Statement for the Record

United States Agency for International Development

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"Status of U.S. Foreign Assistance to Afghanistan in Anticipation of the U.S. Troop Withdrawal"

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Chairman Chaffetz, Ranking Member Tierney, and Members of the Subcommittee, thank you for allowing me the opportunity to testify before you today to discuss the role of the U.S. Agency for International Development (USAID) in advancing U.S. Government policy through USAID's civilian assistance program during and after this transition year in Afghanistan. USAID partners to end extreme poverty and promote resilient, democratic societies while advancing our security and prosperity. It is an honor to appear before you today with Mr. Charles Johnson, Jr., Director, International Affairs and Trade, U.S. Government Accountability Office (GAO).

This transition period is a pivotal moment for Afghanistan, in anticipation of which USAID has been planning and adjusting its programming to maximize sustainability, oversight and accountability. Throughout our efforts, we are applying important lessons from the past twelve years in Afghanistan, as well as from other high-risk environments in which USAID has worked. We understand fully that the fiscal reality our nation faces at home means that resources available for Afghanistan will decline over time. Weaning Afghanistan from unsustainable levels of assistance is necessary for us, and essential for them. To achieve this without triggering a crisis, we must remain a strong partner and continue to provide assistance in areas critical to Afghan development and stability. To do this with fewer resources, we are making tough decisions and prioritizing investments that have the greatest potential for long term sustainability. As USAID navigates through the 2014 transition period, we are committed to

expending every effort to safeguard taxpayer funds and ensure that the development progress in Afghanistan is maintained and made durable.

Over the course of the last 12 years, USAID's funding has amounted to approximately seventeen percent of the funds allocated by Congress for Afghanistan for both military and civilian reconstruction, and just two percent of the total military and civilian cost of the war. The USAID role in Afghanistan is to promote a stable, inclusive and increasingly prosperous country. During the past decade, Afghanistan has made remarkable development gains across multiple sectors due to the whole-of-government efforts of the U.S., along with our international partners and the Afghan people.

I have been working on and in Afghanistan in both civilian and military capacities since 2002. In addition to having worked with the Afghan Constitutional Loya Jirga and the Afghan Emergency Loya Jirga, I have served as a representative of an international non-governmental organization, and as chief of staff of the UN Assistance Mission to Afghanistan. I bring these perspectives to USAID's work today.

USAID and Results

After the fall of the Taliban regime, I saw firsthand an Afghanistan devastated by decades of conflict. Although Afghanistan had a very low starting point, the upward developmental trends show powerful aggregation over a decade and strongly reflect areas of USAID investment.

Changes of this magnitude are not made overnight, especially in such a deeply traditional society and challenging operational environment. Meaningful, impactful gains in Afghanistan, made possible with the support of international civilian assistance, and led by the United States, are significant, though fragile:

- Afghanistan made the largest gains on a percentage basis in the UNDP Human Development Index than any other country in the past decade.

- Education: in 2002, there were only 900,000 Afghan children in school, and virtually none of them were girls. Today, nearly approximately 8 million children are registered to attend school and more than one-third of them are girls.

- Health: life expectancy has increased from 42 years to over 62 since 2001; the maternal mortality rate has declined by 80 percent from 1,600 deaths to 327 per 100,000 births; and child mortality decreased from 172 to 97 deaths per 1,000 live births.

- Energy: in 2002, only 6 percent of Afghans had access to reliable electricity. Today 18 percent do. In addition, USAID assistance has helped put the Afghan national power company (DABS) on a path to become fully self-sustaining. DABS collected $220 million from the sale of electricity in 2012, an increase of 67 percent from 2010.

- Mobile Technology: in 2002, there were few fixed telephone lines and making calls outside of Afghanistan required a satellite phone. Today, the combined phone network covers 90 percent of the Afghan population. Eighty-five percent of women have access to a mobile phone. The telecommunications sector is Afghanistan's greatest source of foreign direct investment, largest remitter of taxes to the government, and biggest licit employer, providing jobs for 100,000 Afghans.

