



TESTIMONY

Testimony of Dr. Rajiv Shah USAID Administrator

Oversight Hearing on Corruption in Afghanistan

**Before the Subcommittee on State, Foreign Operations and Related Programs
Committee on Appropriations
U.S. House of Representatives
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Chairwoman Lowey, Ranking Member Granger and distinguished panel members, thank you for the opportunity to testify before you this morning on the United States Agency for International Development's (USAID) activities in Afghanistan. I want to focus my testimony on our civilian efforts related to oversight and accountability of U.S. taxpayer resources in the promotion of good governance in Afghanistan.

I am pleased to be here with Ambassador Richard Holbrooke following our time together at the recent Kabul Conference.

This was my second trip to the region since being sworn in as USAID Administrator. During both visits, I have had the opportunity to get out of Kabul and see several of our programs throughout the country; and to engage in a meaningful dialogue with Afghan communities, our teams on the ground, and implementing partners.

I have challenged our team and partners to articulate a definition of success for each program we undertake- one that is analytically robust and grounded in strategic clarity. Indeed, strategic clarity is the first precondition for success.

Our nation's overriding goals for Afghanistan and Pakistan, as articulated by President Obama, are to "disrupt, dismantle, and defeat al Qaeda ... and to prevent their return to either country in the future."

It is equally important that we define success for our assistance programs - be they stabilization efforts or long-term development programs. In each of our stabilization programs, for example, we must assess the core drivers of instability in the region and ensure that our stabilization efforts are directly addressing those core drivers. In our long-term development programs, by comparison, we must place an appropriate emphasis on sustainability, partnership and long-term commitment. For example, we are working with our Afghan counterparts to develop a comprehensive energy plan that ensures sustainable energy production and distribution and brings in other partners.

Oversight and Accountability:

Central to all of our efforts is an emphasis on accountability, including more rigorous monitoring and evaluation. This is an area on which I am keenly focused as Administrator, and which represents a key part of our Agency's reform agenda, and our team's approach in Afghanistan. Through enhanced monitoring and evaluation, we seek to identify what works, what doesn't, and why, and implement changes in our programs to optimize against that information. Our goal is to more than triple investments in baseline information

collection so that we can improve outcomes by checking progress and making course corrections as we go. We are requiring rigorous impact evaluation of crucial programs from their very inception, and creating incentives for knowledge sharing to recognize the best evidence-based decision-making in our Agency.

To implement the President's strategy, USAID has altered the way we provide assistance to Afghanistan. Over the past 18 months, the Agency has improved the scope of our oversight and accountability practices; increased our staffing; altered our contracting practices to focus on smaller and more flexible agreements; and increased our direct assistance to the Government of the Islamic Republic of Afghanistan.

Oversight and Accountability:

USAID has multiple oversight systems in place to ensure that U.S. taxpayer money is spent properly. However, we recognize that no system is completely fool-proof, especially in contingency environments. These systems range from pre-award conferences (to set oversight and reporting standards) and regular monitoring and evaluation actions (to track expenses against work plans and services delivered); to site visits and reviews of payment claims. Additionally, we work closely with independent oversight institutions both here in Washington and in the field.

It is also important to note that USAID's Office of the Inspector General is redirecting resources from elsewhere in the world to increase its permanent, on-the-ground presence in Afghanistan and plans to have almost three times as many staff there as mandated by Congress. As a result, our Inspector General will audit approximately 25 percent of the Afghanistan portfolio on an annual basis, their most aggressive approach to auditing anywhere in the world.

Staffing:

Over the past twelve months, USAID has increased our staffing footprint throughout Afghanistan, to approximately 420 total personnel as of July 2010. Of that number, approximately 55 percent of our American staff are located outside of Kabul, as are many of our Foreign Service National personnel, who represent the backbone of USAID's Mission.

Individuals are located in Kabul, on Provincial Reconstruction Teams (PRTs), District Support Teams, and in Regional Platforms, bringing with them a wide variety of skills, including backgrounds in financial management, auditing, democracy and governance and law.

