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From: Slaughter, Anne-Marie <SlaughterA@state.gov>
Sent: Monday, January 24, 2011 6:27 PM
To: H
Cc: Mills, Cheryl D; Abedin, Huma
Subject: Raj interview with the Cable

I'm sure you saw Raj's speech last week; I thought it was courageous, powerful, and compelling. (I had my usual strong reaction to the absence of almost any mention of State, but on the other hand I've been hearing from some USAID folks that Raj is being criticized in the development community for being a State puppet, so I'm guessing he was trying deliberately to assert himself. Still, I'll be sending a strong message to him and Don and Susan Reichle on this point before I leave.) See below for Raj's follow-up – it's highly ironic, of course, but nevertheless strong and good stuff. I also wanted to note that USAID is already presenting a new face around town; Jose Fernandez and I were on a QDDR panel at CFR two weeks ago with Michael Kremer – having Michael be the USAID representative simply speaks volumes for their ability to be a thought leader and real player in the development community, as does Steve as their chief economist. Michael also made a strong case for what Development Innovation Ventures is already doing – handing out grants and expanding fellows. And the new monitoring and evaluation framework is attracting attention already from DFID.

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From: Shrier, Jonathan
Sent: Monday, January 24, 2011 4:05 PM
To: Slaughter, Anne-Marie
Cc: Chollet, Derek H; McAuliffe, Marisa S; Ash, Nazanin S
Subject: Further Strong Words From Raj Shah

From "The Cable" blog (Foreign Policy):

USAID chief to Congress: Don't play games with national security

Posted By [Josh Rogin](#) ■ Friday, January 21, 2011 - 1:26 PM ■ [+](#) Share



Rajiv Shah, head of the U.S. Agency for International Development (USAID), has a message for those in Congress **who want to slash** development and foreign-aid budgets: Cuts will undermine U.S. national security.

On the heels of a **major speech** on the coming reforms to America's premier development agency, Shah sat down for an exclusive interview with *The Cable* to explain his vision for making USAID more responsible and accountable, an effort he said will require increased short-term investment in order to realize long-term savings.

But if Congress follows through on a massive defunding of USAID as the 165-member Republican Study Group **recommended yesterday**, it would not only put USAID's reforms in jeopardy, but have real and drastic negative implications for American power and the ongoing missions in Afghanistan and Pakistan, according to Shah.

"That first and foremost puts our national security in real jeopardy because we are working hand and glove with our military to keep us safe," said Shah, referring to USAID missions in Afghanistan, Iraq, Pakistan, Yemen, the Horn of Africa, and Central America, and responding directly to congressional calls for cuts in foreign aid and development.

The RSC plan calls for \$1.39 billion in annual savings from USAID. The USAID operating budget for fiscal 2010 was approximately \$1.65 billion. The RSC **spending plan summary** was not clear if all the cuts would come from operations or from USAID administered programs.

"That would have massive negative implications for our fundamental security," said Shah. "And as people start to engage in a discussion of what that would mean for protecting our border, for preventing terrorist safe havens and keeping our country safe from extremists' ideology ... and what that would mean for literally taking children that we feed and keep alive through medicines or food and leaving them to starve. I think those are the types of things people will back away from."

The interests between the development community and U.S. national security objectives don't always align, and this tension is at the core of the debate on how to reinvigorate USAID. Short-term foreign-policy objectives sometimes don't match long-term development needs, and U.S. foreign-policy priorities are not made with development foremost in mind.

But Shah's ambitious drive to reform USAID seems to embrace the idea that development investments can be justified due to their linkage with national security. He is preparing to unveil next month USAID's first ever policy on combating violent extremism and executing counterinsurgency. He also plans to focus USAID's efforts on hot spots like Afghanistan, Pakistan, Sudan, and parts of sub-Saharan Africa, while transitioning away from other countries that are faring well and downgrading the agency's presence in places like Paris, Rome, and Tokyo.

Shah pointed out that Defense Secretary **Robert Gates**, Joint Chiefs Chairman Adm. **Mike Mullen**, and ISAF Commander Gen. **David Petraeus** have all come out in strong support of increasing USAID's capacity to do foreign aid.

"In the military they call us a high-value, low-density partner because we are of high value to the national security mission but there aren't enough of us and we don't have enough capability," he said. "This is actually a much, much, much more efficient investment than sending in our troops, not even counting the tremendous risk to American lives when we have to do that."

For those less concerned with matters of national security, Shah also framed his argument for development aid in terms of increased domestic economic and job opportunities: If we want to export more, we need to help develop new markets that are U.S.-friendly.

"If we are going to be competitive as a country and create jobs at home, we cannot ignore the billions of people who are currently very low income but will in fact form a major new middle-class market in the next two decades," he said.

One of the main criticisms of USAID both on Capitol Hill and elsewhere is that the agency has been reduced over the years to not much more than a contracting outfit, disbursing billions of dollars around the world to organizations that have mixed performance records. In Shah's view, if Congress wants USAID to eliminate waste, fraud, and abuse, it has to increase the agency's operating budget and allow the agency to monitor contracts in-house.

"It was the Bush administration that helped launch the effort to reinvest in USAID's capabilities and hiring and people, and the reason they did that is they recognized you save a lot more money by being better managers of contracts," Shah said. "We have a choice. We have a critical need to make the smart investments in our own

operations ... which over time will save hundreds of millions of dollars, as opposed to trying to save a little bit now by cutting our capacity to do oversight and monitoring."

Shah wouldn't comment on the latest and greatest USAID contracting scandal, where the agency **suspended contractor AED** from receiving any new contracts amid allegations of widespread fraud. But he did say that his office would be personally reviewing large sole-source contracts from now on, requiring independent and public evaluations, and that more corrective actions are in the works.

"I suspect you'll see more instances of **effective, proactive oversight** that in fact saves American taxpayers **significant resources**," he said.