- Women: today, there are over 3,000 women-owned business and associations; almost 20 percent of Afghans enrolled in higher education are women; and women are active participants in the Afghan political process, with three female members of the Afghan Cabinet, 68 Members of Parliament (of the 249 seats), and three women vice presidential candidates.

USAID Transition Strategy

Over the last two years USAID has regularly reviewed and adjusted its programs to ensure that they advance the strategic objectives of the United States and are achievable and sustainable. USAID is coordinating with the Department of State, the Department of Defense, and other

agencies on transition planning for multiple contingencies so we can continue to support overall U.S. assistance and national security objectives.

USAID's transition strategy is three-fold:

- Maintain and make durable the gains made in health, education, and the empowerment of women;
- Mitigate the economic impact of the drawdown through a robust focus on the agriculture sector, private sector development, the operations and maintenance of infrastructure investments, and the future potential of the extractives industry; and,
- Foster improved stability by supporting legitimate and effective Afghan governance, including the 2014 presidential election.

Operationally, USAID has adjusted its implementation model to improve sustainability and meet the challenges presented by the transition through:

- Focusing assistance in Regional Economic Zones (REZs) that cover major population centers and promote regional trade and economic opportunities– especially with regional markets in Central and South Asia;
- Developing a multi-tiered oversight strategy to address reduced mobility and decreased field staff that, along with other monitoring and evaluation efforts, will continue to ensure adequate oversight over projects in the field;
- Transforming USAID's approach in Afghanistan to one of mutual accountability that incentivizes Afghan reforms by conditioning an increasing percentage of our assistance to the government on progress on reforms; and
- Implementing USAID's 2011 Afghanistan Sustainability Guidance, which emphasizes the principles of: (1) increasing Afghan ownership and capacity; (2) contributing to stability and confidence, and (3) effective and cost-efficient programming.

With these parameters in mind, USAID holds biannual portfolio reviews in coordination with the U.S. Government interagency and the Afghan Government to review and revise USAID's Afghanistan portfolio. For example, as a result of internal USAID reviews and in consultation

with the Government of Afghanistan in 2012, USAID substantially downscaled a five-year, $32 million agricultural faculties program found to be duplicative of efforts by another donor.

In 2013 and 2014, the U.S. has conditioned an increasing amount of civilian assistance on Afghan progress on key governance and development reforms. Based on the Tokyo Mutual Accountability Framework (TMAF) agreed in July 2012, USAID has established a bilateral incentive fund. Incentive funds are released as the Afghan Government meets certain thresholds of progress on the key TMAF indicators. These indicators set out needed reforms in five areas: elections, sub-national governance, human rights, public finance, and economic growth.

The program was designed to encourage the most important reforms by linking the reforms to additional contributions to the World Bank's Afghan Reconstruction Trust Fund (ARTF). We recently disbursed $30 million of the $75 million available in the first year of the bilateral incentive program to the ARTF based on Afghan follow through on TMAF benchmarks related to planning for the upcoming election and development of improved budgeting procedures. The Afghan Government made insufficient progress in other areas and therefore did not qualify for an additional $30 million. The final $15 million is still pending a decision based on Afghan reforms related to economic growth. We expect to make a decision on that final $15 million by the end of April 2014. For this year, we have increased the amount subject to TMAF indicators from $75 million to $100 million using Fiscal Year 2013 funds.

Oversight and Accountability

USAID places the highest priority on ensuring that American taxpayer funds are used wisely, effectively, and for their intended purpose. While Afghanistan presents a number of unique challenges, we draw on our extensive experience in monitoring projects in other very challenging environments to improve our oversight systems in Afghanistan.

