really ask the question about what is—What is the role of, kind of, influencing and in—pressing for regulatory reform that allow for universal access, that allow multiple types of providers? This is—I was at a—spent a year at a tech company prior to joining InterAction, and this is a space where lots of people are very, very interested in how they reach markets in other places, specifically through the Internet. And so, thinking through what we do that leverages that interest, that leverages that force, is really critical.

Senator MARKEY. Yes. And I—when I look back in 1996, when we passed the Telecom Act of 1996, not one home in America had broadband. In February of 1996, not one home. Twenty years later, for 12-year-olds, it is a constitutional right to have a 50-inch HD screen. Okay? They cannot even imagine life without it. But, for those people in 1996, it was unimaginable that there was such a thing as HDTV. It was such—that the screen could be interactive, that there could be a wireless device that they are carrying around in their pocket that is as powerful as the computers that put a man on the Moon, but it is in their pocket now. So, to a certain extent, I just think that the United States has to help these countries lift their gaze to the constellation of possibilities for their own people through the dissemination of technology.

So, yes, on the one hand, electricity is important, and that is what Power Africa or Electrify Africa is all about, but electricity is just a means, then, to make sure that all these other devices that actually transform the country into a modern economy, into something that their younger citizens can compete, is absolutely essential.

And so, in 1993, there were not any phones like this. They were the size of bricks. They cost 50 cents a minute. And Gordon Gecko had one, in Wall Street. Okay? But, by 1996, we had innovated, and, boom, we had one of these. By 2007, people have one of these. And 600 million people in Africa now have one of these, but the United States had to be the leader. We are the ones, ourselves, that had to get out of our own rut, the black, rotary-dial phone, and—a phone in your own pocket? Absolutely unimaginable. Now we wake up in the morning, and our first thought is, "I cannot forget my phone. I have got to have it in the car. I am going to work." Well, those were not thoughts that anyone had up until 15 years ago, in our own country. But yet, we cannot leave behind all of these people in the developing countries without having access to, essentially, the global economy——

The CHAIRMAN. Okay.

Senator MARKEY.—the skillset you need in order to be able to expand. And then, like the United States, or like the 600 million people in Africa right now, it happens overnight.

So, you need to kind of Power Africa, but you also have to Internet Africa. You have to Internet——

The CHAIRMAN. Okay.

Senator MARKEY.—South America, their villages, and let these young people have these opportunities. So——

The CHAIRMAN. Good.

Senator MARKEY.—towards that goal, I just think that we should work, you know, together to try to accomplish those goals, because I think that is the most powerful democratizing capitalistic, you know, idea that we can have in inducing, you know, a different kind of way of thinking that serves as a proper counter to that which seeks to pollute the minds of young people across the planet.

I thank you all for everything you do.

I thank you——

The CHAIRMAN. Thank you.

Senator MARKEY.—Mr. Chairman.

The CHAIRMAN. Thank you so much. I appreciate it.

So, I know there are some additional questions. I want to get to the essence of what I think this hearing is really about.

Ms. Mandaville, you kind of represent the aid industrial complex, I guess, at the intersection. And, in fairness—I travel around the world, and all of us do so extensively. So many of our Ambassadors tell me that we really do have a Cold War model that is tremendously ineffective, and that most of what we do as it relates to aid is wasted. So, the reason we are having this hearing is to ensure that that is not the case. And we certainly appreciate the work that the organizations you are a part of do. We really do. But, I think it is an outdated model. And Senator Markey was expressing some reference to outdated things. But, it is a problem. And I think it is just like what is happening in our country right now. I mean, there is tremendous upheaval because structures of government are not exactly responding to things in the way that people would like to see the same thing we know is happening in aid. And yet, we support being involved.

So, you know, Dr. Herbst would talk about the fact that, in essence, we are pushing rope when we send money to countries that are not going through the reforms that need to occur. It is wasted money. I mean, the things that we want to see happen are not going to occur.

Dr. Moss, I know, has talked a little bit about development finance. And I know our office is looking at ways of really increasing that so that you are focusing—and maybe diminishing some other things—so that you are focusing on things that are actually going to have an impact.

And I just wonder if you might respond to what I just laid out and the concerns that we have from Ambassadors all over the world that represent us, that know that much of what we are doing really is just about buying influence, it is not about economic growth, it is not about affecting people's lives in an appropriate way, and how you might respond to what so many of them say to me, that are out there on the ground, that that is a big part of their life. I mean, it is what they care about. It is what they are administering.

Ms. MANDAVILLE. Thank you.

And I think that there are spaces where—I agree that trying to achieve certain types of economic outcomes in environments where governments are not willing to take reforms that fundamentally affect those outcomes is not—cannot be successful at the level that we hope for. I spent 9 years at the Millennium Challenge Corporation, often sitting across the table from Prime Ministers and Ministers of Finance and Ministers of Infrastructure, explaining to them why I was very sorry, but they were not eligible, because we had not seen the level of policy reform and commitment that was required.

The CHAIRMAN. But that does not happen in the other areas of assistance. You had the freedom, at the Millennium——

Ms. MANDAVILLE. I did.

The CHAIRMAN [continuing]. Corporation, to make a difference, to make sure that whatever you did was transformative.

Ms. MANDAVILLE. Right.

The CHAIRMAN. On the other hand, what we are doing at USAID on a daily basis is doling out money that is making no difference, in many cases, and they do not have the same mandate that you had at the Millennium Corporation.

Ms. MANDAVILLE. I also would say that nobody wants to be implementing a program that they do not feel like is having impact. People go into development or humanitarian work because they want to affect people's lives. And whether they are an implementer on the ground or there in the headquarters or at their—at USAID, nobody wants to be in that position. I just think——

The CHAIRMAN. Well, let me just ask you this. Does the aid industrial complex, though, that you are associated with, does it create resistance to change that might migrate dollars away to other things that would be more effective?

Ms. MANDAVILLE [continuing]. I think that—I think we need to tolerate learning about what is effective. And I think that——

The CHAIRMAN. I think the answer, though, is, somewhat, yes, is it not?

Ms. MANDAVILLE [continuing]. I think that, in the last 5 to 10 years, we have seen more and more uptake of selectivity and analytical rigor, in terms of deciding what is going—what works and what does not in various places. I also recognize that, within our economic assistance portfolio, 40 percent of that assistance goes to three countries. I cannot speak to how those three countries affect the overall effectiveness of the portfolio, because even if you are extraordinarily rigorous in every other country in that portfolio, three swamp it. So, I do think that we have seen, over the last 5 to 10 years, more and more adoption of this notion that you have to be selective up front. You cannot work everywhere on everything. I do think that kind of change takes time.

