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FOR ASIA AND THE NEAR EAST  
U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT  
BEFORE THE UNITED STATES SENATE  
COMMITTEE ON HOMELAND SECURITY AND  
GOVERNMENTAL AFFAIRS**

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Mr. Chairman, Ranking Member Collins, thank you for the opportunity to discuss this very important topic with your committee – improving procurement and program management for reconstruction programs in Iraq and Afghanistan.

It is understandable that this Committee is focused on the USG's programs in Iraq and Afghanistan. There have been undeniable problems in both countries, from which we have learned much, and there remain formidable impediments. USAID stands ready to help this Committee address these problems in a manner that best advances our overall reconstruction goals.

It is also important to sensitize this Committee to the unique challenges of procurement and program management in conflict situations, which are exceedingly complex, and to draw your attention to some particular issues that stand in inherent tension. USAID must balance a number of important concerns in the procurement process: the imperative that USG procurement follow a realistic, comprehensive plan involving multiple partners; that it also be flexible in order to adjust to a rapidly evolving country environment; that it be as expeditious as possible; and that it ensure rigorous accountability for work done by grantees and contractors, down to level of scores of sub-contractors. There is no simple formula that can effectively balance these often times competing needs. Privileging one of these imperatives over another by rigid formulas may jeopardize the overall operation.

USAID's operations in Iraq and Afghanistan were, and are, of unprecedented scope and complexity. Despite the inherent difficulties just

mentioned and the fact that our work is taking place during active hostilities and an on-going insurgency, much has been accomplished.

In Iraq, through its overall program since 2003, USAID has added 1,292 megawatts of electric generating capacity to Iraq's power grid, serving over 7 million Iraqis. USAID's repairs and refurbishment of several major water and wastewater treatment plants have provided over 3.1 million more Iraqis access to potable drinking water and expanded sewage treatment to serve 5.1 million Iraqis. USAID's rural water program has installed over 70 small water treatment systems in rural communities of less than 5,000 people throughout Iraq. The rural water projects helped supply clean water to over 400,000 villagers each day. USAID's infrastructure improvements helped restore commercial operations at Baghdad International Airport and allowed passenger and cargo vessels to re-enter Umm Qasr sea port, Iraq's major trade port.

USAID, as a strategic player in the President's New Way Forward, has transitioned its assistance strategy. We are no longer working on large scale infrastructure, and are now more focused on building Iraqi capacity. Our programs—from the locally driven Community Action Program to the ministerial level National Capacity Development Program—are aimed at working from community through all governmental levels to ensure that Iraq enjoys a sustainable, prosperous and democratic future.

USAID has been, and continues to be, committed to ensuring that the resources Congress has provided are managed effectively and transparently. Ensuring that these funds are utilized in such a manner only strengthens their impact and improves the chances for success in Iraq. Accountability for Iraq funds is fortified by the right mix of experience and teamwork between our field mission in Baghdad and office in Washington. Experienced controllers, contracting officers, and Inspector General staff have been in Iraq since 2003 to help ensure program accountability.

Accountability starts with a fair and open procurement process. A recent GAO report entitled *Status of Competition for Iraq Reconstruction Contracts* stated that “based on complete data for [October 1, 2003 through March 31, 2006] we found that USAID competitively awarded contract actions for 99 percent of its obligations.” In other words, USAID competitively awarded \$2.25 billion of the approximately \$2.27 billion in IRRF II we obligated. We are extremely proud of this fact.

I want to assure you that USAID is taking every measure it can to ensure that U.S. Government resources are used effectively and transparently. The successes that have been achieved to date in Iraq are the tangible results of these efforts.

The results in Afghanistan, starting from a much lower baseline, are even more impressive. Six years ago, when the Taliban ruled large parts of Afghanistan, fewer than a million children were in school. Today, according to Ministry of Education's latest figures, almost 6 million children attend school daily. Six years ago, it was estimated that less than ten percent of the people had access to health care of any kind. Today, the Ministry of Public Health estimates that number at eighty percent. Before, fewer than 50 kms of paved roads were usable. Today, through the efforts of the international community, more than 6,000 kms of paved, gravel and cobblestone roads crisscross the country; the USG's contribution to the total is over 4,200 kilometers.

The Kabul to Kandahar Road was a priority development project in Afghanistan because it was key to knitting together this fractionalized country and stimulating economic growth. It is one major factor for the growth of the licit economy at a record pace, averaging 12% growth over the past few years, and exceeding growth in the illicit economy. The US-built portion of the Kandahar to Herat Road, which opened late last year, will also spur economic development in western Afghanistan.

Six years ago, there was no government in place. Today there is a democratically elected President and Parliament. Voter turnout for the Presidential elections in 2004 was 67% and 50% for parliamentary elections in 2005 – a very notable achievement.

There is a long way to go—putting down the insurgency in the South and Southeast, stopping the spread of poppy cultivation, “growing” the private sector to create the jobs that can sustain the country and bring hope and opportunity to its people. Still, there is a lot to be proud of to date in both countries.

