

**Statement for the Record**

**United States Agency for International Development**

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**“A Transformation: Afghanistan Beyond 2014”**

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Chairman Kaine, Ranking Member Risch, 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 looking at 2014 and beyond. 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, the Afghan government and the Afghan people. It is an honor to appear before you today with Deputy Assistant Secretary of State for South and Central Asian Affairs Fatema Sumar, and Deputy Special Representative for Afghanistan and Pakistan Jarrett Blanc.

2014 is a pivotal year for Afghanistan as the country navigates a series of three transitions: the first democratic transfer of power in Afghanistan’s history; the completion of the security transition, including the withdrawal of a majority of international troops; and the continuing effort to reduce Afghanistan’s reliance on international aid by facilitating private sector-led economic growth. This is a critical moment in Afghanistan’s history, and USAID is working with the Afghan people and our international partners to do all we can to ensure these transitions

go as smoothly as possible, and that Afghanistan emerges as a stable country on a path toward self-sufficiency.

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 extraordinary 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 and beyond, we are committed to expending every effort to safeguard taxpayer funds and ensure that the development progress in Afghanistan is maintained and made durable.

Looking to 2015 and beyond, USAID will continue to pursue America's goal of an inclusive, stable Afghanistan, and to support Afghanistan's goals, as described in the Afghan National Priority Programs, the bilateral Strategic Partnership Agreement and at the Tokyo Conference in July 2012. These goals include increased Afghan ownership of their development, reduced dependence on foreign aid, improved delivery of services by the Afghan government, and the promotion of democracy, fundamental freedoms and human rights. Afghanistan has made important progress in key areas like establishing a sound electoral framework and improving budget transparency. While much more progress is needed in various areas, the political transition represented by the presidential election presents an opportunity for further reforms.

In support of these goals for Afghanistan, USAID's strategy going forward calls for making durable the significant achievements in health, education, and for women; focusing on economic growth and fiscal sustainability to mitigate the economic impact of the troop withdrawal and declining levels of civilian assistance; and supporting legitimate and effective Afghan governance, and in turn promoting stability.

I first visited Afghanistan in early 2002 and lived and worked there until 2005 as head of the International Rescue Committee in Afghanistan. In 2002 when I arrived, buildings were in ruin

throughout the city; wrecked planes littered the airport; there were no phones, few shops, and three currencies; driving through the Shomali plain outside Kabul, red stones edged the highway warning people away from fields of land mines scattered amongst destroyed grape vines and orchards. Afghanistan has made considerable progress over the ensuing twelve years. Afghan businesses are now exporting an increasing number of agriculture commodities; Afghans have become active participants in their government, making their voices heard in elections while advocating for needed reforms; and they have experienced tremendous gains in access and quality of health and education services.

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 its programming for years 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 Impact and Results**

USAID's development assistance, which represents approximately 3 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 twenty-year increase in life expectancy, as well as five-fold increase in per capita GDP. These are extraordinary 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 - by prohibiting them from contributing fully to Afghan society and the economy. Specific examples of how USAID has supported meaningful gains in Afghanistan that have contributed to extraordinary results are as follows:

- Health: Life expectancy has increased from 42 years to over 62 years 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 percent 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.
- Economic Growth: Afghan government revenues have more than doubled from 2002 to 2013. Revenue from customs has been the fastest growing segment, increasing over 400 percent since 2006. The estimated Afghan GDP in 2011 was \$23.6 billion, more than six times higher than in 2002, representing a 9 percent per year average increase. Afghanistan's overall ranking in the 2014 World Bank/IFC "Doing Business" Index improved from 170 to 164 (out of 189 countries).
- 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.

The Afghan people recognize the progress that has been made. 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. 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.

Afghanistan has also made significant gains in governance, though much more is needed. Afghanistan enacted a constitution in 2004 that enshrines democratic principles, women's rights, and freedom of expression. The Afghan media is robust, diverse, and independent. Afghanistan's Parliament is 25 percent female and women have campaigned prominently and

turned out in record numbers in this recent election. The Parliament increasingly exercises its oversight authority over key appointments and over the budget. More reforms are needed, but the basic foundation of self-governance is strong.

### **USAID Moving Forward**

USAID understands the challenges facing Afghanistan. In anticipation of this transitional year, as well as 2015 and beyond, 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 for women;
- Supporting continued economic growth and employment through a focus on the agriculture sector and private sector development, operations and maintenance of infrastructure investments, and responsibly developing the extractives industry, all key to ensuring future fiscal sustainability; 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.