The CHAIRMAN. Okay.

Dr. Moss?

Dr. MOSS. So, if we take my colleagues' testimony, which—I know it is boring, but I agree with their opening statements—so, if we take Jeff's premise that you have to focus on countries that—where there is a political commitment and governance is at least good enough, and we take Alicia's idea that targeted economic analysis is what will allow you to make smart choices and make good investments, you put those together, that means that the U.S. Government needs to be both highly selective and highly disciplined in turning off things when they do not work. Now, there are some experiments that work that way, but our budget process does not allow us to behave that way. Now, some of that is because other goals, like the State Department, as you suggest, likes to—I work there—we like to spread money around, because our job is to make friends, and one of the tools is the aid budget. It does not help if we are trying to get a—convince a country to send peacekeepers to turn off their—our aid program. Of course the State Department would fight against that.

So, you have got other goals, you have got the budget process, which is often—there is no zero budgeting—you often start with, What was last year? And you spread it around a little bit differently, but there is a huge amount of inertia. And then there is also a big role from Congress. There are so many earmarks in the aid budget that there is very little flexibility for officials to say, "You know what? It is not working in Kenya, so we are going to move it to Tanzania." That is virtually impossible within our system. So, that is why you get these experiments, like MCC, like the Global Development Lab, that are trying to do it the new way, but the old, standard aid program run out of USAID, it just is not allowed to operate that way.

The CHAIRMAN. You want to make a closing comment before I turn to Senator Cardin, Dr. Herbst?

Dr. HERBST. I would just note that, as Senator Markey said, we have seen a revolution in telecommunications across the world, including in much of what we call the "developing world." Hundreds of millions, billions of dollars have been invested, business practices have changed, lots of people have been brought online in poor countries. Almost none of that had anything to do with foreign aid. That was because governments made smart decisions. And we saw the same thing with the mobile phone revolution beforehand. Governments made smart decisions. Foreign investors found markets that were applicable.

I think at all times we have to ask, Why are we investing this money, when the government of the day, or investors, private or foreign, cannot do it? There can be good answers to that. But, I would agree with Dr. Moss that selectivity and a portfolio which is more concomitant with the resources we are willing to develop and devote is necessary.

I also believe, while I think, analytically, Dr. Moss is right, that it is hard, given all of our constraints, a few exemplary cases where we walked away or took highly disciplined measures would send an important signal, both across our government and across the world.

The CHAIRMAN. Thank you.

Senator Cardin.

Senator CARDIN. I agree, as I indicated earlier, that we need to have accountability. We are not doing a country any favor if we give them aid and it is not being used for its intended purpose and it is—not on a path towards good governance. But, as I said also, the amount of resources we are putting into economic development assistance is relatively small. And then, when you take out the three largest countries, it is really a small amount of money. And of the three major countries, the reasons for that aid—of course, Jordan is one, and I think most of us would say that there has been a pretty good return to the United States for what we have done in Jordan. The other two countries that receive a significant amount of aid, Afghanistan and Pakistan, there is a reason for that. And some of us question those reasons. But, it is not just the direct economic assistance.

I do not think it is quite as simple as to try to take a look at this. What I said at the beginning, we should look at what has worked and what is our best chance to improve governance or put a country on a path towards good governance. And I think the MCC has been a really good model, and I think we need to build on that. I think PEPFAR has worked well. From the countries I have visited with PEPFAR investments, it has made a substantial difference. They know that the United States was there. And there is a generation, now, appreciative of what we did. And we have much more stable countries where these clinics have been able to produce the health results.

And what has not worked as effectively—and the Chairman really alluded to this, and some of you have, also—and that is, "Are we prepared to really hold a country accountable by either reducing or eliminating their funds?" And that is very difficult in our political environment.

So, we have used—let me just make a couple of suggestions—we have used the appropriation process to put conditions on aid. That has not worked.

The CHAIRMAN. Yes.

Senator CARDIN. It has not worked. I think this committee could be helpful, if we could get into a regular practice of State Department authorization. We could help the authorizers and we could then take up some of these issues, and we could look at what tools work. So, I know we are working on that. And the Chairman has made that one of his top priorities. And I strongly support that.

I also believe that suggestions that have been made about leveraging private-public partnerships are good, and OPIC reauthorization and reform. I think their suggestions make a great deal of sense, and things that we could do to make a difference.

And I also think transparency is critically important. I understand skepticism about how it would be used, but, without transparency, it is very difficult to get everybody on the same page. So, I am all for the transparency, and pleased that we have been able to deal with that.

But, I think this panel has raised a lot of good questions, and some good areas that we could advance that would give us a better chance to achieve our objectives of really transforming a country's economic capacity through the use of U.S. engagement.

So, thank you all for your testimony.

The CHAIRMAN. Thank you.

Senator Shaheen.

Senator SHAHEEN. Thank you.

I just have one question. But, before I ask it, I want to make a point, Dr. Herbst, that I very much agree with the conversation that you all were having with Senator Markey about the importance of access to broadband and Internet technology. And I hope that, as you are thinking about that the Newseum around the world, you are also thinking about it in terms of the United States, because there are parts of my home State of New Hampshire that do not have access to affordable broadband, and it is having a significant impact on their development. And I know that we are not the only State in the country with that problem. So, at some point, it is unfortunate that we are not looking at rural broadband access in the same way that we looked at rural electrification, because certainly that would make a significant difference in a number of the rural areas of this country.

Now—but, to go to my question, the last visits that I have made to Africa, to parts of the Middle East, there—what I have seen has been significant investment by China in those areas. And as we look at the influence that that gives to China—you know, EU has also made investments in other parts of the world—are there other countries that are providing assistance that are being more successful than we are? And are there models that we should be looking to? I am not suggesting that China is one of those models, necessarily, but are there ways that other countries are doing this investment that is more successful than what we are doing? And who should we be looking to?

To whoever wants to answer that.

Dr. HERBST. I do not think so, except that I would say that the United States, as the superpower, is burdened by the broadest portfolio, both in terms of number of countries and number of sectors. If you look at the Nordic countries, for instance, their portfolio, geographically and in the sectors they are involved in, is much narrower. I think that gives them an inherent advantage in executing their policies.

