

**United States Agency for International Development's Afghanistan-Pakistan Task Force
Deputy Director Charles North's
Testimony before the Senate Homeland Security and Governmental Affairs Committee's
subcommittee on Contract Oversight
December 17, 2009
"Afghanistan Reconstruction and Development Contracts:
An Overview"**

Chairman McCaskill, Ranking Member Bennett and other subcommittee members thank you for your invitation to testify before this subcommittee on the topic of, "Afghanistan Reconstruction and Development Contracts: An Overview." This is my first chance to testify before this subcommittee and I appreciate the opportunity. I will keep my oral remarks to the requested five minutes, but ask that my full written statement be submitted as part of the official hearing record.

Following your letter of invitation, my remarks will focus on the following topics: the planning, management, and oversight of the United States Agency for International Development's (USAID) reconstruction and development contracts in Afghanistan; USAID lessons learned from Iraq that we have applied to Afghanistan; findings from federal auditors; our coordination with the Department of State; the USAID ongoing civilian staffing increase as well as the status of our current implementer workforce; and, I would also like to address the steps that USAID is undertaking to ensure the sustainability of U.S. funded development projects in Afghanistan.

As with any discussion on Afghanistan, I hope to offer some context to the subcommittee as to how we actively engage in humanitarian relief and economic development. As highlighted in a 2008 survey from The Asia Foundation, the biggest problems faced by the Afghan people are insecurity, unemployment, high prices, a poor economy, and corruption. Afghans work hard yet lack opportunities for jobs and basic services such as water, electricity, education, and health care.

The Government of the Islamic Republic of Afghanistan has a blueprint for development, the Afghanistan National Development Strategy, to create a stable and tolerant society with a market-based licit economy, improved quality of life, and effective and legitimate governance. Additionally, in recent months, we have adjusted our approach by increasing our emphasis on agriculture, enhancing government revenue collection, building key elements of Afghanistan's private-sector economy, and improving the coordination of assistance delivery within the U.S. government and across the international community as part of the President's strategy. Our development activities are an integrated component of Ambassador Eikenberry and General McChrystal's civilian-military plan. We are targeting much of our assistance where violence is worst, working with and through Afghan institutions wherever possible and shifting to more flexible and faster contract and grant mechanisms, to ensure our dollars are effectively supporting our efforts in the provinces. These refinements are designed to produce measurable improvements in the lives of ordinary Afghans -- and thus to contribute directly to more effective government and to lessened support for the insurgency.

I. USAID Planning, Management, and Oversight for Reconstruction and Development Contracts in Afghanistan.

In planning, managing and overseeing assistance in Afghanistan, a high-risk environment in which corruption and extortion pose significant risks, it would be impossible for USAID to guarantee that wrongdoing will never occur. However, we have put in place well designed systems and practices to minimize opportunities for misconduct. We aggressively monitor performance; we respond to allegations; and we review and improve our systems and practices on the basis of experience.

First, our selection of an implementer to carry out a given project is based on an evaluation of proposals submitted in response to USAID requests. Proposals are evaluated in terms of technical merit, cost, schedules of deliverables (including annual and semi-annual reports, deadlines, etc.) and past track record of performance with USAID.

Second, during contract implementation, a wide range of approaches are used to make sure that the contractor performs to our expectations. USAID staff holds implementation audits, conducts site visits (often performed by Afghan staff in non-permissive locations), assesses project management, reviews progress reports, conducts internal risk assessments to review our own internal policies and procedures, and scrutinizes contractors through government-wide terrorist filters using lists maintained by the U.S. Departments of State and Treasury and the United Nations.

Third, the USAID Inspector General, the Special Inspector General for Afghanistan Reconstruction (SIGAR), and the Government Accountability Office (GAO) contribute to oversight of USAID contractors. We cooperate fully with all three organizations and benefit from their audits and reviews.

Fourth, USAID Afghanistan has built upon the lessons of our experience in Iraq and other post conflict settings to develop additional approaches to contract oversight. These approaches are mentioned in the section on lessons learned below.

II. Lessons Learned

The Special Inspector General for Iraq Reconstruction (SIGIR) Stuart Bowen did a great service to the USG when he published his “Hard Lessons: The Iraq Reconstruction Experience,” earlier this year. For Afghanistan, we have focused on 13 key lessons that SIGIR Bowen puts forth in his work.

Lesson Learned #1. Security is necessary for large-scale reconstruction to succeed.

