

**Statement for the Record**

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**“Afghanistan: Identifying and Addressing Wasteful U.S. Government Spending”**

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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 support of U.S. civilian development efforts in Afghanistan. Our work in Afghanistan is emblematic of our agency’s overall mission: USAID partners to end extreme poverty and promote resilient, democratic societies while advancing our security and prosperity. USAID’s 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, thanks to the whole-of-government efforts of the United States, along with our international partners and the Afghan people.

2014 is a pivotal year for Afghanistan as the country navigates a series of three transitions: the presidential election two days from now and the first democratic transfer of power to a new president in Afghanistan’s history; the continued withdrawal of non-Afghan troops with the completion of the transfer of security responsibility to the Afghans; and the continuing reduction of International Security Assistance Force (ISAF)-related economic activity in Afghanistan. This is a critical moment in Afghanistan’s history, and USAID is working with the Afghan people and our international partners to do what we can to ensure these transitions go as smoothly as possible.

I have been working on and in Afghanistan since 2002, in both civilian and military capacities, and just returned from my latest visit to Kabul a few days ago. In addition to having worked with the Afghan Constitutional Loya Jirga and the Afghan Emergency Loya Jirga in 2003 and 2004, respectively, I 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, and I know from personal experience that the dramatic progress Afghans have made is remarkable, yet still fragile. That is why, USAID has been planning and adjusting our programming in anticipation of the transitions in 2014, to maximize sustainability and ensure oversight and accountability of the resources the American people have provided in support of Afghanistan. USAID is committed to safeguarding taxpayer funds and ensuring that the development progress that has been made over the last twelve years is maintained and durable.

### **USAID Impact and Results**

USAID's development assistance, which represents approximately three percent of the total military and civilian financial cost of the war in Afghanistan, has helped Afghans achieve gains ranging from a ten-fold increase in the number of children enrolled in school, to a dramatic increase in life expectancy, as well as five-fold increase in per capita GDP. These are extraordinary development gains for a country that in 2002 had virtually no access to reliable electricity, roads or modern telecommunications, and disadvantaged almost half of its population - women and girls, prohibiting them from contributing fully to Afghan society and the economy. USAID has supported meaningful gains in Afghanistan that have contributed to extraordinary results:

- Health: Life expectancy has increased from 42 years to over 62 since 2002; the maternal mortality rate has declined by 80 percent from 1,600 to 327 deaths per 100,000 births; and child mortality decreased by 44% from 172 to 97 deaths per 1,000 live births.
- Education: In 2002, there were approximately 900,000 Afghan children in school, and virtually none were girls. Today, approximately 8 million children are registered to attend school and more than one-third of them are girls.

- Energy: In 2002, only 6 percent of Afghans had access to reliable electricity. Today 42 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 \$229 million from the sale of electricity in 2012, an increase of 68 percent from 2010.

More importantly, the Afghan people recognize the progress made and are increasingly hopeful about their future. For the past nine years, The Asia Foundation, with support from USAID, has conducted a nationwide survey of Afghan attitudes and opinions, tracking trends among the population. The results of the 2013 survey show the impact these gains are making. Fifty-seven percent of all Afghans said they believe their country is moving in the right direction. This number has increased steadily since 2008, when it stood at 38 percent. Not surprisingly, the vast majority – 88 percent – said they were better off economically than they were under the Taliban. Three quarters gave their national government a positive assessment although they remained critical of subnational government and Parliament and concerned about corruption at all levels. Five in six Afghans – men and women – believe that women should have an education. Seventy-five percent believe it is acceptable to criticize the government in public—a sign of an active democracy with an independent media, which is the civilian institution in which Afghans have the most confidence.

### **USAID Moving Forward**

USAID understands the challenges facing Afghanistan. In anticipation of this transitional year, 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’s strategy in Afghanistan is threefold:

- Maintaining and making durable the gains made in health, education, and the empowerment of women;
- Supporting continued economic growth and employment through the agriculture sector, private sector development, operations and maintenance of infrastructure investments, and responsibly developing the extractives industry, which will help to mitigate the effect of the military drawdown; and,

- Fostering legitimate and effective Afghan governance, including support for the 2014 presidential and 2015 parliamentary elections, the rule of law, and a robust civil society.