So, I do not know that they are any smarter or any more capable than us, but I think the global responsibilities that have so vitally influenced our aid portfolio have made it especially difficult for us to execute. I think other donors have an easier time of it. But, certainly I have had lots of conversations with almost every Western donor, where they will tell you an unhappy story. And I will also tell you that you can go back 50 years now and read exhortations that aid donors should coordinate so that they would—should learn more, address the sectors they are best doing at, and that has essentially failed for five decades now.

Ms. MANDAVILLE. I would add just that I think partly the answer to this goes back to the very first question around what should be the purpose of economic assistance. And the—to my mind, that is still to both generate actual growth and to support the conditions that generate growth. And I do think we do a very strong job of thinking about some of the conditions which support growth, vis-a-vis, for example, Chinese investments, which have tended to be more infrastructure, which is immediately apparent——

Senator SHAHEEN. Right.

Ms. MANDAVILLE [continuing]. But does not necessarily incentivize a reform process on the part of the government that is receiving it.

Senator SHAHEEN. Not sure China wants to incentivize reform——

Ms. MANDAVILLE [continuing]. I suspect there is some——

Senator SHAHEEN [continuing]. In the governments.

Ms. MANDAVILLE [continuing]. Other incentivizing going on.

Dr. MOSS. I would just add, you know, there is actually quite a broad range of countries involved. You know, India is very involved in sub-Saharan Africa, Malaysia, the Gulf states, Brazil. So, it is definitely much, much broader than just U.S., China, Europe. I actually—I would agree with Jeff that there really is no other model that fits the American—you know, with the way that we operate. Our—you know, it is absolute folly for us to try to mirror or to compete with the Chinese with what they are trying to do. Their model does not fit with the way that we view business, and the distinction between private sector and the state.

Senator SHAHEEN. Well, given that, and given—you all mentioned the expanded role of American leadership in the world, and the interests that we have around the world.

Is it realistic to think that we can focus our aid assistance in a way that accomplishes what I understood you to say? Are we really going to be able to cut off aid to people who are not doing what we think they ought to be doing, in terms of reform? I mean, is that really realistic?

Dr. HERBST. I think it is. But, we will have to look at the internal incentives that we provide to our aid agencies, both at the personal level and at the governmental level. I think that if you encourage—set the right incentives and regulations internally, then that is possible. We have certainly made demands of other countries in other areas, and walked away from them, in the security sector and in other areas. So, I do think it is possible. But, we have to be much clearer than before about our preferences, in terms of encouraging actual performance, as opposed to showing the flag, as opposed to deploying other types of influence. If we are clear on what we want, I believe we can have the same discipline as we have demonstrated in other areas.

Ms. MANDAVILLE. I think this is where the selectivity piece that Todd mentioned earlier really matters. I think we can credibly be clear about the expectations, both on investment on our side and policy reform on a country side—when it—when we are selective about where we are using that approach. And that is one of the reasons that I think MCC has been able to walk away from countries when they backtrack on reforms or when they do not take the steps that they are supposed to. So, there is a proof case that it is possible, but I would agree, it is probably not possible everywhere.

Senator SHAHEEN. But, I guess you all would agree that we are looking at humanitarian assistance in one way, where it is probably not something that we want to think about, in terms of walking away. And the kind of economic assistance that most of the discussion is focused on is a different pot that—and we should be thinking about it differently.

Ms. MANDAVILLE. Absolutely.

Senator SHAHEEN. Thank you.

Dr. HERBST. I would agree, although humanitarian assistance can also be given more or less effectively.

The CHAIRMAN. Senator Cardin needed to go to another hearing, and I just wanted to pursue a couple more questions, if you all have time to answer those.

Dr. Herbst, you wrote, in a 2013 New York Times article. You made the point about the growing role of private capital. Can the three of you all respond to the impact, the difference that is occurring between what countries are doing around the world to help with economic aid through government entities and then, relatively, the impact that private capital is having doing the same thing?

Dr. HERBST. Private capital is having an impact on more and more countries. We will see how it works out through the post-commodity-boom session. But, private capital is often more attractive than official aid, bilateral or multilateral, because it is not loaded with the same conditions that we, rightfully or wrongfully, add onto many of ours with regard to—take your pick: role of women, poverty reduction, climate change, environmental degradation, or lots of other admirable things, but which complicate the situation. So, if a government is looking to place paper, it might, quite often, want to place it on private markets.

We are also seeing a world awash with capital. It is not only awash with foreign aid. There is a tremendous amount of capital out there looking for high returns. And increasingly, those high returns come from emerging or, as they say, frontier markets, where returns can be quite high.

And finally, we are seeing a diversification of the private funds, no longer only from Western Europe and North America, but increasingly from Asia, not only China, where it is very significant, but we will see increases in India, Malaysia, Singapore, and the like. So, those—I think that is almost entirely good news, in that there will be more capital that will be available to more countries. It will mean that we have to recognize that our own place in this is increasingly diminished, and that we will be only one actors among many, and the capital we are willing to deploy, especially given the particular distribution of our aid, is not very high, and set our expectations accordingly.

To me, this is just the world becoming more normal, that Africa, Asia, and other places are able to make commercial and economic ties——

The CHAIRMAN. Yes.

Dr. HERBST [continuing]. With other places. We will just have to recognize that our impact, given what we are willing to invest, is going to be less.

Dr. MOSS. I would just add that, you know, I think—obviously, private capital, the greater flows we can get into these regions, the better. But, private capital is already highly selective and highly disciplined, because they are focused on a rate of return, and nothing else. The United States Government, if you asked us, "What are our objectives in Kenya?"—I will bet this room could come up with 50 different objectives that we have in Kenya. It is not a simple rate of return and "If we do not get X, we are out." But, that—if you are a bond trader, that is exactly what you can do. So, I think we want to encourage it, but it is not going to meet all of the U.S.—it is not going to replace all of the other things that we hope to achieve.

The CHAIRMAN. Ms. Mandaville.

Ms. MANDAVILLE. I agree with Todd—and to that I would add that I think the inflows of private capital demonstrate an ability to sustain economic growth, but they need to be preceded by the conditions that support private capital inflows. And so, whether that is support for regulatory reform, small business climate, import/export regulation, and trade capacity, I think those are the things that, as we see larger and larger private flows seeking high returns in some markets, there are still a large number of countries with large numbers of people living in poverty, where it is not yet a high-return environment. And so, in those instances, then the role for U.S. economic assistance becomes what is possible that cultivates the environment that can attract private capital in the long run.

