

TESTIMONY OF JAMES R. KUNDER
ASSISTANT ADMINISTRATOR FOR
ASIA AND THE NEAR EAST
U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT
BEFORE THE
COMMITTEE ON FOREIGN RELATIONS
U.S. SENATE
FEBRUARY 8, 2006

TESTIMONY OF JAMES R. KUNDER
ASSISTANT ADMINISTRATOR FOR
ASIA AND THE NEAR EAST
U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT
BEFORE THE
COMMITTEE ON FOREIGN RELATIONS
U.S. SENATE
FEBRUARY 8, 2006

Mr. Chairman, members of the Committee, it is an honor to appear before you today. I welcome the opportunity to testify on behalf of the U.S. Agency for International Development's (USAID). Before I proceed, I want to take a moment to thank Congress for providing the Special Inspector General for Iraq (SIGIR). Today, I would like to describe to the committee USAID's contributions to the President's Victory in Iraq Strategy as well as USAID's perspective on the most recent report from SIGIR.

The Administration has a clearly defined plan of action in Iraq, and USAID's programs, including our goals and benchmarks, support the President's National Strategy for Victory in Iraq in all three tracks – security, political and economic. The goal of the Administration's strategy is to create a new Iraq with a constitutional, representative government that respects civil and human rights; is able to maintain domestic order; keep Iraq from becoming a safe haven for terrorists; capable of providing essential and other services to Iraqi citizens; and able to harness its economic potential to create jobs and other opportunities for its people. The fundamental operating principle of this strategy is that transition to Iraqi self-sustainment and responsibility cannot be made without integrated progress on all three tracks.

I would like to talk about what USAID doing now as well as what we are planning for the future. The civilian USG effort is crucial to our success in Iraq. It supports the Multinational Forces for Iraq (MNF-I) and the Government of Iraq's (GOI) security actions against the counter-insurgency. We have all heard how Iraqi and Coalition forces have wrested control of many cities and areas from the terrorists. In most cases, Iraqi troops, with the help of the Coalition, are maintaining security. Their success in these post-conflict areas will allow our forces to come home. But these Iraqi units cannot be expected to maintain peace and stability without the help of Iraqi civilian institutions, and without assurances that Iraqis can depend upon essential services provided by their government and can look forward to economic opportunities. Specifically, the U.S. and international civilian effort helps to enable and consolidate gains made in the security situation in several ways:

- It strengthens Iraq capacity at the local and national level to govern and provide essential services to Iraqi citizens.
- It supports economic and social stabilization programs to minimize local support for the insurgency and foster support for the GOI.

- It assists the public sector's sustainable economic development by creating the enabling environment that will allow the private sector to flourish and by providing the private sector with the resources for the economic growth that creates jobs.

Since March 2003, USAID has been allocated approximately \$5.2 billion in Iraq emergency relief and reconstruction funds. Of this amount, we have disbursed approximately \$3.7 billion and we expect to disburse most of the remaining funds by this summer. Now, let me briefly summarize some of our accomplishments with these funds.

Accomplishments

USAID works with U.S. and multinational units to help cities recover from the effects of battle and to gain a sense of balance after the insurgency has departed. Projects are funded with combinations of military and USAID money. Projects are aimed at a combination of small, rapid programs that are followed by more complex projects that return public services to operation, promote representative local government, and reactivate the economy. Military patrols do much of the project monitoring.

USAID-managed programs enable the democratic transformation in Iraq. USAID worked with the United Nations and the European Community for a successful constitutional referendum in October 2005 and two national elections in January and December 2005. Our programs have provided expert assistance, drawing from the international community and Iraqi civil society to assist the Iraqi Constitutional Drafting Committee. USAID continues to support decentralization, empowering provincial and city authorities to provide essential services so that Iraq will be less likely to return to authoritarian national government. In the field, assistance teams work with the Provincial Reconstruction and Development Councils to help them shoulder the burden of decentralized power.

Assistance to the Iraqi Central Bank helped stabilize the dinar, prevented hyperinflation, and enabled Iraqis to qualify for International Monetary Fund (IMF) resources and debt reduction. At the Ministry of Finance, a financial management information system is beginning to track the Iraqi government's budget and expenses. USAID supports agriculture, which employs 25 percent of the Iraqi workforce, and seeks to better target the social safety net, the Public Distribution System, to reach those who cannot purchase enough food. Infrastructure repairs are plugging gaps in power and water delivery. At present, USAID projects have added 1,200 MW of new or rehabilitated generation capacity to the national grid. Further generation increases are planned by contractors under the Department of the Army. USAID partners provide operation and maintenance programs that will safeguard the investment of U.S. assistance.