We are also taking steps to ensure that our staff gets out frequently to assess performance against a set of established targets. Being placed in the field allows these personnel to monitor and oversee USAID interventions in their regions and keep activities aligned with the priorities put forth by the Afghan people. I am grateful for the Congress', and particularly, this Committee's support in appropriating the resources necessary to increase our presence on the ground to ensure better oversight and accountability.

Contracting:

USAID regularly reviews contracts, grants and cooperative agreements and, consistent with the Agency's broader procurement reform agenda, we are working to decrease our reliance on large, multi-year agreements and instead implement an increased number of smaller and more flexible agreements that are often shorter in length. In many instances, these smaller agreements are managed outside of Kabul by our field-based staff, who are closer to the actual implementation and provide a higher degree of monitoring and oversight to the project progress as well as the use of those funds.

For example, the Afghanistan Vouchers for Increased Productivity (AVIPA) program is managed directly out of USAID/South. The Project Manager, based in Kandahar, provides technical direction, approves bills and workplans, and controls all project activities which include cash for work programs, in-kind grants and vouchers for the purchase of seeds and fertilizers.

Direct Assistance:

As is the case elsewhere, the purpose of our direct assistance to the Government of Afghanistan is to build sufficient capacity so that we are not there indefinitely. USAID has a long history of such efforts, and we are

using lessons learned elsewhere to inform our work in Afghanistan, including to ensure capacity, compliance, and the ability to recover costs.

Consistent with Agency financial regulations, USAID/Afghanistan's Office of Financial Management is undertaking assessments of Government of Islamic Republic of Afghanistan (GIROA) Ministries to determine the extent to which they are eligible for direct receipt of USAID funds. As of July 2010, we have identified three Ministries (Public Health, Finance and Communication and Information Technology) and other entities such as the Afghanistan Reconstruction Trust Fund (ARTF) that are certified for direct receipt of funds, for specific purposes. Under the agreements that USAID has entered into with the three Ministries, we have audit rights over the use of USAID funds. Throughout the course of our agreements with the Ministries, we are working to ensure continued capacity building of local systems as well as adherence to all terms and conditions regarding the use of funds. USAID does not have the right to audit the ARTF itself, but does accept the World Bank's audit and oversight procedures. Project audits of ARTF-financed projects are carried out annually by the Control and Audit Office. Furthermore, we have completed three additional assessments for the Ministries of Education; Agriculture, Irrigation and Livestock; and Rural Rehabilitation and Development.

Good Governance:

Concurrent with our efforts to provide assistance in a structured and accountable manner, we are also working to promote good governance initiatives throughout our assistance portfolio and via our participation in Task Force 2010 and its mandate to reduce corruption in contracting and procurement. This is an urgent task.

The lack of strong governance in Afghanistan magnifies the effects felt by communities when corruption is allowed to flourish. In an effort to combat this problem, USAID supports the Afghan government and other efforts to build and strengthen institutions in order to improve governmental effectiveness, transparency and accountability. USAID programs directly and indirectly contribute to anticorruption goals through improved financial management, more merit-based personnel practices, stronger auditing, and more transparent procurement. At the same time, the Agency promotes external oversight by civil society and the legislature, including several local and community-based development programs that will increasingly emphasize accountability and transparency.

Interventions to tackle overall good governance and anticorruption issues are found throughout our portfolio. Specific examples of our interventions include:

- Provision of technical assistance to establish and expand the authorities of the Afghan Government's High Office of Oversight (HOO).
- Support to the justice sector both in formal and informal arenas through: training in judicial ethics, promotion of public trials, establishment of judicial conduct curricula, training in holding trials on anticorruption issues, and improved functionality of community-based dispute resolution councils.
- Training for Afghan civil servants on five common functions stated in the Afghan National Development Strategy: financial management, project management, human resource management, procurement, and policy planning.
- Training and small grants to establish resource centers for NGOs and community groups throughout the country. In addition, media strengthening efforts have trained journalists and helped establish 40 independent, community-based radio stations and provide ongoing assistance in development for media outlets, program production and distribution, media law advocacy and monitoring.
- Through our land reform work, we are reducing corruption in land transaction by informing citizens of land processes and procedures, by eliminating unnecessary steps and delays in land transactions, and by establishing a legal and regulatory framework to land administration.
- Finally, it is important to note that USAID is also supporting efforts to improve transparency and supervision in the commercial banking sector, and expanding opportunities to train accountants and senior auditors.