The CHAIRMAN. How concerned should we be?—People always refer to China and their aid. And, of course, their model is very different, very focused on infrastructure and Chinese jobs. There are other models that are out there. How much concern should we have? I mean, if a country is coming and helping an impoverished country increase its standard of living, is there a reason, that you can share with the American people who are tuning in, why we should want to be competitive in that regard? Or should we let—as some people might say, let them deal with that country, and maybe we focus on other places? Can you give an explanation, for people that might be listening in?

Dr. MOSS. So, I think, in general, Chinese investment in developing countries is something that the United States should welcome. These country—especially given that the—there is a concentration in infrastructure, and the infrastructure gaps, particularly in sub-Saharan Africa, are so huge, we actually need the Chinese investment in there. I think there are two big exceptions, here. One is that there has been, generally, improved standards of economic transparency and better governance. Some kinds of Chinese investments can undermine that. For example, lending without disclosing the terms is a problem. The other is that there are occasionally rogue states, where we would rather see those regimes starved of capital and isolated, and the Chinese are willing to do business with tyrants. And Zimbabwe—thank you, Jeff, for mentioning that already—is one example of a country where Chinese engagement with Zimbabwe is counterproductive.

Dr. HERBST. I agree. I think, in general, for the recipient countries, having more suitors, as it were, more potential investors, is a good thing, and the creation of infrastructure stock that the Chinese have focused on has filled the gap which Western aid agencies walked away from, in some ways, invested less in infrastructure.

I think there are some worries. The Chinese have a different model that goes back to the fact that it is not a capitalist model, fundamentally, and concerns about governance, in particular, which should animate much of what we do, are largely absent, not only in dealing with rogue states, but in private deals with government leaders and the like. So, I think there is a real concern that the Chinese may cause governance to decline, in some cases. And we will have to be very attentive to that.

I think we also face, more generally, that there is a Chinese model of development which says that—democracy, human rights, later or never, apropos of their own experience. And I think that that message—as Chinese involvement on the ground in dozens of countries becomes more significant—that message is becoming louder, and is part of the explanation for the erosion of democratic performance that we have seen over the last 10 years. And I worry about that greatly.

The CHAIRMAN. Very good.

Ms. Mandaville.

Ms. MANDAVILLE. I would just add, kind of from a market perspective, the idea of there being a competitor in the provision of assistance, although it tends to produce better results by the initial provider, right? So, I think, to that extent, and not only is the actual investment helpful for many countries, but it does force us to look at what we are doing and ask questions about what we are doing effectively.

I think Chinese assistance also throws into relief where the U.S. is working in partnership with another country in pursuit of economic growth, and where the—our partner country is perhaps not as committed to the reform side of the equation, in that, in the absence of there being an alternative, the conversation around whether reforms are going to happen or not can drag on and on. And I have seen it do so in certain investments.

When there is another alternative to go to for assistance that does not have the same regulatory or democracy or other concerns attached to it, some countries are willing to say, “That is fine, I am going to go here.” And then you know. And that is—while not necessarily uplifting, I think that is a practical way to think about how we understand working in partnership with countries in cultivating the types of policy environments that sustain growth over time.

The CHAIRMAN. Let me just go to a whole other extreme. We are all impacted by the people we see around the world as we travel—the Ambassadors, in particular, that have been around for 30 years and have seen a lot of the same things occurring in our aid. I had one particularly impressive Ambassador tell me that our economic assistance ought to be about one thing, and that is promoting U.S. companies’ growth in these countries, and that is it, nothing else, that our focus ought to be making sure that U.S. economic interests are dealt with, that we are spurring that on, and that is what our foreign aid ought to be mostly about, other than dealing with the health issues that I think we have been so effective in dealing with. I would just like for you to respond, if I could.

Dr. HERBST. Yes. I would disagree. I think that would be a detriment to overall governance in countries, if we were saying, basically, “We want our aid to be rigged, and we want the system to be rigged in favor or our companies.” That goes to old system—and that is an—a type of capitalism which you find in many developing countries, where a certain number of companies have privileged relations with government, they are monopolistic or favored, and they make a lot of money.

The CHAIRMAN. Not unlike, really, much of what China does. Is that correct?

Dr. HERBST. Not—in many ways.

So, I think we are better off, in the long term, promoting an enabling environment that allows countries to grow. And then I believe we should challenge our companies to go in and participate, and take the necessary risks, invest, and prosper in those countries. I think American companies, in many cases, have not been aggressive enough in investing in the developing world, even when there are legitimate economic opportunities. I think this would be a signal to them that the U.S. Government will take care of them. Instead, we should be signaling to the recipient countries, create a vibrant environment, and then we believe that our companies, on level playing field, will compete and do well. I think that would be better for all concerned.

The CHAIRMAN. Dr. Moss.

Dr. MOSS. I think that would be a recipe for our aid program degenerating into exactly what people worry about, which is a program of corporate welfare. I think it is absolutely antithetical to what our foreign aid program should be about, which is pursuing our national security, our development, and our economic interests abroad.

I do think there is a role for the U.S. Government in ensuring that American companies have a fair playing field. Absolutely, that seems perfectly legitimate. But, using that as a hammer for mercantilism, I think, is—terrible idea.

The CHAIRMAN. Ms. Mandaville.

Ms. MANDAVILLE. No, I agree. And I think that, in addition to being antithetical to a lot of our goals, it is not terribly practical as a way to actually work forward, in that American companies are tremendously different, one from another. And so, what is particularly effective for this company to be able to move into a country is not necessarily the thing that is—facilitates this other company's ability to move forward.

And if you look at the things that, across the board, allow American companies, as a whole, to move into a country, it—they are the enabling environment, they are the conditions that promote economic growth, and they are free and fair practices. And so, if that is at the core of how we are thinking about economic assistance, then we are, by default, actually leveling the playing field for our own companies.

The CHAIRMAN. Dr. Moss, you mentioned something about us being able to provide equity at OPIC. All three of you moved in the direction that I thought you would, relative to U.S. economic interests only. On the other hand, you were talking earlier about models that China and other countries have that are very different, focused on state-owned enterprises. One of the reasons, I think, that TPP, from a strategic standpoint, has been pursued, is to take advantage of those countries that are being pushed in our direction. In particular, in Southeast Asia, where China is dominant with their state-owned-enterprise model, and without us providing some way, whether it is bilateral agreements, if TPP is not what is going to be enacted, but, in some way, capturing that and dealing with them in a way that creates a more free-enterprise-oriented system.

But, you mentioned OPIC having the ability to do equity. So, for many Americans, that sort of brings back Solyndra, I mean, it is not a path I am particularly interested in going down, where government officials are making decisions about equity and which companies they are going to be investing in. And I wonder how, from your perspective, we might square that.