A demographic bulge threatens Iraq's future. In 2004, half of all Iraqis were under the age of 20 years. The population will double by 2030. Despite vast oil reservoirs, Iraq currently has some of the lowest literacy rates and poorest health statistics in the region. USAID's education and health projects smoothed the way for the United Nations (UN) to

work with schoolchildren and administer vaccinations against polio. The World Bank expanded a USAID pilot program for textbooks – our 8 million books leveraged their program of 70 million books. Poor girls bear the greatest burden of discrimination, reinforcing the need for equal education and adequate health programs for young mothers.

Our Commitment to Accountability

USAID has been, and continues to be, committed to ensuring that the resources that Congress has provided are managed effectively and transparently. Indeed, ensuring that these funds are used and managed in such a manner only strengthens their impact on Iraq and improves our chances for success in Iraq. Accountability for Iraq funds is fortified by the right mix of experience and teamwork between our field mission in Baghdad and USAID in Washington. Experienced controllers, contracting officers, and Inspector General staff have been in Iraq since 2003 working with technical staff to help ensure program accountability.

Accountability starts with a fair and open procurement process. USAID complies with all applicable federal regulations and works closely with our Office of the Inspector General (OIG) to identify and address any weaknesses USAID may have had in its procurement processes. USAID's accounting and procurement systems ensure that the responsibility for procurement authorizations, justifications, and payments are segregated and recorded. A summary audit report on the contract award process found that USAID has generally complied with these regulations.

The President's Management Agenda shows USAID with "green light" progress on improvements in financial management. The Iraq Budget and Finance Team received the Administrator's 2005 Management Improvement Award for innovative financial information tracking.

USAID's on-the-ground presence is critical to project oversight. Well-trained, on-site contracting staff and project managers use informed judgment to oversee USAID projects. USAID's project managers are trained through a certification program in acquisition management practices. These personnel, located in Baghdad and regional offices, provide the technical oversight of these programs. USAID on average makes 10 to 15 project site visits per week. Our colleagues in the U.S. military have been forthcoming in providing not only security support for our staff but assistance in monitoring USAID projects in those areas deemed to be insecure. USAID has also taken proactive measures, such as fraud awareness training, for Government employees, contractors, and grantees to reduce the likelihood of undetected fraud, waste or abuse of funds. OIG audit staff in Baghdad conduct performance audits of USAID programs on a regular basis and often concurrently to enable USAID to identify problem areas early on. As of December 31, 2005, there have been 27 OIG performance audits and reviews and 73 financial audits completed.

Finally, USAID's most valuable resources in ensuring program effectiveness and accountability are Iraqis themselves, who have greater freedom of movement than expatriates. USAID has 114 Iraqi national staff in its Mission in Baghdad and through its implementing partners, an extensive network of Iraqi organizations that are critical to the design and implementation of USAID's projects. As of the beginning of this year, nearly 39,000 Iraqis were employed implementing USAID projects. These staff have the community ties that facilitate Iraqi ownership and contribute to proper oversight of USG resources.

To date, there have been three audits completed by SIGIR directed toward USAID. One had a recommendation for USAID and that involved the "Cost to Complete" (CTC) estimates. SIGIR's January 27, 2006 report entitled "Methodologies for Reporting Cost-To-Complete Estimates," recommended that USAID develop written guidance for a methodology for calculating CTC reports. The report also recommended that USAID develop a review process to eliminate errors in its reporting spreadsheets; create and maintain a permanent central file to document Estimates-at-Completion by project; and develop policies to define significant contract scope changes.

In response to these recommendations, USAID is developing written policies and procedures for estimating CTC that include controls for validating and revalidating estimates. Moreover, USAID is working with the Iraq Reconstruction Management Office (IRMO) to develop a mutually agreeable methodology for calculating CTC estimates and creating a permanent central file to document the calculation of Estimates-at-Completion by project. USAID is also developing policies to define significant scope changes. USAID will meet these recommendations using its current resources and personnel. The mission will comply with SIGIR recommendations so that there will be no replication of similar findings.

In conclusion, I want to assure you that USAID is taking every measure it can to ensure that U.S. Government resources are used effectively and transparently. The successes that have been achieved to date in Iraq are the tangible results of these efforts. I believe with Congress' continued support, USAID will be able to make further strides in helping to achieve Victory in Iraq

Mr. Chairman, thank you for offering me this opportunity to discuss USAID's role in Iraq with your Committee. I am prepared to answer any questions that the committee has. Thank you.