- 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.

USAID is also focusing its assistance to encourage regional integration to strengthen economic ties between Afghanistan and its neighbors in an effort to bring greater prosperity and also greater stability to the region. USAID is laying the groundwork for a more economically connected region by facilitating trade, providing technical assistance for regional energy projects such as the World Bank's Central Asia and South Asia (CASA)-1000 project, promoting business-to-business networking and helping countries address other border issues, including countering trafficking in persons.

For example, USAID's Afghanistan Trade and Revenue project is working with the Government of Afghanistan to achieve World Trade Organization accession, promote trade agreements and private sector linkages throughout South and Central Asia, and to strengthen the government's ability to generate revenue from trade and legitimate taxation. Just two weeks ago, USAID sponsored the Central Asian Business Opportunities Conference in Islamabad, a business-to-business networking event that included over 300 participants from Pakistan, Afghanistan, and the five Central Asian countries. Progress was made on some of the technical challenges of regional trade. We will continue to engage on building regional economic linkages at the Astana Economic Forum next month. This effort requires developing technical know-how, political agreement, and, in some cases, physical infrastructure, agreements, and policies that meet international standards. It is one of the ways we are assisting Afghanistan stand on its feet as a viable economic partner in its region.

USAID is constantly reviewing and evaluating its portfolio to ensure maximum impact in coordination with the U.S. Government interagency and the Afghan government, including through a semi-annual portfolio review process. For example, as a result of internal USAID reviews and in consultation with the Afghan government, USAID determined that an activity supporting access to credit for agriculture in southern Afghanistan was not delivering the desired results. 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 focus on strengthening value chains throughout Afghanistan. We are also leveraging the ongoing work and expertise of our

colleagues at the Commerce Department, the Overseas Private Investment Corporation, and the Office of the U.S. Trade Representative, to ensure a coordinated and effective effort.

### **Supporting Women, Youth, and Civil Society in Afghanistan**

While significant progress has been made to date, there is still much work to be done in Afghanistan related to strengthening the critical role that women, youth, and civil society play in Afghanistan's governance and its future.

#### **Women**

Women, while much more active in society than in 2001, still face many challenges. The Asia Foundation Survey found that the most pressing problems for women, as identified by Afghans, include education and illiteracy, lack of job opportunities for women, and women's legal rights. Looking to 2015 and beyond, USAID is aiming to solidify gains for women by further integrating them into projects across all of the sectors in which USAID works to ensure their access to increased opportunities for economic independence, education, improved health, and participation in democratic processes. USAID is supporting these opportunities in a number of ways, including through the launch of USAID's largest gender program in the world, known as "Promote." This program will develop a cadre of educated Afghan women between the ages of 18 and 30, empowering them to fully participate in the economic, political, and civil society sectors of Afghan society: it will help women establish and/or expand small-to medium-sized businesses; help civil society organizations increase their knowledge and skills so they can better support women's rights, outreach and advocacy campaigns; facilitate fellowships with relevant Afghan government ministries and agencies with a goal of achieving a critical mass of women in the civil service; and train women in the public, private and civil service sectors in management and leadership. In addition to Promote, Afghanistan is in the vanguard of USAID's agency-wide Gender Equality and Female Empowerment policy, which requires that all USAID projects undergo gender analyses to identify gender-based disparities in access to opportunities. To date, more than 40 gender analyses have been completed in Afghanistan, to determine how best to integrate women into USAID projects across all sectors. These efforts compliment the work of other agencies such as the U.S. Trade Representative, which signed Memorandum of

Understanding on Joint Efforts to Enable the Economic Empowerment of Women and Promote Women's Entrepreneurship with the Government of Afghanistan last year.

### Youth

Afghanistan is facing a rapidly growing population and out of a population of almost 30 million people, 68 percent are under the age of 25. In recognition of the fact that youth are integral to the future stability of Afghanistan, USAID is providing support to this segment of society by improving access to education, increasing technical and vocational education and training opportunities, and establishing two- and four-year post-secondary programs. In addition to working with the Afghan government to improve the relevance of academic programs to the labor market, USAID is aiming to increase the provision of market-driven job skills and business training, access to credit, business development support, and job placement services. Through its Afghanistan Workforce Development Program, USAID projects that 25,000 Afghans will be trained and/or placed in jobs, many of whom will be women and youth.