Dr. MOSS. Yes. I think that is an excellent question, and it is definitely a concern that would get to the structure of how the equity would work within OPIC. You do not want civil servants making decisions about what the U.S. Government will have a chunk of a foreign private company.

But, a way to get—if you look at the objectives of OPIC, OPIC is a development agency. Its goal is to help build markets abroad and to try to create economic opportunity. It is not like the Export-Import Bank, whose goal is U.S. jobs and U.S. exports. So, OPIC is not trying to get American companies into new markets, it is trying to build those opportunities. And if we hold OPIC to account, then there is—and that is their mandate, it is not changed to become mercantilist—I do not think that those concerns about equity positions within a limited capacity should really hold.

Another way to get rid of that concern would be to remove a lot—some of the restrictions that are currently on OPIC for a U.S. nexus. If we loosen some of those constraints on OPIC investments, then the concern about potential corporate welfare or the concern about long-term U.S. ownership can disappear.

The CHAIRMAN. Any other observations? [No response.]

The CHAIRMAN. We are going to close the meeting out now. Is there anything that you felt needed to be addressed, that was not, in the hearing? [No response.]

The CHAIRMAN. We thank you all—thank all of you for being here, and thank you for your testimony.

There will be numbers of written questions that likely will come in. We will close the record as of the close of business on Monday. But, if you, in a fairly prompt manner, could respond to those, it would be much appreciated.

And we thank all three of you for what you have done to advance our Nation's interests and for being here today and helping us.

And, with that, the meeting is adjourned.

[Whereupon, at 4:00 p.m., the hearing was adjourned.]

ADDITIONAL MATERIAL SUBMITTED FOR THE RECORD

"BRINGING U.S. DEVELOPMENT FINANCE INTO THE 21ST CENTURY," *Ben Leo and Todd Moss,* Center for Global Development

The White House and the World 2016

# Bringing US Development Finance into the 21st Century

Ben Leo and Todd Moss

## Introduction

The future of development policy is in development finance. Developing countries need aid less and less as their incomes rise and economies grow. What they need now is private investment and finance. US development policy, however, has failed to bring its development finance tools in line with this reality. Related US efforts have not been deployed in an efficient or strategic manner because authorities are outdated, staff resources are insufficient, and tools are dispersed across multiple agencies.

Other players are doing more. Well-established European development finance institutions (DFIs) are providing integrated services for businesses, and these services cover debt and equity financing, risk mitigation, and technical assistance. Moreover, emerging-market actors—including China, India, Brazil, and Malaysia—have dramatically increased financing activities in developing regions such as Latin America and Sub-Saharan Africa.

As the needs of developing countries have changed, so has the political and economic environment in the United States. First, traditional development dynamics are shifting rapidly from a donor-recipient aid relationship to win-win partnerships involving public and private actors. Second, most US aid agencies typically are not positioned to address many pressing development priorities, such as expanding economic opportunities in frontier markets. Third, the US development assistance budget has become increasingly constrained, with growing pressure to cut programs.

Within this context, we assess the need for a modern, full-service US Development Finance Corporation (USDFC) and provide a series of options for how the next US president could structure such an institution consistent with bipartisan congressional support and budgetary realities.

### POLICY RECOMMENDATIONS

- **Establish a full-service, self-sustaining US Development Finance Corporation (USDFC) that delivers development results, advances US foreign and commercial policy objectives, and reduces the federal deficit through modest operating profits.**
- **Implement reforms to ensure that the USDFC (1) crowds in private capital and demonstrates clear "additionality," (2) publicly reports on its development impact, and (3) has flexible portfolio and staffing levels to adapt to shifting US investor needs.**

For such a USDFC, we propose below potential products, services, and tools; size, scale, and staffing requirements; governance structures and oversight functions; performance metrics; and capital structure models. We conclude with a notional implementation road map that includes the required US executive and legislative actions.

## Responding to the New Development Finance Landscape

The strategic imperative for US development finance has increased tremendously. First, citizens in Latin America, Africa, and other regions are most concerned about employment and economic opportunities. According to representative surveys, more than two-thirds of African citizens cite employment, infrastructure (e.g., electricity, roads, water and sanitation), inequality, and economic and financial policies as the most pressing problems facing their nations (see figure 1).[1] In Latin America, roughly 60 percent of survey respondents cite employment, economic, and financial policy issues, as well as crime and security concerns. In contrast, only 20 percent of Africans and Latin Americans are most worried about health, education, food security, or environmental issues—the issues that existing US development policy targets the most.

Second, businesses in emerging and frontier markets are most constrained by inadequate access to capital, unreliable electricity, burdensome tax policies, and unstable political systems. Access to finance and reliable electricity are the most frequently cited issues in almost half of the 81 surveyed developing countries, and these issues negatively impact firms in all developing regions.[2] To illustrate, roughly two-thirds of surveyed Nigerian and Pakistani firms cite unreliable electricity as their biggest constraint, and nearly half of all firms surveyed in Côte d'Ivoire, Indonesia, and Zimbabwe cite access to finance as their biggest challenge.

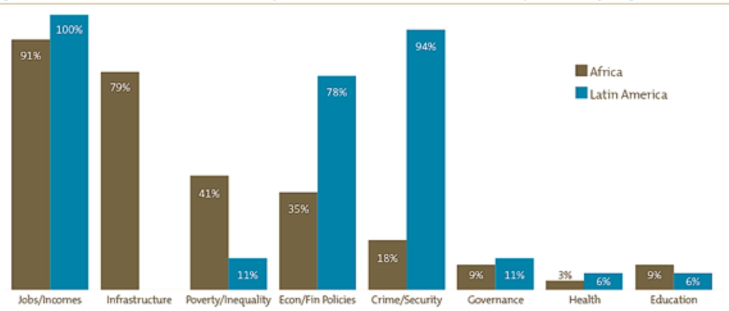
Third, the relative and absolute importance of foreign aid has declined significantly over the past two decades. In 1990, aid exceeded 20 percent of gross national income in 13 developing countries (out of 120 examined countries).[3] That figure had fallen to only four developing countries in 2012 (Afghanistan, Burundi, Liberia, and Malawi), despite a doubling of total global aid during the same period from $59 billion to $133 billion. The exponential increase in government revenues, driven by both economic growth and improved tax administration, has been even more striking (see figure 2).[4]

Fourth, foreign government partners are increasingly focused on attracting private investment, especially in infrastructure and productive sectors. Nearly every national development strategy emphasizes attracting private investment for physical infrastructure (e.g., electricity and transport) and labor-intensive sectors (e.g., agriculture, services, and manufacturing), reflecting the political imperative of establishing more inclusive economic opportunities in the near and medium term for the rapidly expanding working-age populations in many regions.