As the President announced in May 2012, U.S. combat forces will leave Afghanistan by the end of 2014. As the President said in the State of the Union earlier this year, if the Afghan government signs a security agreement that we have negotiated, a small force of Americans

could remain in Afghanistan with NATO allies to carry out two narrow missions: training and assisting Afghan forces and counterterrorism operations to pursue any remnants of al-Qaida. USAID has been intensively engaged in planning oversight policies and procedures to match the full range of contingencies.

USAID has operated in a number of places around the world in which there is a minimal or no U.S. troop presence, and in which there is a mixture of operating environments, from permissive to non-permissive, at times within the same country. These places include, among others, Colombia, Iraq, and Yemen. USAID has learned hard lessons, in Afghanistan and elsewhere, and adapted its project design, its procurements, and its oversight and accountability procedures to a wide range of operating environments.

In the post-2014 environment, Afghanistan will continue to be a difficult place to operate and we know we will face challenges in the delivery of development assistance. Looking ahead, we believe the main challenges we will face will be:

- A volatile security environment that is dynamic and hard to predict, in response to which we will have to monitor, shift, and adapt our programs as necessary.
- Oversight and Monitoring: Given the scope of our programming, we will maintain a robust multi-tiered monitoring system.
- Afghan administrative capacity, which has come a long way since 2002 but is still lacking.

In addition to the usual oversight USAID undertakes in every country where it works, USAID's Accountable Assistance for Afghanistan initiative (known as A3) focuses on four areas:

1. Award Mechanisms – We rely less on large agreements and have increased the number of smaller and more flexible agreements. We are also utilizing assistance awards that provide the most visibility on project costs, such as cost-reimbursable contracts and limiting layers of subcontracts to two.

2. Partner Vetting – The USAID Mission established a Vetting Support Unit in February 2011. The unit conducts checks on non-U.S. companies and non-U.S. key individuals for prime contractors, sub-contractors, grant recipients and sub-grantees to determine whether or not they are associated with known malign entities or individuals. We have kept $49.3 million from being awarded to those who did not meet our vetting requirements, as a result of our vetting process.

3. Financial Controls – We are enhancing controls on project funds, such as using electronic funds transfers in lieu of cash payments, using independent financial monitors to verify appropriate usage of funds, ensuring close review of recipients' claims prior to payment, and performing audits of locally incurred cost.

4. Project Oversight – USAID uses a multi-tiered monitoring approach that includes, as appropriate, independent monitoring contractors; observation by U.S. Government staff; reporting by implementing partners, local non-governmental organizations and civil society; and use of technological tools, such as time- and date-stamped photos. By using multiple sources of monitoring data, USAID can compare information received from separate sources to ensure the greatest degree of oversight possible.

USAID will terminate or redesign projects, or specific activities, if the Agency determines that adequate oversight is not possible or adequate development progress is not being made. In designing the Afghanistan monitoring strategy, USAID incorporated lessons learned from its use of third-party independent monitoring in challenging environments across the world, including Colombia, Iraq, Pakistan, and South Sudan, as well as from the USAID Office of Inspector General (OIG), the Special Inspector General for Afghanistan Reconstruction (SIGAR), and GAO audits, as well as public feedback.

USAID has also developed a new unit at the Mission in Afghanistan, the Implementation Support Team, which is responsible for providing an additional layer of critical review and analysis for the many streams of monitoring information and for providing USAID leadership with alternative courses of action for addressing challenges with project implementation. In

addition, USAID is continuing its close coordination with other donors to share best practices and expertise on monitoring.

Direct Assistance

Government-to-government or "direct" assistance is intended to build the Afghan government's ability to sustain the investments and gains that have been made over the last twelve years, and allow the U.S. to transition out of a civilian assistance program. USAID is intensely conscious of the trust that has been placed with us to safeguard taxpayer funds while implementing development programs in support of U.S. national security interests. The Agency has learned from its experience with "direct" assistance in Afghanistan and in similar countries around the world, and has applied best practices to design and implement rigorous risk mitigation measures for direct assistance. It also continues to work internally and with its auditors to refine oversight policies and procedures.