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 monitoring strategy to address reduced mobility and decreased field staff that, along with other monitoring and evaluation efforts, will continue to ensure appropriate oversight of projects;
- 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 that continues to increase government involvement and ownership of development needs; and
- Focusing on long-term sustainability through implementing USAID policies on sustainability, including the principles of: (1) increasing Afghan ownership and capacity; (2) contributing to community stability and public confidence in the Government of Afghanistan; and (3) implementing effective and cost-efficient programming.

Based on this strategy and these objectives, USAID is constantly reviewing and evaluating our portfolio in coordination with the U.S Government interagency and the Afghan Government, including through a biannual portfolio review process. We take these reviews very seriously and are confident that they are helping ensure that USAID's assistance in Afghanistan is having the maximum impact possible. To cite one example, as a result of internal USAID reviews and in consultation with the Government of Afghanistan, USAID determined that a program supporting access to credit for agriculture in southern Afghanistan was not delivering the desired results. While access to credit helped farmers in some ways, it did not provide the desired increase in access to markets. USAID de-scoped that activity and reprogrammed the funds to other elements of the program that continue to deliver results. The lessons learned from that

agriculture activity have helped inform the design of new USAID agriculture programs that focusing on strengthening value chains across Afghanistan.

### **Oversight and Accountability**

USAID is well aware that Afghanistan is a difficult environment in which to work. But we have learned important lessons over our twelve year engagement there, and have also drawn on experiences of operating in other challenging environments, including Iraq, Pakistan, Yemen, Sudan and Colombia, to ensure strong oversight of U.S. assistance funds.

In addition to standard USAID oversight measures implemented worldwide, USAID has implemented the Accountable Assistance for Afghanistan (A3) initiative, designed to prevent funds from being diverted from the development purpose to malign actors. Some of the approaches we use under A3 include:

1. Limiting the number of sub-contracting tiers;
2. Implementing a robust vetting system of non-U.S. companies and key individuals, at both the prime and sub-contractor level, and establishment of the Vetting Support Unit;
3. Enhancing financial controls on project funds, such as using electronic funds transfers in lieu of cash payments, using independent audit firms to verify appropriate usage of funds, reviewing of recipients' claims prior to payment, and performing 100% audits of locally incurred costs; and
4. Implementing robust oversight of all USAID projects in Afghanistan through a five-tiered monitoring approach, encompassing monitoring information gathered from USAID and other U.S. Government staff, USAID implementing partners, other donors, Afghan civil society and beneficiaries, as well as independent monitoring contractors.

USAID's multi-tiered monitoring approach focuses on gathering and analyzing multiple sources of data across these tiers in order to compare information and ensure confidence in reporting data, allowing USAID to use the results to make further programmatic decisions. Supporting this approach is the new Implementation Support Team (IST) headquartered at the USAID Mission in Kabul. The IST is charged with providing an additional layer of critical review and

analysis for the streams of monitoring information and for providing USAID leadership with alternative courses of action for addressing challenges with project implementation.

Providing independent data inputs to this team is the new Monitoring Support Project, for which USAID just issued a request for proposals. This request for proposals was issued following extensive consultations with international donors, Congress, implementing partners, and a comprehensive analysis of USAID remote monitoring efforts around the world. This project will utilize a variety of monitoring methods to verify project data, including site visits, GPS and time/date stamped photos, interviews, and crowd sourcing. USAID does not rely solely on remote monitoring to provide key monitoring data, nor will independent monitoring take the place of the USAID staff as project managers. It is one tool that USAID can use to validate reporting data from other sources. USAID will not hesitate to terminate projects or specific activity sites if USAID determines that adequate oversight is not possible.