As this committee may or may not know, USAID is a much smaller agency today, while the kind of local development projects USAID undertakes have not changed dramatically in the past fifty years. The Agency is still involved in bringing basic education and health care to communities, providing clean

drinking water, building local infrastructure, and training government officials to govern more effectively and in more transparent and accountable ways.

However, the way the Agency works has changed a lot. In the past, one would have seen Foreign Service Officers working in villages on various projects around the world. Today, we have similar projects, but US and local contractors and grantees are carrying out the work. And, it should be noted, it is not only USAID that implements its reconstruction programs by hiring contractors; the same holds true for the Army Corps of Engineers. Moreover, in dangerous environments like Iraq or Afghanistan or Pakistan, there may be only occasional visits by those USAID officers. This is because of security concerns that come into play upon leaving the relative safety of the Capital and the American Embassy.

The simple reality of the post-9/11 world is that the operating environments, like Iraq or Afghanistan or Pakistan, for reconstruction are significantly more dangerous. As a result, we have had to find alternative means for project management and oversight. This is not the preference of USAID officers in the field who list as one of their greatest frustrations their inability to get out and monitor their projects more frequently.

USAID's contractors and grantees, and the people who work for them, take on tremendous challenges and assume great risks. Many have been killed or injured in fulfilling the noble and urgent tasks that have been asked of them in Iraq and Afghanistan.

We recognize that there are two principal criticisms of USAID procurement practices. One is that a small group of USAID contractors and grantees continue to win the "lion's share" of the contracts and grants – and that our procurements are so large that smaller firms and NGOs cannot compete. We appreciate this concern, and USAID will continue efforts to increase the pool of firms that bid on our work. However, I would like to share with you the rationale behind the design of such large procurements. In conflict situations and in natural disasters, the Agency must move quickly and with as much flexibility as possible into dangerous environments. Speed is of the essence - the "hearts and minds" of local communities are in the balance and there is a narrow window of opportunity to deliver tangible results to a population on the benefits that can accrue from stability.

Iraq is a good case in point. Even before US and British troops entered Iraq in March 2003, USAID was actively developing a reconstruction program to be implemented immediately upon cessation of hostilities. USAID used what assessment tools it had at its disposal and consulted with as many experts on Iraq. We relied on 40 years of development experience including the Balkans and Afghanistan. As you are aware, the data from the Saddam era was grossly inaccurate and we discovered a situation on the ground far more complex than what the data indicated. So USAID made the most prudent assessment of needs and costs, and how USAID could best meet them, with the information at hand. But the reality of these kinds of environments is that adjustments will need to be made.

In such circumstances, waiting for hostilities to subside, then waiting for more detailed assessments and cost estimates before announcing procurements was not an option. This would have required a year or more before the US could begin launching the reconstruction projects on which the pacification of the country and its development depended.

The need for flexibility required designing a contract that would allow the Agency to assign a range of task orders as needs evolved and were identified. And this, to be perfectly clear, meant a large contract that demanded skills in many skill areas – building sewage systems for entire cities, rehabilitating power plants, building new and repairing old water treatment facilities, dredging deep water ports, restoring a national fiber optics network, and bringing two international airports up to internationally acceptable standards, and over time, having to implement these projects in a declining security environment. A program of this nature and scale is challenging to the best of small firms. However, on our Infrastructure II contract, we did a full and open procurement process. All companies were offered the opportunity to bid and, in the case of small firms, the opportunity to form consortia to bid.

By contrast, Afghanistan provides a good example of pitfalls that can occur when program needs are not anticipated and ultimately fall outside the umbrella of existing contracts and grants.

In Afghanistan, USAID anticipated the need for a large road construction contractor, but did not plan for other large scale infrastructure. When the USG and the Government of Afghanistan decided that construction of schools and clinics throughout every district of the country was also an

urgent priority, there was no time to launch a new procurement for this previously unanticipated work. As a result, the road construction contract was amended to add construction of hundreds of schools and clinics as well. As it turned out, while working to complete the road, the contractor fell behind on construction of the schools and clinics and the Agency ended up having to give most of that work to several NGOs.

The Committee may decide in this instance whether USAID is to be criticized for the shortfalls in its original relatively narrow contract for road construction alone, or praised for having the flexibility to correct it when the contractor fell behind.

But the Committee should know that the firm's road construction was first rate and has contributed enormously to economic growth in the country. The Kabul to Kandahar and Kandahar to Herat Roads were mentioned earlier. And despite the delays, the Agency has now finished all of the schools and clinics that it undertook to build, with access to education and healthcare among our most signal achievements to date.

The procurement and program management travails in Iraq and Afghanistan are a cautionary tale to those who would want to hamstring the Agency in ways that may result in a slower, better planned procurement process, but at the expense of flexibility and expeditiousness. It is questionable whether the Committee would want to require USAID to follow normal procurement design procedures in abnormal situations, such as conflict or humanitarian emergencies. That is, unless we want to cede our position as the world's leader in responding to conflict situations and natural disasters – a position that I think the Congress and the American people expect us to take. To be sure, the Agency could do it differently and follow the way of many other donors. But it is important that the Committee be aware of the costs of that approach in terms of US leadership in reconstruction efforts around the world and its ability to respond to pressing human needs. We must also continue to bear in mind that many firms are just not interested in working in challenging environments, such as Iraq and Afghanistan. This limits the pool of firms that are willing to bid on contracts in these countries, regardless of the type of competition.