USAID has a rigorous system of oversight for its direct assistance programming with the Afghan government. This means that USAID conducts assessments to identify the strengths and weaknesses of each ministry for which a direct assistance project is being contemplated. To date, USAID has conducted sixteen ministry assessments, but has decided to limit its direct assistance to seven ministries, subject to stringent safeguards. Different ministries have different strengths and weaknesses, and different programs are funded in different ways. However, for all seven of them we have these stringent safeguards in place. As noted, we begin with a review of a ministry's basic systems followed by an internal assessment of the risks inherent in the proposed program and build our mitigating measures and safeguards accordingly. At the same time, with an eye towards building Afghan systems that are able to prevent corruption and fraud, waste, or abuse on their own, we are simultaneously building the capacities of these ministries.

For direct assistance, USAID utilizes multiple levels of protection to mitigate risks before disbursing any funds. These measures may include, but are not limited to:

- requiring the establishment of a non-commingled, separate bank account for each project with USAID;
- disbursement of funds only after USAID has verified that the ministry has achieved a performance milestone or USAID has verified accrued costs;

- an annual audit by a USAID OIG-approved firm;
- substantial involvement and oversight by USAID staff in procurement processes;
- independent management, monitoring and evaluation of services; and
- technical assistance through other projects to increase the capacity of ministries while addressing any vulnerabilities or weaknesses identified in the assessments.

All direct assistance requires compliance with USAID accountability and oversight procedures, including site visits. Ministries are required to fully comply with the mitigation measures prior to and throughout the disbursement process. If Afghan ministries fail to adhere to these measures, the agreements are subject to immediate suspension or termination.

For example, USAID has worked closely with the Ministry of Education to assess its financial management systems, implement extensive mitigation measures for the risks these assessments identified, and audit their progress and monitor results. USAID negotiated a stringent series of preconditions and financial controls pursuant to the launch of a $27 million textbook printing program, part of the Basic Education, Literacy, and Technical Vocational Education and Training Project. The specific steps USAID required to mitigate these risks included use of a non-commingled separate bank account from which all project disbursements are to be accounted for; an annual audit including quarterly audit testing of all project disbursements under the agreement by an OIG-approved certified public accounting firm; and USAID involvement and mandatory clearance of the textbook procurement cycle for each separate procurement undertaken under the agreement. USAID subsequently obligated a total of $27 million towards the agreement, and to date $18.8 million has been disbursed.

Finally, audits provide useful oversight and discipline, and complement and reinforce USAID's own efforts to ensure U.S. tax dollars are used effectively and efficiently. There are currently over 100 on-going audits of USAID programs in Afghanistan. In fiscal year 2013, the GAO, USAID OIG, and the SIGAR completed over 65 financial and program audits in Afghanistan.

Oversight is a process that requires continual re-examination and the ability to adjust to new circumstances as they arise. Although there are inherent risks in doing business in a country like

Afghanistan, we work hard to ensure taxpayer dollars are adequately protected while carrying out a vital component of the U.S. Government's national security policy.

Conclusion

USAID always keeps in mind the enormous sacrifices made by Americans to build a secure and stable Afghanistan, and we fully understand the need for constant vigilance, particularly during this delicate transition period. Whether in the military, as a government civilian, or as an implementing partner, I know the risks and the sacrifices these individuals and their families have taken and sincerely thank them for their service. We are under no illusions about the challenges we face in Afghanistan. Every day our staff and our partners are under threat. Since 2001, 434 people working for USAID partner organizations in Afghanistan have been killed and another 768 wounded.

Problems of limited capacity and corruption certainly exist in Afghanistan, just as they do in many places in which USAID operates, and they will continue to be a challenge. However, these problems are not reasons to abandon our vital national security interests. Instead, they are reasons for our continued exercising of care and diligence in our work. It is an honor to be able to share with you today a small glimpse of what USAID is doing in that regard. I look forward to answering any questions that you may have.