



TESTIMONY

Statement for the Record by J. Alexander Thier Assistant to the Administrator and Director of the Office of Afghanistan and Pakistan Affairs

Afghanistan: Right Sizing the Development Footprint

**Before the Subcommittee on International Development and Foreign Assistance, Economic Affairs, and
International Environmental Protection
Committee on Foreign Relations
United States Senate
September 8, 2011**

Mr. Chairman, distinguished Members of the Subcommittee, my name is Alex Thier. I serve as Assistant to the Administrator and Director of the United States Agency for International Development's (USAID) Office of Afghanistan and Pakistan Affairs (OAPA). I will provide brief opening remarks but would ask that my full written statement be entered into the hearing record.

Ten years ago this week, our nation was abruptly awoken to the dangers of unchecked extremism. The terrible, untimely deaths of 3,000 innocents in our largest city, the Pentagon, and on United Airlines Flight 93 was a tragedy and a portent – one that changed the way a generation of Americans view the world.

For nearly 20 years, I have spent my career working in or on the issues of peace and security in Afghanistan and its region. Like others who followed the intertwining paths of Afghanistan and al Qaeda in prior years, I knew immediately on the morning of September 11 that our future was tied to Afghanistan's. The hateful, failed ideology of the late Osama bin Laden is squarely to blame for these attacks. But our abandonment of post-Soviet invasion Afghanistan contributed to the misery and decline that led to the Taliban regime, al Qaeda's safe haven, and eventually the attack on America. Following that realization, our nation pledged that Afghanistan would never again become a haven for international terrorism, a pledge that President Obama has repeatedly reaffirmed as a central plank of US national security policy.

It has been a long decade, and there have been many missteps. Indeed, prior to the three surges – military, civilian, and diplomatic – put in place by President Obama, our aid efforts and fighting forces did not represent the full complement of resources required to accomplish the goal of stabilizing Afghanistan. The civilian assistance generously provided by American taxpayers and overseen by USAID and State is a central component to ensuring we achieve our national goals in Afghanistan.

We appreciate the attention this committee has devoted to Afghanistan, and the support for the civilian surge that has paralleled our military build-up. We all understand that improving governance, creating economic opportunity, and supporting civil society is critical to solidifying our military gains and advancing our political and diplomatic goals for Afghanistan and the region.

I welcome the opportunity to appear before you today to talk about how U.S. assistance to Afghanistan is an essential part of building the peace and enabling U.S. troops to draw down by 2014, as announced by President Obama.

As President Obama has said many times, Afghans must take responsibility for their own future. Our current assistance effort is designed to help them do just that. This has not always been the case. Too often over the last decade, goals have not fully taken into account the limitations presented by the Afghan reality. Some programs have been designed to meet immediate needs, and not long-term needs in a sustainable fashion. Some programs have assumed more robust capacities and resources than exist in one of the poorest countries on earth. Our current effort – which focuses relentlessly on sustainability, accountability, and impact – is delivering real results.

Our approach has three main elements:

- First, in support of President Obama's pledge to disrupt, dismantle, and defeat al Qaeda, we will build upon the dramatic development progress made over the last decade that is critical to Afghanistan's long-term stability.
- Second, accountability will be central to our policies and programs to make the most of current and future funds. To ensure development assistance in Afghanistan is achieving intended goals, we launched the innovative Accountable Assistance for Afghanistan (A3) initiative, which is achieving important results.
- Third, as we focus our programs with an eye toward transition, ensuring that sustainability is at the forefront of every decision we make, we will make key investments in priority sectors that will lay the foundation for sustainable economic growth and increasingly effective, legitimate governance.

We understand fully that the fiscal reality 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 are making tough decisions and prioritizing investments that have the greatest potential for long term sustainability by Afghans themselves, and that ensure our troops can draw down safely, efficiently, and permanently.

Significant Development Achievements

Approximately 1,000 American civilians, including over 300 direct hire USAID staff, and tens of thousands of Afghans, take risks every day to implement USAID programs and turn the tide against violent extremists. Insurgent attacks and assassination campaigns kill our partners and raise security-related costs significantly. Since 2003, 387 USAID partners implementing our programs have been killed in action and another 658 wounded in action. Between 2009 and 2010, there was a two-fold increase in the number of attacks on partners, from an average of 29 a month in 2009 to 57 a month in 2010. Afghanistan is a difficult operating environment to say the least.