In Afghanistan, infrastructure, alternative development, agriculture and other projects can be very difficult to implement without adequate security. Security elements are integrated into the budgets of our implementing partners, and these elements include hiring security personnel from the local population as well as security service sub-contractors. In addition, USAID coordinates regularly with the U.S. military, local governments, and communities to solicit their support to

improving their security environment. Some measures to mitigate security risks include ensuring that local populations from the areas benefiting from the development projects are engaged as workers for those projects.

Lesson Learned #2. Developing the capacity of people and systems is as important as bricks and mortar reconstruction.

Reconstruction with the concurrent development of capacity at the national and local level is essential. During almost 30 years of conflict, the human resource base in Afghanistan was devastated and the process for rebuilding will take time. USAID/Afghanistan has a robust government capacity building program to strengthen core functions such as financial management, contracting, budgeting, and planning across key ministries.

Lesson Learned #3. Soft programs serve as an important complement to military operations in insecure environments.

This is an important lesson and very applicable to Afghanistan. When implementing a development project in a community, USAID works closely with indigenous networks to gain community acceptance and commitment. Community support provides a lasting degree of local security and reinforces any military actions to secure peace.

Lesson Learned #4. Programs should be geared to indigenous priorities and needs.

In recognition that host-country buy-in is essential to reconstruction and other programs, USAID has closely aligned its programs, including infrastructure, with the Government's Afghanistan National Development Strategy (ANDS) and the sector programs identified in the strategy. Furthermore, USAID works closely with the World Bank in its implementation of the Afghanistan Reconstruction Trust Fund (ARTF) and National Solidarity Program (NSP). Both of these programs are geared to indigenous priorities.

Lesson Learned #5. Reconstruction is an extension of political strategy.

Our goal is to support an Afghan-led effort to achieve stability, with a market-based licit economy and an effective government capable and willing to provide services to its citizens. To support this approach, USAID is focusing its support in the South and East, building closer integration with the military and other USG agencies serving on Provincial Reconstruction Teams (PRTs), and placing greater emphasis on sub-national governance.

Lesson Learned #6. Executive authority below the President is necessary to ensure the effectiveness of contingency relief and reconstruction operations.

In Afghanistan, USAID works closely with the GIRoA, as they are the sovereign government of the country, to ensure that our interventions align with the priorities that the GIRoA has established in the Afghanistan National Development Strategy. Furthermore, USAID coordinates its assistance activities with those of our other USG colleagues and the broader donor community.

Lesson Learned #7. Uninterrupted oversight is essential to ensuring taxpayers values in contingency operations.

This is an important lesson for Afghanistan and it is extremely relevant as USAID is constrained by the number of U.S. Direct Hire (USDH) staff on board, as well as the insecure environments of many of our projects. To mitigate the risks associated with this, USAID has instituted the following measures to improve monitoring and oversight for all of our awards:

- Increased the number of Contracting Officer's Technical Representative (COTRs) and trained them to provide quality-control and quality assurance.
- Improved and increased site visits in collaboration with the military.
- Increased the number of USAID Regional Inspector General performance audits each fiscal year.
- Modified contracts to include more stringent reporting measures as well as providing additional guidance to our COTRs on ensuring compliance with reporting requirements in the contracts and grants.
- Engaged the services of independent, 3rd party monitoring and evaluation firms to provide quality assurance monitoring to support the management of our infrastructure projects.
- Regional Inspector General/Manila staff trained Mission staff, implementers' staff, and Afghan government financial staff from the Ministries and the Auditor General's office on USAID's recipient-contracted audit requirements. In addition, training was provided to local audit firms on the requirements to perform financial audits of USAID's implementers. The RIG investigators gave fraud awareness briefings to Mission staff, the Ministry's staff, and several of our implementers' staff.

Lesson Learned #8. An integrated management structure is necessary to ensure effective inter-agency reconstruction efforts.