At the same time, the development finance landscape has changed dramatically with the entry of several emerging-market actors. The China Development Bank and the Export-Import Bank of China were established in 1994. Both now have major financing portfolios throughout the world, particularly in Latin America and Sub-Saharan Africa. China is far from the only emerging-market actor in developing countries. India, Malaysia, Turkey, Brazil, and other countries now have public entities that provide project and trade finance, as well as guarantees.

Finally, many well-established organizations in traditional donor capitals now provide integrated services for businesses that cover financing, risk mitigation, and technical assistance. These organizations include FMO

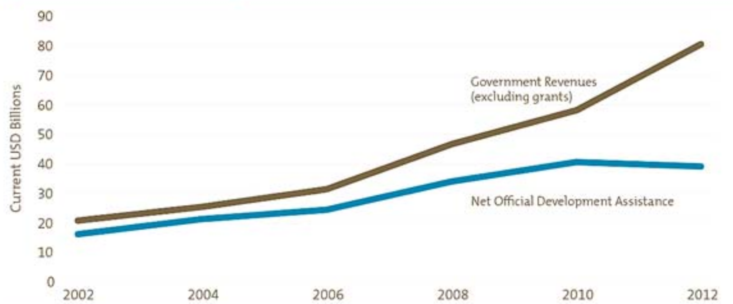
**Figure 1 African and Latin American Development Priorities Are in Areas US Development Policy Targets the Least**




Note: Figures represent the percentage of surveyed respondents citing the issue as a top three national problem.

Source: Afrobarometer, Latinbarometer, and authors' calculations

**Figure 2 Government Revenue Has Outpaced Net Aid Received in Low-Income Countries**




Source: World Bank and authors' calculations

(Netherlands), DEG (Germany), PROPARCO (France), and the International Finance Corporation (IFC, the private-sector arm of the World Bank Group). This model has streamlined available private sector–based development tools under one institutional structure, thereby enhancing efficiency and effectiveness.

## Adjusting to US Political and Budgetary Realities

The political and economic environment within the United States has also changed dramatically, particularly over the past five years. First, development dynamics are shifting rapidly from a traditional donor-recipient aid relationship to mutually beneficial partnerships involving public and private actors. An illustration of this trend is the Obama administration's Power Africa initiative, which uses a three-pronged approach involving (1) country government reforms; (2) private-sector investments; and (3) US government cofinancing, risk mitigation, and technical assistance.

Second, most US aid agencies typically are not positioned to address many pressing development priorities, such as expanding economic opportunities in frontier markets. In such places, the focus should be on promoting greater engagement by private investors and businesses, as noted earlier. This focus involves using non-aid agencies like the Overseas Private Investment Corporation (OPIC), the Export-Import Bank of the United States, and the private-sector windows of the multilateral development banks. The Millennium Challenge Corporation (MCC) is the noteworthy exception to this aid agency dynamic. However, MCC is not scalable because of its grant-based model and its need for congressional appropriations, as well as its ability to work in a limited number of countries.

Third, the US development assistance budget has become increasingly constrained, with growing pressure to cut programs. At the same time, domestic political constituencies have remained strong for many social-sector issues, such as combating infectious diseases (e.g., HIV/AIDS, malaria) and promoting access to education. This suggests that any future budgetary cuts will likely be focused on program areas that lack such vocal constituencies, such as economic development programs outside of frontline states. Collectively, this also means that the next US president will be highly constrained in promoting private sector–based development models through traditional development assistance budgets.

## Existing US Private Sector–Based Development Programs

The US government's primary development finance vehicle is OPIC, an independent government agency that mobilizes private capital in emerging and frontier economies to address development challenges and to advance US foreign policy objectives. OPIC provides US investors with debt financing, loan guarantees, political risk insurance, and support for private-equity investment funds. It operates on a self-sustaining basis and has provided positive net transfers to the US Treasury for nearly 40 consecutive years. Since its inception, OPIC has helped mobilize more than $200 billion of US investment through more than 4,000 development-related projects.

With few exceptions, OPIC has not evolved since it was first established in 1971. The most significant exception relates to debt seed capital for private-equity funds, which OPIC began providing in 1987. OPIC remains highly constrained by inadequate staff and outdated authorities. For instance, it must rely on congressional appropriations to cover annual administrative expenses (e.g., salaries, travel, and office space) despite generating significant profits on a consistent basis. This de facto constraint, driven by congressional unwillingness to expand the number of staff, has prevented OPIC from fully leveraging its existing capital base.

Other programs within US agencies that promote private sector–led development approaches are spread across multiple agencies, resulting in redundancies, inefficiencies, and, frequently, a lack of coherence.

- **The US Agency for International Development's Development Credit Authority (DCA):** USAID's DCA provides partial risk guarantees to unlock private financing in support of US development priorities. In 2013, DCA approved 26 new partial credit guarantees in 19 countries, which may mobilize nearly $500 million in private capital over time.[5]
- **USAID Enterprise Funds:** Since 1989, Congress has appropriated resources for a range of enterprise funds, which are capitalized either entirely or partially by USAID grants. This program, which has a mixed track record,[6] originally began with a focus on promoting private enterprise in former Eastern Bloc countries. Similar funds have been launched in other countries since then, such as in Egypt and Tunisia.
- **US Treasury Office of Technical Assistance (OTA):** The US Treasury's OTA embeds highly experienced advisers into finance ministries and central banks to promote financial-sector strengthening and to improve public financial management.
- **US Trade and Development Agency (USTDA):** This small, autonomous agency is primarily focused on connecting US businesses to export opportunities in developing countries. However, it also promotes private sector–based development through small-scale financing for feasibility studies and technical assistance programs.

Lastly, the US government also supports large-scale grant operations through the MCC, USAID, and the US State Department. These programs help address a broad range of private sector–based development issues, such as infrastructure and business climate reforms.