Despite some of the world's most challenging conditions for stabilization and development, Afghanistan has made some dramatic development gains – with strong support from the US government. For example:

- Our investments have contributed heavily to the 10 percent annual growth rate of the Afghan economy over the last six years by building infrastructure, promoting agriculture, improving the investment climate, and helping the government increase revenue collection.
- Customs revenues have increased 400 percent since 2006. And GDP per capita has doubled since 2002 with five million people lifted from a state of dire poverty.
- Access to basic education has expanded dramatically, increasing literacy and cultivating a new generation of more capable Afghan workers and future leaders. Under the Taliban, less than a million boys and no girls attended school. Today, over seven million students are in school, 37 percent of whom are girls.
- We've worked closely with the Afghan Ministry of Public Health to massively expand access to health services from nine to 64 percent of the population. In 2002, Afghanistan had one of the highest infant mortality rates in the world and our efforts have contributed to a 22 percent drop in infant deaths. Maternal mortality has also dropped significantly as the use of antenatal care in rural Afghanistan has risen from an estimated eight percent in 2003 to 36 percent in 2008, thanks in part to a USAID midwives training program that has trained over 1,600 midwives, contributing to an increase in active Afghan midwives from 467 to 3,250. Afghanistan is one of only four countries where polio remains endemic. Thanks partly to USAID's efforts, over 90 percent of children under five have been vaccinated against polio since 2002.
- USAID has sponsored training and internships for over 5,500 women, and there are now more than 400 new women-owned small and medium enterprises in Afghanistan since 2006.
- We have rehabilitated more than 1,677 kilometers of roads, increasing mobility and strengthening trade and security. Approximately 80 percent of Afghans now live within 50 kilometers of the newly constructed Ring Road.
- Improved access to water for Afghan farmers has enriched irrigation systems on nearly 15 percent of Afghanistan's arable land - in addition to the creation of 90,000 new agricultural employment jobs, Afghan farmers now have access to improved technologies and financial services.
- USAID has also helped bring reliable, low-cost electricity to more than 18 percent of the population up from 6 percent – taking Afghanistan's total electricity supply from 117 MWh to 223 MWh per month – according to the Afghanistan Energy Information Center, which is supported with USAID and DOD funds. Now, Kabul has gone from barely having 2 hours of electricity a day to being fully powered all day. The supply of reliable, low-cost electricity has contributed to the doubling of the Afghan economy since 2006. DABS, the Afghan electric utility USAID has helped establish, has doubled revenues each of the last three years - reaching \$170 million this year, reducing government fuel subsidy by nearly \$100 million this year and increasingly placing Afghans in a position of running and maintaining their energy network on their own.

Indeed, two weeks ago I joined our Administrator, Dr. Rajiv Shah, in Afghanistan to launch the new Afghan National Load Management Center - giving the Afghans the tools and capacity to literally light their own future path.

It is important to take stock of the many taxpayer funded programs that have delivered results in Afghanistan and make sure that their results endure. Though still an impoverished country, Afghanistan has made significant progress from the civil war-racked country I first knew in the 1990s.

Accountability and Transparency

Afghanistan remains an extremely high-risk environment, and we face considerable challenges. Because of these difficult conditions, we've made oversight and accountability an essential part of how we operate in Afghanistan. This is an area on which USAID's leadership, including Administrator Shah and myself, has focused intensively. It represents a key part of our Agency's largest reform agenda and our team's approach in Afghanistan.

To ensure that proper procedures are in place to help protect assistance dollars from being diverted from their development purpose to malign actors, USAID developed the Accountable Assistance for Afghanistan (A3) initiative in the fall of 2010.

As a result, USAID has enhanced its safeguards for development assistance in the following four categories:

- **Award Mechanisms** – A subcontracting clause is being included in new awards requiring that a certain percentage of work on a contract be done by the prime contractor. It also provides for the ability to restrict the number of subcontract tiers, and to prohibit subcontracts with broker/dealers who do not perform work themselves.
- **Vetting** – The 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 awards contractors, grant recipients and sub-awardees to determine whether or not they have a criminal history or association with known malign organizations.
- **Financial Controls** – The USAID mission is working with the USAID Inspector General to establish a new program of auditing procedures for 100 percent of locally incurred project costs.
- **Project Oversight** – The mission is devolving more project monitoring responsibilities to USAID personnel located in field offices outside of Kabul. Assigned to specific projects, USAID On-Site Monitors will have the authority to monitor implementation of USAID projects and report to the USAID Contract/Agreement Officer's Technical Representative.

Our A3 systems are yielding results.