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 U.S. Government Accountability Office, USAID Office of Inspector General, and the Special Inspector General for Afghanistan Reconstruction 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, our first priority is to ensure taxpayer dollars are adequately protected even as we carry out a vital component of the U.S. Government's national security policy.

### **Direct Assistance in Afghanistan**

Direct assistance to the Afghan government is used when appropriate to accomplish certain development outcomes, and to build the Afghan government's ability to sustain the investments and gains that have been made and reduce its dependence on donors over time. This is in keeping with commitments under both the previous and current Administrations to increase our

work through local governments and organizations, not just in Afghanistan, but in numerous countries around the world. Such work is critically important to the ultimate goal of assistance – helping countries stand on their own two feet.

In Afghanistan, our work through the government is based on commitments made by the United States and the international community in return for commitments made by the Afghan government to meet certain benchmarks. These agreements were reflected in the Tokyo Mutual Accountability Framework, in 2012. In return, the U.S. reaffirmed support expressed at the London and Kabul conferences in 2010 to provide up to 50 percent of its aid as on-budget assistance, in order to help strengthen the Afghan government’s capacity.

USAID implements on-budget assistance in Afghanistan through two mechanisms: multilateral trust funds, such as the Afghanistan Reconstruction Trust Fund (ARTF) managed by the World Bank, and through bilateral direct assistance agreements with the Afghan government. Of the approximately \$17.5 billion in obligated USAID funds for Afghanistan since 2001, \$770 million is allocated for direct assistance with the Government of Afghanistan, of which USAID has disbursed \$283 million, with a little more than half of that disbursement for health sector programming.

USAID recognizes that working directly through local governments, especially in unstable and challenging environments, carries an element of risk. 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 contracted for accounting firms to conduct sixteen ministry assessments. USAID has decided at this time to limit its direct assistance to seven ministries, subject to stringent safeguards. The process begins with a review of a ministry’s basic procurement, financial and human resource systems followed by an internal assessment of the risks inherent in the ministry. We then build our mitigating measures and safeguards accordingly. At the same time, through technical assistance, we also seek to build Afghan systems that will be able to prevent fraud, waste, or abuse on their own.

For direct assistance, USAID utilizes multiple levels of protection to mitigate risks to taxpayer 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 incurred 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 conditions precedent prior to and throughout the disbursement process. If Afghan ministries fail to adhere to these conditions, the agreements are subject to immediate suspension or termination. In the cases where USAID uses cost reimbursement for our direct assistance projects, in accordance with USAID risk mitigation measures, USAID disburses funds to a separate, non-commingled bank account at the Central Bank of Afghanistan once we have been assured ourselves of the cost incurred. From that account, those funds are transferred to partners contracted on behalf of the Afghan government for the work performed on behalf of the Afghan Government.

For example, USAID has worked closely with Afghanistan's energy utility, Da Afghanistan Breshna Sherkat (DABS) to assess its financial management systems; and audit its progress and monitor results. USAID negotiated a series of preconditions and financial controls pursuant to the launch of a \$75 million program to install a turbine at Kajaki dam. In addition to the tight financial controls implemented with DABS, USAID has been involved in every step of the procurement and implementation process to ensure that results are being delivered as planned. \$1.6 million in payments have been made by DABS to the implementing contractors only after being verified financially and technically as appropriate for the delivery of the goods or services in question. This project also includes a phased approach, with increasingly more significant



parts of the project being undertaken only after a thorough review of the previous phase to ensure both financial and technical aspects of the project proceed properly.

## **Conclusion**

Afghanistan has changed dramatically in the last twelve years, but we are under no illusions about the challenges we face. 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 a military capacity, as a government civilian, or as an implementing partner, I understand the risks and the sacrifices these individuals and their families have taken and sincerely thank them for their service. 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.

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. Weaning Afghanistan from unsustainable levels of assistance is necessary for us, and essential for them, and 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 remarkable development progress in Afghanistan is maintained and made durable, in order to secure our overall national security objectives. 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.