There are a number of mechanisms in place and being planned to ensure effective inter-agency coordination and information management. In both Washington, DC and Afghanistan, USAID works closely with our military and Department of State interagency colleagues. Specifically, USAID has development representatives embedded at the regional command, brigade level and our field officers work closely with the military at various PRTs and district teams throughout the country. Additionally, with regards to working with our military colleagues, USAID participates in the vetting of CERP funded activities in order to help prevent any duplication of effort. With regards to the Department of State, USAID coordinates closely with the office of the Special Representative for Afghanistan and Pakistan here in Washington. In Afghanistan, USAID works with the office of Ambassador Wayne and within an integrated civ-mil system in the implementation of assistance projects throughout the country. This system is overseen by the Principals' Group and the Executive Working Group headed by Ambassador Wayne and ISAF's BG McKenzie. USAID actively participates in the Embassy's 14 civ-mil National Working Groups which oversee integrated U.S. strategies for job creation, infrastructure, water development, anti-corruption, sub-national governance and rule of law, to name a few.

Lesson Learned #9. Outsourcing management to contractors should be limited because it complicates lines of authority in contingency reconstruction operations.

In the context of Afghanistan, USAID Personal Services Contractors (PSC) rarely serve in management functions.

Lesson Learned #10. The U.S. Government should develop new wartime contracting rules that allow for greater flexibility.

USAID/Afghanistan would welcome greater contracting flexibility to achieve USG successes.

Lesson Learned #11. The U.S. Government needs a new human-resource management system capable of meeting the demands of a large scale contingency relief and reconstruction operations.

USAID's Human Capital Strategic Plan 2009-2013 outlines the processes we have been undertaking for several years to be able to put the "right people in the right place, doing the right work, at the right time to pursue U.S. national interests abroad." This entails medium to long-term efforts to model, recruit, hire, train and support the numbers and competencies of all categories of personnel that we need to accomplish the U.S. Government's goals in the field of development, which has always included contingency relief and reconstruction operations. It also includes efforts to deal with the immediate needs posed by some countries such as Iraq and Afghanistan by using every available enhanced human capital mechanism from direct hire authority, to personal service contracting authority, to Foreign Service limited authority to bring the qualified staff necessary to missions such as Afghanistan.

Lesson Learned #12. The U.S. Government must strengthen its capacity to manage the contractors that carry out reconstruction work in contingency relief and reconstruction operations.

USAID has strengthened our capacity in a variety of ways. We have increased our hiring of contracting and agreement officers and 29 new officers will join us in 2009. In Afghanistan, USAID has 57 officers who serve as the contracting and agreement officer's technical representatives, overseeing the day-to-day efforts of our implementing partners in Afghanistan. Our professional cadre of Foreign Service Nationals bring local language capabilities and country-specific business expertise to our efforts.

In addition to its human resource capacity, USAID is increasing its technical capabilities to do business more quickly and transparently. The Agency is now in the process of deploying the Global Acquisitions & Assistance System (GLAAS)—a web-based system that allows us to automate the procurement process through the life of an award by integrating directly with our financial systems. USAID has strengthened security services, emergency procedures, and monitoring, oversight and evaluation support in the field, including issuing new monitoring guidance for program managers in High Threat Environments.

Lesson learned #13. Diplomatic, development, and area expertise must be expanded to ensure a sufficient supply of qualified civilian personnel in contingency reconstruction.

USAID's model for workforce expansion provides for a training-reassignment-detail "float" that will enable USAID staff to gain state of the art knowledge and skills. The Civilian Response Corps being formed under the State Department's Office of the Coordinator for Reconstruction and Stabilization (S/CRS) is an important new capacity for the USG worldwide and includes multiple USAID officers with specialized reconstruction skills. and includes USAID officers with specialized reconstruction skills.

Specific to Afghanistan, as part of the civilian uplift USAID will have 333 American civilians in Afghanistan by early 2010.

III. Findings from Federal Auditors

With over \$6.7 billion disbursed in Afghanistan (all funding accounts, including operational expenses) since 2002, USAID's work is subject to intense scrutiny by you and your colleagues, the Government Accountability Office (GAO), the Special Inspector General for Afghanistan Reconstruction (SIGAR) and our own office of Inspector General. USAID welcomes engagement with our oversight colleagues and works collaboratively with them on all manner of issues. As of December 1, 2009, USAID/Afghanistan had a total of 18 active engagements originating from the above referenced oversight authorities.

As you are aware, various audit reports have found that the prime areas of concern have been: a.) implementation of activities within a fluid security environment; and b.) contract oversight, management and performance. USAID recognizes that these concerns are also those held by the subcommittee and the rest of your congressional colleagues. I respectfully refer you to earlier sections of this statement that outline actions USAID is taking to address the security environment and improve our oversight practices.