- **Millennium Challenge Corporation:** The MCC provides large-scale grants to well-performing countries with low and lower middle incomes to support poverty reduction through sustainable economic growth. To date, the MCC has approved more than $8 billion in compact and threshold programs that have focused largely on infrastructure, agriculture, and enterprise development.[7]
- **Other USAID Programming:** USAID has a range of grant-based programs within its Bureau for Economic Growth, Education, and Environment that promote private enterprise in developing countries. These programs focus largely on four key areas: (1) building skills and management capacity, (2) deepening access to finance, (3) supporting business climate reforms, and (4) establishing linkages with US businesses and organizations.[8]

## Proposal for a Modern Scaled-Up US Development Finance Corporation

A modern, scaled-up USDFC would promote US policy objectives by harnessing America's three greatest strengths—innovation and technology, entrepreneurship, and a deep capital base—at no additional cost to US taxpayers. It also would make a serious contribution to US foreign policy goals by aligning strongly with developing countries' most pressing priorities (e.g., employment and economic opportunities). Lastly, the proposed USDFC would promote America's commercial policy objectives by facilitating investment and business opportunities in the next wave of emerging markets.

**Products, Services, and Tools**

Almost all major DFIs have become full-service institutions that promote private sector–based development (see table 1). As with other institutions, the USDFC would offer a full suite of products, services, and tools to promote such development approaches. Currently, OPIC can offer direct loans, loan guarantees, risk insurance, and seed financing for independently managed investment funds. A full suite would add advisory services, feasibility studies, direct investments including equity, and technical assistance for business-climate reforms, which other US agencies such as USAID, the State Department, USTDA, and the US Treasury Department have the authority to support. The USDFC

**Table 1 Development Finance Institutions, Product and Service Coverage (2013)**

| Institution | Equity Authority | Technical Assistance | Grants Window | First-Loss Funding | Equity (Percentage of Revenues) |
|---|---|---|---|---|---|
| OPIC (US) | No | No | No | No | 0 |
| FMO (Netherlands) | Yes | Yes | Yes | Yes | 17 |
| PROPARCO (France) | Yes | Yes | Yes | Yes | 9 |
| CDC Group (UK) | Yes | No | No | Yes, for some impact funds | 95 |
| DEG (Germany) | Yes | Yes, including via BMZ | Yes, feasibility studies | Yes | 28 |
| IFC (World Bank) | Yes | Yes | Yes | Yes | 36 |

Source: DFI annual reports

would consolidate all of these authorities and programs within a single, efficient, market-based institution. This change would require congressional authorization.

The USDFC also should have the authority to support non-US investors in certain circumstances. OPIC currently can only support firms or investors with significant American ownership or operational control. No other major DFI ties their financial engagement to national firms. This flexibility enables other DFIs to promote economic growth and job creation through local businesses in developing countries. This restriction has prevented OPIC from supporting strategic objectives where US investors are not active or prospective participants in a given country's market or sector. The expanded authority could be limited to low-income countries and local firms domiciled in the respective developing country. Firms from developed or middle-income countries, along with their respective subsidiaries, could remain ineligible for USDFC operations unless there were highly compelling benefits to US development or other foreign policy objectives.

**Size, Scale, and Staffing**

The USDFC's size and scale should be determined by the combination of market demand, the ability to demonstrate clear "additionality" (see further details below), and the maintenance of rigorous credit-quality standards and oversight. In addition, it must demonstrate tangible development results throughout its portfolio. As a result, *there should not be an ex ante target size*. Instead, the USDFC should have the ability to access significant sources of capital to respond to market dynamics and US development objectives, with appropriate oversight by the US Congress and the Office of Management and Budget. Currently, OPIC has legislative authority to support a $29 billion portfolio of loans, guarantees, and insurance.[9] As of 2013, $11 billion of this capacity was undeployed because of insufficient staff and constrained authorities.

Existing bilateral DFIs provide a rough benchmark when considering the USDFC's potential scale. Their portfolios range from 0.15 percent of gross domestic product (GDP) in the United Kingdom to more than 1 percent in the Netherlands. If these same simplistic ratios were applied to the United States, the USDFC could have a total portfolio ranging between OPIC's current statutory authority of $29 billion and $180 billion.

The USDFC's staffing size and administrative expenses also should reflect its operational requirements and objectives. Currently, OPIC has nearly 230 employees and an operating budget of $67 million.[10] The average OPIC employee is responsible for approximately $8 million in portfolio exposure. If OPIC's existing portfolio-to-employee ratio remained constant, then the USDFC could require between 370 and 2,200 employees, depending on its portfolio size. This increase would entail an annual operating budget of between $110 million and $665 million, which would be *self-financed through the partial retention of USDFC profits* (see figure 3).[11] By comparison, the current staffing size of peer DFIs is as follows: 4,000 in the World Bank's IFC, 499 in Germany's DEG, 336 in the Netherlands' FMO, 177 in France's PROPARCO, and 102 in the United Kingdom's CDC.

**Governance Structure**

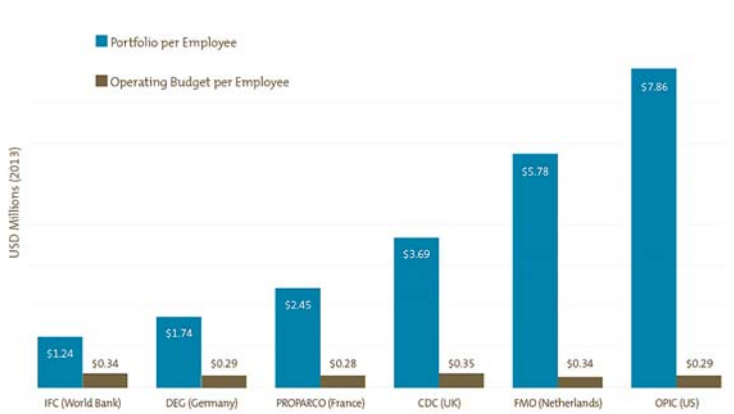
The USDFC would be an independent government agency led by a management team appointed by the White House and overseen by a board of directors that includes both government and private-sector representatives. In this manner, the board would reflect the Corporation's development and foreign policy objectives, as well as serve as a model for promoting private sector–based development. The Corporation also should include an equal number of public-sector representatives from each major political party. This would promote greater strategic continuity and help minimize short-term political pressures. Moreover, the board's composition should seek to ensure coverage of several core competencies, such as international development, risk management, human resources and legal matters, global financial institutions, and specific priority sectors (e.g., power and transportation).