Our project and contract oversight capacity has grown dramatically. I testified before the Commission on Wartime Contracting in January that we have tripled the size of our contract oversight staff since 2007. This year, we ordered a doubling of our contracting staff and we are in progress to complete this goal. Further, we have also tripled the number of USAID staff in Afghanistan overall since 2009, with approximately 56 percent of our 325 current US Staff deployed outside Kabul, working alongside the military and other agencies. This presence has increased our oversight capacity exponentially. Security conditions in some areas do prevent us from getting out as much as we would like to. We mitigate this by deploying national staff, and employing third-party monitors who do independent assessments of our programs. The Inspector General community also plays a critical role in the monitoring and evaluation process through their investigations. Since 2003, our own USAID Office of Inspector General has conducted 45 audits, investigations and/or reviews and recovered over \$150 million in tax payer funds.

Consistent with the USAID Forward agenda, we also seek to empower Afghan institutions, both public and private, to check and balance one another in detecting and deterring corruption. This effort includes strengthening the oversight role of elected Afghan institutions, such as parliament and provincial councils, as well as executive branch agencies charged with combating corruption. An essential component of our plan for sustainability, transparency, and accountability is to strengthen Afghan capacity to manage more funds themselves.

As was noted in the recent full committee majority staff report, "the Afghan government must be a genuine partner for our assistance efforts to succeed." Channeling assistance dollars through the Afghan government is an essential part of this process and important part of ensuring the long term viability of our investment. In 2010, we committed with other donors at the Kabul conference to move towards putting 50 percent of our assistance through Afghan institutions.

We've gone from providing 10 percent through Afghan institutions in 2008 to 37 percent today. However, USAID has a rigorous assessment process in place to guarantee that every entity receiving funds has the capacity to transparently and effectively handle U.S. funds. As a result, we are very selective in which institutions we will fund directly, having approved a few and rejected many more.

One specific example of this approach is work we've done with the Ministry of Public Health (MOPH). With USAID's on-budget support, the MoPH has been successful in procuring, managing and monitoring 18 contracts with 10 NGOs to deliver basic health services in over 530 facilities in thirteen provinces. In FY 2010, USAID helped the MoPH increase basic health services coverage to 10 million people in 13 provinces, serving over 800,000 patients each month. Seventy-six percent of beneficiaries are women, and children under age five. Ultimately this approach is a triple win: it develops sustainable Afghan capacity; it saves money by reducing reliance on contractors and security firms; and it enhances government legitimacy by delivering effective services through the government.

Sustainability through Foundational Investments

Going forward, our assistance strategy places primary emphasis on enabling a sustainable and lasting transition by investing in priority sectors that will lay the foundation for long-term growth, helping Afghanistan sufficiently develop its economy and governance to prevent it from again becoming a safe haven for terrorists.

Recognizing that the financial and human resources available to USAID for Afghanistan will decrease as the transition proceeds, we are increasing the focus in our portfolio on those sectors that can serve as a bulwark against economic and political instability. These foundational investments are intended to shore up the Afghan economy in the face of sharp decreases in wartime spending, lay the groundwork for sustainable economic growth, and boost Afghan capacity to govern effectively and raise revenue for fiscal sustainability. They will complement the more traditional investments in development, such as in health and education, and in stabilization that we will continue to support.

Foundational investments require some combination of substantial up-front financing, concentrated technical expertise, and sustained political engagement on the part of the United States. Foundational investments also exploit synergies created by our current civ-mil presence in Afghanistan. For example, foundational investments in the energy sector are required to unlock Afghanistan's most promising near-term and long-term economic growth drivers: agriculture and extractive industries. Given the current security situation, expanding the national power grid would not be possible without the willingness of our military colleagues to work hand-in-glove with us and our Afghan partners. Similarly, expanding Afghanistan's nascent mobile financial services sector – which will increase transparency in Afghan payment systems and dramatically broaden financial inclusion – requires little U.S. funding but intensive advocacy with Afghan officials and cooperation with private sector partners. USAID's foundational investments will focus on economic growth (agriculture, extractive industries, financial inclusion through technology); infrastructure (energy, water); and human capacity development (higher education, vocational skills training).

Perhaps most importantly, our investments need to be sustainable. To this end, the USAID Administrator recently issued our Sustainability Guidance for Afghanistan. This guidance aims to ensure that USAID's resources – our people, time, and budget – are closely aligned with both U.S. and Afghan national interests. To confirm that our work is focused on achieving the U.S. and Afghan immediate objective of transition, and to ensure that the impact of our work is sustainable and durable beyond 2014, we are examining our programs to ensure that each meets three key principles: (1) increases Afghan ownership and capacity, (2) contributes to stability and confidence, and (3) is effective both programmatically and cost-wise.

We are currently reviewing all of our projects through a lens of sustainability. Based on this analysis, USAID is calibrating its portfolio, and we are making tough choices to end or modify projects that don't meet the new standards.