What is being said here should not be misinterpreted. The argument is not that nothing should change about the way goods and services are procured in

conflict and natural disasters. There is clearly room for a different approach once the initial reconstruction effort is underway.

The time to assess emerging, previously unanticipated needs, cost them out, and then seek out smaller contractors and grantees for those jobs can occur after the initial broad scope contracts have been awarded and the work is proceeding. This is the way the Agency has proceeded in Iraq and Afghanistan with success. For example, smaller implementers are involved in the building of district, provincial and cobblestone roads in Afghanistan, as well as courthouse and district centers. In certain sectors, like large scale infrastructure, it may be unrealistic to expect more defined contracts because of continued uncertainties in areas where fighting continues. Even today, it's hard to get in to Kandahar and Helmand Provinces in Afghanistan to do careful engineers' estimates of the costs of roads and other infrastructure. Nevertheless, engineers from a large infrastructure contract are standing by and will be deployed when the opportunity arises.

More can be done to open up procurement and USAID will continue to do so as appropriate, particularly in the second common and valid criticism of USAID, i.e. in providing opportunities to local firms..

We should not lose sight of why the USG is present in developing countries in the first place. Building capacity in Iraq and Afghanistan is difficult, and it is a valid concern that by using US firms, we risk inhibiting capacity building of local firms to do for them what they must eventually learn to do for themselves. However, at this time, the basic levels of capacity are not there. Additionally, in nations such as Iraq and Afghanistan, in which USAID's activities represent a significant amount of US national interest, there is a sense of urgency that is coupled with a high demand for accountability to keep funds from going to terrorist organizations. These factors have limited our ability to contract directly with local firms.

US-based firms have always been higher priced, relative to local firms. But they are much more expensive today, in conflict areas like Iraq and Afghanistan. This is because of the need to hire additional security, which currently amounts to an average of 15-25% more for comparable work in other countries.

Extra costs for US or foreign firms at the beginning of a reconstruction effort can be defended, when it is clear that local firms do not yet have the capacity

to do the work to acceptable standards. But at some point, several years into the campaign, a shift should be seriously considered, when the extra costs associated with US firms in conflict situations – for their higher salaries, for the extra security – outweigh the benefits from engaging local firms. At some point, sticking with US firms too long becomes counterproductive to our development goals. However, it should be understood by all that building capacity takes time, and using local firms increases completion time.

We are already using many local firms in Iraq; arguably in Afghanistan, the basic levels of capacity are still not there. But we need to keep looking for projects that local firms can handle, and encourage them to bid.

Ambassador Tobias, Director of Foreign Assistance and Administrator of USAID said it very well and very succinctly when he said “it’s about them, not about us.” Unfortunately, this kind of long term capacity building often gets pushed down the list of priorities because it takes time and increases risks. As a result, there is room for improvement to build the capacity of local firms to take on a greater share of the work. Again, USAID must balance this need with the other concerns that I mentioned earlier in my testimony – speed, flexibility, and financial accountability.

Finally, to make contracting more effective, the USG needs additional funding in so-called contingency accounts, so that we can move quickly in response to unforeseen circumstances and needs, rather than waiting for supplemental funding or reprogramming from other priorities.

The Chair and Ranking Member have voiced particular concern about the new infrastructure contract USAID recently awarded in Afghanistan after full and open competition.

Infrastructure of all kinds – roads, power, water and vertical structures – continues to be one of President Karzai’s biggest priorities for the US in Afghanistan.

The large construction contract described earlier came to a close last year, when the contractor finished the last schools and clinics and the US portion of the highway between Kandahar and Herat. Given the continued insurgency in Afghanistan, USAID decided that an even larger infrastructure contract – to cover all foreseeable needs – was still appropriate for the next few years. The Agency did not want to get caught, as it did when the need



for schools and clinics arose, without a mechanism to respond. So it designed a large, multi-sector, infrastructure contract for full and open competition.

Five firms competed for the contract and the firm that won the original road construction contract was part of the joint venture firm selected. Some have argued that the firm's delay on the schools and clinics should have precluded it from winning the new contract. While past performance was considered, and failure to complete the schools and clinics on time was noted in the evaluation process, the firm's record of success with road construction, strong relationships with other construction companies who could work as subcontractors, the fact that the firm was already mobilized in Afghanistan, and the strong record of the other joint venture partner in the power sector outweighed the negatives.

There is definitely room for improvement in the way USAID procures goods and services and manages programs in conflict and emergency situations, where speed and flexibility are paramount. USAID stands ready to help this committee craft reforms that can make its reconstruction efforts more effective, while retaining the essential need for responsiveness.

Mr. Chairman, thank you for allowing me this opportunity to share USAID's perspective on managing our programs in Iraq and Afghanistan. I am honored to join colleagues from State, SIGIR and the USACE in discussing reconstruction in these two countries. I look forward to continuing to coordinate with each of them as we implement the interagency effort. And I look forward to your questions as well.