Fiscal Year 2011 Request:

As you know, Chairwoman Lowey and Ranking Member Granger, the Administration's overall Fiscal Year 2011 request for USAID's activities in Afghanistan through the Economic Support Fund (ESF) and Global

Health and Child Survival (GHCS) accounts is \$3.4 billion. This is needed to complement the military surge and to ensure that our civilian experts have the resources available to accelerate our programs, especially in the areas where our troops have deployed. FY 2010 Supplemental funds will enable us to begin this surge to increase current activities and initiate new programs, particularly in the agriculture sector in southern Afghanistan, and FY 2011 funding is crucial to continue these efforts.

Pending your support for the FY 2011 request, we plan to devote most of these resources to the following priority sectors:

- **Good Governance (\$1 billion ESF):** Our Good Governance request, which includes funding for the Afghan Reconstruction Trust Fund, targeted budget support, and good governance technical assistance programs, will fund programs intended to build capacity of the Government and strengthen their financial and management oversight of their own budget in addition to assistance resources from the U.S. and other donors. By strengthening the Government's governance capacity, our programs will also help to increase citizens' confidence in public institutions to deliver improved services.
- **Conflict Mitigation (\$605 million ESF):** Our funding for Conflict Mitigation, which includes funding for Provincial Reconstruction Teams, will enable us to work with Afghan sub-national government bodies and communities to transition from stabilization to sustainable long-term development by supporting projects that directly address the causes of instability and insecurity.
- **Infrastructure (\$525 million ESF):** Infrastructure programs, which include funding for roads, power, and other infrastructure, will target the construction of key regional West-East and North-South transit routes and build roads that link rural communities and generate local employment, as well as strengthen the physical and management infrastructure to allow increased access to electricity.
- **Agriculture (\$420 million ESF):** Our agriculture request, which includes funding for USAID's alternative development and agriculture programs, will enable us to work with the Ministry of Agriculture Irrigation and Livestock, farmers and the agribusiness firms to increase agricultural productivity, regenerate the agribusiness sector, rehabilitate watersheds, improve irrigation infrastructure and devolve funding and programs to targeted provinces and districts.

These are considerable sums of money, and we undertake the challenge of programming them with the full knowledge that it is our duty to ensure, to the maximum extent possible, thorough oversight and accountability.

Further, we recognize that there are certain types of programs that carry a greater level of risk - for example, cash for work programs and large infrastructure projects that become targets for the insurgency -- and are actively trying to pinpoint these areas of greater risk that merit expanded oversight.

Undertaking some level of risk is critical to our success in the challenging security environment in Afghanistan, but we must seek ways to mitigate risks wherever possible.

Conclusion:

Achieving success in Afghanistan is not only central to the President's agenda; it is an important cornerstone of the Agency's broader reform agenda and how we conduct business worldwide. As Administrator, I see my role as making good on the President's and Secretary Clinton's promise to revitalize USAID by modernizing the Agency and enabling every employee to make judgments and innovative decisions that can help improve results and ensure accountability for every dollar we spend.

To that end, we are taking steps to revitalize the Agency's intellectual capacity; rebuild our budget accountability, strengthen monitoring and evaluation and pursue a development strategy that is based on focus, scale, and impact. To achieve greater return on taxpayer investments, we are reforming our procurement and broader implementation practices and redoubling efforts to support local institutions and build local capacity.

Taken together, I believe that these reforms will mark the most significant operational improvements to our nation's development agency since President Kennedy announced the creation of USAID almost 50 years ago.

Equally as important, I believe that they will serve as a foundation for greater oversight and accountability for our programs throughout the world, including in Afghanistan.

Chairwoman Lowey, Ranking Member Granger and other distinguished panel members, thank you again for the opportunity to testify before you on this extremely important issue. I know that this hearing will be the first of many on these topics and I look forward to working with you and your staff going forward. I am happy to answer any questions you may have.