Economic Growth

Economic growth and jobs will lead to greater stability and help increase the government's own revenues thereby lessening, over the years, the Afghan government's reliance on donor assistance. Boosting the agricultural sector, in which 80 percent of the population participates, is the most promising means of sustaining reliable employment and enhancing economic security for the greatest number of people. Pending availability of appropriations, USAID intends to allocate over \$1 billion of its Afghanistan assistance program over the next five years for agricultural and alternative development programs to increase food security, the production of high-value crops, and the capacity of the government and the private sector to support agriculture and agribusiness.

Afghanistan is also rich in untapped mineral and hydrocarbon resources, with some of the world's largest undeveloped reserves of copper and iron. With USAID, the efforts of the Task Force for Business and Stability Operations, and other donor support, diverse mineral sites throughout the country will continue to be developed to generate increased incomes, public sector revenues, and employment. Our near-term objective in the mining sector is to help Afghanistan develop its technical capacity and infrastructure to manage these resources and to meet international standards in transparency, regulations, royalties and government oversight.

This will help lay the groundwork for private investment in the mining sector, generating a large and growing source of public revenue for Afghanistan's robust development beyond 2014. Our investments in transport and energy infrastructure will serve as key enablers of the growth of the primary drivers of the Afghan economy going forward: agriculture, extractives, and trade.

Energy

Asia Foundation surveys of the Afghan people reveal that access to electricity is one of their highest priorities. The lack of electricity reduces economic and social development opportunities and feeds perceptions that the government has not been responsive to the needs of its people.

Since 2002, an annual 20 percent increase in electricity supply has helped fuel an average annual 10% GDP growth rate. Because of the power sector's critical importance to economic growth, a key component of our work is building Afghan capacity in the power sector and supporting power sector reform.

Developing a national energy grid and accompanying infrastructure is accelerating investment in mining and agriculture, fueling private growth and productivity, and facilitating value chain development. USAID investments will provide electricity to more than 3

million people, serving over 50 percent of the population in urban centers along the ring road in eastern Afghanistan. Our three integrated efforts include: building transmission infrastructure to bring additional power to Kabul and the south; improving energy security by increasing domestic power generation; and developing the energy utility, DABS, that will fund and maintain the energy infrastructure through revenue collection and capacity development.

Human Capacity Development

A skilled workforce capable of servicing the needs of a rapidly growing and diverse economy is a cornerstone of any country's sustainable development. USAID's foundational investments in human capital are increasingly being moved on-budget, and include vocational training as well as post-secondary education. These investments will result in cost savings compared with the cost of providing expatriate technical assistance – it costs an estimated four to five times less to work with and through the Ministry of Education and through the Ministry of Public Health than it does to import expatriate technical assistance. In addition to significant cost-savings for the U.S. taxpayers, these investments will also contribute directly to the sustainability of these programs by building and reinforcing the capacity of the Afghan government to manage such programs in the future.

USAID investments in human capital during the past decade have helped expand access to basic, secondary, and vocational education and increased literacy. Overall, increased levels of educational attainment will generate significant social and economic returns over time and lead to improved prospects for employment, enhanced participation in democratic society, declines in fertility and improved health status.

Building on essential investments in basic education, over the next few years USAID will support secondary and post-secondary technical and vocational education and workforce development programs for young men and women to generate informed and skilled workers to support increased demand in government, business, and industry as the economy grows. With a large and growing youth population, training in vocational and productive skills is both a priority for long-term economic growth and also improves the employability of youth at high risk by providing them with marketable skills.

Conclusion

USAID plays a vital role in implementing the President's strategy for Afghanistan. We face significant challenges, but we're confident that our work is necessary and our goals achievable.

As Secretary Clinton recently noted in testimony before this committee, USAID's entire budget over the last decade in Afghanistan is the equivalent of only six weeks of the cost of our military presence in Afghanistan. The civilian portion of our assistance is not only a vital component to our overall objectives, but one that can provide significant cost savings as the military begins to draw down. Civilian assistance to Afghanistan is needed to help build peace as our troops come home. We owe it to the Afghan people and we owe it to the American men and women who have made great sacrifices to help Afghanistan move toward a secure and prosperous future. As President Obama stated in June "we're helping Afghanistan move away from an economy shaped by war to one that can sustain a lasting peace."

When I arrived in Afghanistan 18 years ago, it was a collection of warring fiefdoms – no government, no economy, millions of refugees – and a perfect breeding ground for violent extremism. Today – through the efforts of our nation and our Afghan and international partners – we have lifted Afghanistan far from that desolation, and increased the security of our home and our allies in the process. This effort is far from finished, and our commitment to an effective, accountable, and sustainable mission is resolute.