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SENATE FOREIGN RELATIONS COMMITTEE

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USAID CONTRACTING POLICIES

Senator Hagel and Senator Sarbanes, thank you for the invitation to address this important issue. The acquisition and assistance policies of USAID have a direct impact on trust in government, the effectiveness of the Agency's work, decisions of its employees and its private and non-profit partners, and on its future ability to provide global leadership.

Over the past few decades there have been dozens of internal reform studies, most of which were disregarded. It is my understanding that Andrew Natsios, Tim Beans and their team are making real progress. Certainly USAID's speed and responsiveness in the Iraq and Afghanistan crises are commendable. Other significant steps include the use of the Internet and greater transparency, training of people throughout the Agency, and most importantly an open and responsive way of dealing with others.

My intent is to point out three policy suggestions with specific steps that should be considered, and where possible, cite examples from Iraq and Afghanistan. Post conflict reconstruction work requires a clear sense of direction, sensitivity to scale and context, catalytic and tangible progress, speed and agility, and the full engagement of local people. It is a good, tough testing ground for innovative approaches and practices.

The three policy recommendations for USAID are:

1) Expand the range of choices and partners. The challenges are already too great to be handled by a few. As we approach ever-larger transitions, it is imperative that we find ways to improve the preparation for this sensitive work, the number of organizations to partner with, and the speed to the market. This could be done in the following ways:

- *Pre-compete and pre-qualify a large pool of organizations (private and non-profit) with a special emphasis on difficult subject areas* such as: public safety and justice teams, demobilization and reintegration of combatants, and mass communications. The SWIFT mechanism in OTI is a good example and allowed for 4-5 week conceptualization to implementation in Iraq.
- *Develop a hybrid experiment, somewhere between a contract, a cooperative agreement and a grant.* This new instrument should define a job, challenge the market to respond and allow a range of private and PVO competitors. The debate between control and collaboration needs to be redefined. Some of the

natural advantages that NGOs offered in Afghanistan, including existing knowledge, field staffs, and the ability to leverage other funds, were lost because of the absence of this kind of choice.

- *Consider the direct use of foreign firms in order to broaden the pool of talent and skills.* Foreign subcontractors did most of the work on the Kabul to Kandahar road project in Afghanistan. In both Iraq and Afghanistan, it has been difficult to staff operations or keep people, witness the 58% fulfillment rate at CPA headquarters in Baghdad.
- *Beware the use of large contracts.* While they seem to offer the convenience of one-stop-shopping, single, large contracts are not necessarily quicker in the field, lead to greater cost overruns, and reduce competition. Some of the Iraq RFPs were larger than the annual gross revenues of many would-be bidders. That produced a consolidation for bidding that eliminated any competition. If the contracting was less arduous, the work could have more easily been broken into geographic zones or other more digestible pieces, and enlarged the market place. In Afghanistan there are only a handful of contractors.

2) Open up the process. USAID and the work it is trying to do is ill served by secrecy, closed meetings, and excessive security. As the US prepared for the war in Iraq and tens of thousands of soldiers were visibly sent to the region, most post combat planning was kept secret- as if it might tip off war plans. Administration policy delayed preparations, such as contracts and grants, and information was not shared. The results harmed the eventual programs and projects and built distrust. Several steps would help in the future:

- *Resist the temptation to classify.* Bringing assistance to a nation should always be seen as an act of public friendship. If the program does not pass that test, it is in the wrong place. I have not heard of any USAID initiative in Iraq or Afghanistan that benefited from this approach.
- *Expand the use of concurrent audits, spot checks and peer reviews of ongoing work.* These audits, that take place during the operation of a program, are helpful to program managers and USAID partners by reporting on performance, management problems, and the appropriateness of a contract. As such, they allow midcourse corrections. Their use on mega projects, such as the Afghan road building, has been positive.
- *Encourage the development of an entrepreneurial class of people at USAID and reward wise risk taking.* The skill sets that are needed in Afghanistan and Iraq are creativity, flexibility, and proximity to the people. As the US military has shown with their civil affairs and “hearts and minds” work, it is necessary to be able to make small things happen on a regular basis. Congress should encourage the use of waivers and special authorities within USAID, streamline reporting, and avoid excessive criticism to advance this difficult cultural change. Mission Directors in emergency places should be able to invoke the same rules as the Office of Foreign Disaster Assistance for those parts of the USAID program that could have a direct benefit on the situation. For its part, USAID should be less defensive about its shortcomings.

- *Put together a simple study of harmful earmarks and restrictions.* There is a chronic complaint within USAID about this issue. A five-page memo detailing 10-25 earmarks, with a paragraph explaining their effect on operations should be prepared for this Subcommittee.
- *Make clear the difficulty of working in the new security environment.* In Iraq, we visited with dedicated USAID employees and partners who were operating in dangerous settings. Many who work in Afghanistan feel that conditions have grown more dangerous, with work in the South slowing down into a shrinking area. While others have the responsibility for public safety, it is the central challenge of both places and has a huge impact on costs, meeting deadlines, and the ability to recruit the necessary talent.

3) Make the system easier to use. Tim Beans and his team are making real progress, yet there are more opportunities to address this chronic problem. USAID is not the Department of Defense and would benefit from an assistance and acquisition approach that has its own identity. Program people need to be freed up to do the work, as opposed to managing paperwork or making decisions based on the difficulty of contractual implementation. The following improvements would help:

- *Decentralize most work and place contract officers in each bureau and office.* Where these people have been co-located, they are part of a team and enjoy greater job satisfaction. This is how Missions and some offices with a need to be responsive work- it should be replicated.
- *Encourage the Beans initiative to develop a cadre of Foreign Service contracting officers.* Connecting contracting officials to the Agency's work, where they can enjoy the same rewards and incentives of their USAID colleagues, is an excellent way to address high turnover rates.
- *Empower more people with decision-making authority and responsibility by increasing the use of purchasing warrants to Office and Mission directors.* There was a time when the authority to approve up to \$1 million existed- that should be returned and increased, once a brief training module is completed. Recent delegations of Personal Services Contractor (PSC) authorities, small grants and purchase orders are an important step in the right direction.
- *Expand the standby pool of talent.* Offices that have developed "bullpens" of people who are ready to go in an emergency are among the most responsive in the Agency. That needs to be expanded by building rosters of capable people who have received security clearances and have pre-negotiated contracts and encouraging partners to do the same.
- *Simplify existing contracts.* While much of the language is boilerplate, there is still a tendency to make things more complex than necessary. PSCs should receive lump sum payments for their non-work expenses saving all parties time and complications. In light of the great value that they bring to the organization, health insurance coverage should be arranged.
- *Increase the number of well-trained program managers.* For most of the first two years in Afghanistan, a single, talented officer oversaw the entire USAID

portfolio. The organization is lacking a sufficient core of people who know programming.

It is my feeling that USAID needs to be seen as a trusted organization that is making wise programming choices. The procurement process has a great influence on the fulfillment of its mission.

If USAID streamlines and enacts innovative changes to its procurement process, the relevance and impact of its work will increase, and will further highlight its position as a global leader.

Your larger Committee is addressing other larger issues of structural weaknesses in the way the US government prepares for post conflict reconstruction next week. CSIS' president, John Hamre, will be one of your witnesses and will bring forward some of the major recommendations we have been working on for the past few years. We hope that you will make real progress on the toughest issues: who is in charge of the overall reconstruction effort, if there is any standby funding, and how we shall achieve public safety in the aftermath of war.

Thank you.