**Monitoring, Evaluation, and Reporting**

The USDFC should establish a performance measurement system that is modeled on global best practices.[12] OPIC currently uses a Development Impact Matrix to evaluate and monitor both prospective and approved investment projects; however, the information is not reported publicly. The USDFC's performance measurement system should expand upon OPIC's existing approach by measuring, considering, and reporting on the "additionality" of its operations. This would require both ensuring that the institution does not compete with private sources of investment capital and maintaining appropriate financial performance within its portfolio. Lastly, the USDFC would collect and publicly report on a series of institutional efficiency and performance metrics, such as financial performance, operating budget ratios, and average investment transaction review time.[13]

Across its operations, the USDFC should publicly disclose information by default and have a high bar for withholding information in deference to commercial confidentiality concerns. At a minimum, this would include all project description summaries and Development Impact Matrix scores (at the time of project approval). Moreover, the Corporation should publish project-level development performance data on an annual basis.

**Figure 3 OPIC Outperforms Other DFIs on Portfolio Size and Operating Budget Per Employee**




Source: DFI annual reports and authors' calculations

**Capital Structure**

The USDFC's capital structure should reflect its desired scale, comparative advantage, and role within the US government's development and foreign policy toolkit. In particular, its structure should only represent its potential maximum portfolio size. The actual size, as measured by total contingent liabilities, must reflect the institution's ability to support individual transactions with strong development impact, prudently manage financial risks, and consistently demonstrate strong "additionality" vis-à-vis private-sector alternatives.

- **Status Quo Structure:** Under this option, the USDFC would rely upon OPIC's existing maximum contingent liability limit of $29 billion.[14] This limit has not been changed since 1998, when it was increased from $23 billion. Future adjustments to the USDFC's contingent liability limit would be considered on an ad hoc basis. Advisory services and technical assistance activities would be financed out of retained earnings at no additional cost to taxpayers.

- **Revised OPIC Contingent Liability Limit:** Under this option, the USDFC would rely upon an updated version of OPIC's existing contingent liability. This limit would be adjusted upward to roughly $42 billion, thereby converting the current exposure limit from 1998 dollars to 2014 dollars.[15] Going forward, the maximum contingent liability limit would be inflation adjusted, which would prevent the erosion of the USDFC's potential portfolio size in real terms. It would likely be many years, if ever, before that limit is approached. However, setting this limit would provide the USDFC with adequate flexibility to execute scaled private sector–based development approaches, while simultaneously ensuring proper portfolio risk management and oversight.

## Policy Recommendations and Implementation Road Map

The implementation road map for the proposed USDFC will require actions by the US executive and legislative branches. These actions include the following:

1. The next US president should put forward a proposal to establish a consolidated US Development Finance Corporation, along with template legislation.

This should take place within the first 100 days in office. Such action would instill an appropriate level of political commitment and help build momentum within Congress. This proposal would be further fleshed out and amended as appropriate in close partnership with Congress.

2. The US Congress should pass legislation that will establish a USDFC to function as the premier development agency focused on private sector–based approaches.

At a minimum, the legislation should address the following components: products, services, and tools; size, scale, and staffing requirements; governance structures and oversight functions; performance metrics (including stringent "additionality" requirements); and capital structure models.

## Further Reading

Homi Kharas, George Ingram, Ben Leo, and Dan Runde. "Strengthening US Government Development Finance Institutions." Washington: Center for Global Development, 2013, www.cgdev.org/sites/default/files/strengthening-us-government-development-finance-institutions.pdf.

Ben Leo, Todd Moss, and Beth Schwanke. *OPIC Unleashed: Strengthening US Tools to Promote Private Sector Development Overseas.* Washington: Center for Global Development, 2013.

Ted Moran and Fred Bergsten. "Reforming OPIC for the 21st Century." International Economic Policy Brief Number 03-5, Institute for International Economics, Washington, 2003.

Dan Runde, et al. *Sharing Risk in a World of Danger and Opportunities: Strengthening US Development Finance Capabilities.* Washington: Center for Strategic and International Studies, 2011.

US National Advisory Board on Impact Investing. *Private Capital, Public Good: How Smart Federal Policy Can Galvanize Impact Investing—and Why It's Urgent.* Washington: US National Advisory Board on Impact Investing, 2014.

Ben Leo and Todd Moss. "Bringing US Development Finance into the 21st Century: Proposal for a Self-Sustaining, Full-Service USDFC." Washington: Center for Global Development, 2015.

## Notes

[1] Benjamin Leo, "Is Anyone Listening? Does US Foreign Assistance Target People's Most Pressing Priorities?" CGD Working Paper 348, Center for Global Development, Washington, 2013.

[2] These figures cover 81 low- and lower middle-income countries with recent completed World Bank enterprise surveys. For details, see the enterprise surveys at www.enterprisesurveys.org/data.

[3] World Bank, World Development Indicators data set, 2014, http://data.worldbank.org/data-catalog/world-development-indicators.

[4] Excluding the BRICS (Brazil, Russia, India, China, and South Africa), government revenues quadrupled from roughly $600 billion in 2000 to $2.6 trillion in 2012. This trend has been equally as striking in low-income countries, which experienced a fourfold increase in government revenues between 2002 and 2012. Source: World Bank, World Development Indicators, 2014.

[5] For additional details, see USAID, "USAID Development Credit Authority Activity in 2013," www.usaid.gov/sites/default/files/documents/2155/2013_Deals_Public_SummaryFinal.pdf.

[6] Government Accountability Office, *Enterprise Funds' Contributions to Private Sector Development Vary*, GAO/NSIAD-99-221 (Washington: GAO, 1997).

[7] For additional details, see MCC, "About MCC," www.mcc.gov/pages/about.

[8] For additional details, see USAID, "Supporting Private Enterprise," www.usaid.gov/what-we-do/economic-growth-and-trade/supporting-private-enterprise.

[9] This authority is detailed in Section 235(1)(a) of the Foreign Assistance Act.

[10] This figure includes salaries, benefits, travel, contractual services, and other general administrative expenses. Source: OPIC, *Annual Report 2013* (Washington: OPIC, 2013).

[11] These administrative budget estimates assume that OPIC's current cost structure would remain unchanged. This is likely a conservative assumption given the potential for greater efficiencies due to economies of scale.

[12] Reporting practices include performance metrics and requirements that are regularly and prominently included in organizations' annual reports or development impact reports.

[13] This would include the time required for each stage of transaction process. This information would be reported at the project and portfolio level.

[14] This limit is outlined in Section 235(a)(1) of the Foreign Assistance Act of 1961. The relevant language was last revised through Section 581(a) of the Foreign Operations, Export Financing, and Related Programs Appropriations Act, 1998 (Public Law 105–118).

[15] This figure is calculated using the US Bureau of Labor Statistics CPI Calculator tool, which is available at http://data.bls.gov/cgi-bin/cpicalc.pl. The adjustment could be based off of alternative methodologies as well, such as the cost of capital.

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