### Civil Society

A vibrant civil society in Afghanistan is critically important to establishing effective bridges between the Afghan government and citizens, serving as active observers and watch dogs, and participating in government policy making and service delivery through robust advocacy. USAID's assistance supports the development of a strong and active civil society sector to help Afghan citizens more effectively participate in the political process, solve community problems, and advocate for good governance. With USAID support, civil society organizations have played a critical role in the 2014 election to date, deploying thousands of election observers across the country. Civil society organizations have also played an unprecedented role in organizing citizens across the country to identify their top priorities for the next administration and distilling those priorities into a candidate pledge, which was signed by a majority of Afghan presidential candidates. These candidates committed themselves to support policy recommendations involving peace and stability, social and economic development and human rights and good governance. This is the first time a presidential candidate pledge has been



utilized in Afghanistan at this scale. Looking to 2015 and beyond, USAID will continue to help strengthen the gains civil society has made to date.

### **Oversight and Accountability**

USAID has learned important lessons over its twelve year engagement, and has drawn on experiences 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 USAID employs under A3 include:

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 over \$49 million from being awarded to those who did not meet our vetting requirements.
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's multi-tiered monitoring approach focuses on gathering and analyzing multiple sources of data across those 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). This team is charged with providing an additional layer of critical review and analysis, on a cross-sectoral basis, for the streams of monitoring information collected and for providing USAID leadership and program managers with advice for addressing challenges in project implementation.

Building on past monitoring and evaluation activities in Afghanistan, USAID has recently issued a request for proposals for the new Monitoring Support Project. This request was issued following extensive consultations with international donors, Congress, and implementing partners as well as a comprehensive analysis of USAID's experience using independent monitoring 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. Independent monitoring, however, is not the sole source of monitoring data. And, it will not take the place of USAID staff as project managers. Instead, it is one tool that USAID can use to validate reporting data from other sources. Should USAID determine that its multi-tiered monitoring approach cannot provide adequate oversight over project activities, it will not hesitate to terminate or de-scope projects.

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.

Although there are inherent risks in doing business in a country like Afghanistan, we prioritize the effective and accountable use of taxpayer dollars and do not assume that there is any level of acceptable fraud, waste, or abuse in our programs. This means that oversight must be a process of continual re-examination of ongoing efforts, and that there must be flexibility to adjust to new circumstances as they arise.

### **Direct Assistance in Afghanistan**

Direct assistance to the Afghan government is used to build the Afghan government's ability to sustain the investments and gains that have been made over the last decade and to reduce its dependence on donors. As the U.S. transitions its programs in Afghanistan, Afghanistan must continue to build its capacity to govern and provide services to its people. Providing funds directly is a critical way in which to accomplish this goal. At the same time, USAID has put in place stringent measures to safeguard taxpayer funds, and only works with those Afghan ministries in which USAID believes it can responsibly mitigate risk. This is in keeping with commitments made by both the previous and current U.S. Administrations to increase our work through local governments and organizations, not just in Afghanistan but around the world. Such work is critically important to fulfill the ultimate goal of assistance, namely helping countries stand on their own two feet.

USAID implements direct 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 specific Afghan ministries. Of the approximately \$17.5 billion in obligated USAID funds for Afghanistan since 2001, about five percent, or \$770 million, is allocated for direct assistance with the Afghan government, of which USAID has disbursed \$283 million. About half of all funds thus far disbursed are for health sector programming. USAID only disburses money as direct assistance to the Afghan government after substantial conditions are met to ensure the funds will be responsibly and accountably managed and tracked.

USAID has a rigorous system of oversight for its direct assistance programming with the Afghan government. USAID conducts assessments to identify the strengths and weaknesses of each

ministry for which a direct assistance project is being contemplated. These assessments review a ministry's basic procurement, financial and human resource systems and are followed by a USAID-conducted internal assessment of the risks associated with working with the ministry. To date, USAID has contracted accounting firms to conduct sixteen ministry assessments. From these assessments, USAID has decided to provide direct assistance to seven ministries to implement a specific project. After the assessment and review, we then build our mitigating measures and safeguards accordingly to each project that we conduct with the specific ministry or agency to ensure risks associated with the project are mitigated. 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.

For example, USAID has worked closely with Afghanistan's energy utility, Da Afghanistan Breshna Sherkat (DABS), to assess its financial management systems, 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**

USAID understands the risks and the sacrifices that Americans, our troops, diplomats, and their families take every day to serve in Afghanistan, whether in a military capacity, as a government civilian, or as an implementing partner. 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. As USAID navigates through the 2014 transition period and looks to 2015 and beyond, 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.