IV. USAID Coordination with the Department of State

A whole-of-government unity of effort approach is practiced daily in Afghanistan. Integrated planning and operations to better streamline and coordinate the USG agencies' individual areas of specialty – a clear, hold, build strategy – plays out every day. With leadership by President Obama, and directed on the ground by Ambassador Eikenberry, the focus of purpose is being realized. USAID is pleased to work closely with our Department of State colleagues both in Kabul, through Ambassador Wayne, and in Washington, through Ambassador Holbrooke, to realize the President's vision for Afghanistan.

Furthermore, in the field, at the Provincial Reconstruction Teams (PRTs) and Regional Command level, USAID field officers work daily with our military and Department of State colleagues in order to implement the diplomatic and development missions of the USG in Afghanistan.

V. USAID Civilian Staffing in Afghanistan

As of December 7, 2009, USAID/Afghanistan has 180 American staff on the ground. It is anticipated that USAID will have 333 American staff on the ground in early 2010. USAID/Afghanistan also currently has 136 Afghan staff and 16 third country national staff.

USAID/Afghanistan works with approximately 20,000 implementing personnel on USAID programs, 19,000 of whom are Afghan employees.

USAID/Afghanistan currently has eight contracting officer positions in Kabul, maintains an additional two contracting officers in Bangkok to support Kabul, and has a backstop team of three contracting officers who support Afghanistan from Washington, D.C. Helping to oversee our programs are more than **57** contracting officer's technical representatives on staff in country as well.

VI. Sustainability of U.S. Funded Development Projects

To implement the President's Afghanistan-Pakistan strategy, the U.S. Mission's approach in Afghanistan is to support Afghan leadership, Afghan capacity-building efforts at all levels, and Afghan sustainability (for, with, and by the people), and to increase local procurement initiatives such as "Afghan First."

The U.S. Government's guiding principle of *Afghan First* (meaning Afghan-led development) will ensure that Afghans lead, not follow, in their path to a secure and economically viable country.

An agile, flexible, and responsive U.S. regional counterinsurgency (COIN) strategy will provide the framework in which we operate to maximize all U.S. resources by sector and, more importantly, geographically to promote stability. A whole-of-government, unity-of effort approach through integrated planning and operations will also help us coordinate and integrate with international community partners.

A significant change in contracting, management, resources, and focus of our foreign assistance to overcome the "trust deficit" will help us engage the populace in ways that demonstrate commitment to a responsive and capable Afghan government. Additional assistance must be accompanied by new contracting principles and delivery mechanisms to mitigate risks and to ensure greater accountability, immediate action, and sustained commitment.

In short, we seek a stronger and more effective Afghan-U.S. development partnership. At the national level, more U.S. assistance will be channeled through the Afghan government core budget. At the field level, U.S. assistance will be shifting to smaller, more flexible, and faster contract and grant mechanisms to increase decentralized decision making in the field.

To increase Afghan First, the U.S. Mission is adopting a whole-of-government assistance framework that:

- Aligns with the Afghanistan National Development Strategy
- Directs capacity-building efforts at the public sector, private sector, and civil society
- Increases joint decision making and joint action with line ministries by involving ministry staff in program design, procurement, and joint monitoring and evaluation

- Focuses U.S. assistance on sectors and regions where the United States has a comparative advantage, and makes decisions on geographic focus in consultation with the Independent Directorate for Local Government
- Ensures U.S. contractors utilize Afghans in key personnel positions as a means of ensuring a better grasp of the needs and reality on the ground and improving senior management capabilities
- Ensures that more U.S.-trained, skilled Afghan workers are hired by U.S. contractors
- Purchases more products and services locally via initiatives such as Afghan First
- Scales up contributions to the Afghanistan Reconstruction Trust Fund (ARTF) and the National Solidarity Program (NSP) as a means to deliver better coordinated assistance and improve Afghan government procedures and management capacity
- Delivers support directly to some ministries through the Ministry of Finance (once U.S. Government accounting and financial requirements have been met)
- Forges public-private alliances to maximize the impact and quality of activities.

Conclusion

Afghanistan is hungry for development. The United States, in coordination with its international partners, is providing jobs to the jobless, a voice to the voiceless, heat for cold homes, water for the thirsty, and food for the hungry. In short, it is offering Afghans a path to hope and sustainable development. We are optimistic about a new era of prosperity and peace. We are also optimistic that one day we will echo Woodrow Wilson's famous words: "The ear of the leader must ring with the voices of the people."