

**Remarks of Richard Owens, Director, Community Stabilization,
International Relief & Development**

**Submitted for the Roundtable Regarding
Business Perspectives on United States Agency for International Development
Reconstruction and Development Contracts in Afghanistan**

**Before the Senate Committee on Homeland Security and Governmental Affairs
Subcommittee on Contracting Oversight
February 2, 2010**

Chairman McCaskill, Ranking Member Bennett, Members of the Subcommittee, thank you for this opportunity to participate in the roundtable to discuss International Relief & Development's perspectives on the U.S. Agency for International Development's (USAID) reconstruction and development contracts in Afghanistan.

Background on IRD and its Work in Afghanistan

IRD is a non-profit organization working in more than 30 developing countries around the world. Founded in 1998, IRD has provided more than \$1.25 billion in humanitarian assistance worldwide, including in Afghanistan, with a special emphasis on conflict and post-conflict settings. IRD is not a business but a non-profit organization that works in areas typically dominated by large contractors. IRD's focus since the beginning has been to work closely with beneficiaries to help them achieve long-term, community-based development. And that has been IRD's focus in Afghanistan as well.

Since 2008, IRD has been working on three major programs in Afghanistan, all funded by USAID: Strategic Provincial Roads, Afghan Vouchers for Increased Productive Agriculture, the Human Resources and Logistical Services Program. Beyond the three programs mentioned above, we are sub-contractors on two additional projects: the USAID-funded Kabul Electricity Sector Improvement Project and the USDA-funded Horticulture Promotion Project, which is being implemented in partnership with Roots for Peace and Helping Afghan Farmers Organization, a local NGO.

Strategic Provincial Roads – Southern and Eastern Afghanistan (SPR – SEA)

Through a \$400 million cooperative agreement, IRD has been implementing a three-year program to increase stability and security in Eastern and Southern Afghanistan by rehabilitating rural roads and infrastructure, improving the capacity of Afghan construction companies, and encouraging community-led development among local Afghans. The SPR – SEA program has helped local Afghans design and construct more than 1,000 kilometers of engineered gravel roads, both new and existing, as well as bridges by December 2010. This effort has been highly cost effective – \$166,000 per kilometer – as compared with the costs incurred by other for profit contractors – \$400,000 to \$500,000 per kilometer. The project has also created 5,500 new jobs, disbursed multiple small, medium, and large grants (ranging from less than \$25,000 to \$250,000) to local Afghani community development councils, local groups, and NGOs and completed more than 5,000 different training workshops in technical, administrative and managerial skills. USAID has granted IRD a one-year maintenance period, which brings full completion of the project to December 31, 2011.

IRD has also been awarded \$97.5 million for construction of the Ghazni to Gardez Road that is expected to be completed during 2011. IRD does not have a firm contract that sets forth specific completion deadlines for road construction.

The SPR-SEA program is being implemented under a cooperative agreement with USAID. IRD keeps USAID informed of all program issues through weekly reporting and regular meetings with the agreements officer and staff in the Office of Infrastructure, Engineering and Environment. IRD has offered to allow USAID to embed staff within its operations to include a Regional Inspector General (RIG) auditor to oversee programs and be part of IRD's compliance team. Likewise, USAID has been both responsive and proactive about becoming involved in program activities and resolving any issues.

IRD faces numerous challenges on SPR-SEA, including security issues, the difficulty of enhancing the varying capacity and resources of Afghan contractors, ongoing concerns regarding compliance and corruption, which in our view represents the greatest challenge to working successfully in Afghanistan. To address security challenges, SPR-SEA engages the community in constructing roads and putting local residents to work. Each construction contract requires that 70 percent of the contractors

come from the province where the road is located, and 50 percent must be from the villages that will be linked by the road.

Applying U.S. regulations in Afghanistan is difficult as most Afghan contractors do not have basic contracting knowledge to understand how best to comply with the Federal Acquisition Regulations and the Code of Federal Regulations. We support the recommendation by USAID official Charles North during his testimony to the subcommittee on December 17, that the U.S. government should develop wartime contracting rules that allow for greater flexibility.

In terms of corruption, IRD has learned through prior experiences in Serbia and Iraq that the most effective way of addressing corruption is by eliminating it at the national level. IRD's approach to dealing with corruption is to pursue any allegations of corruption with local and international authorities. Most contractors are unwilling to make formal accusations due to the fear of losing their lives.

Afghan Vouchers for Increased Productive Agriculture (AVIPA Plus)

In addition to its support for road building in Afghanistan, IRD has been working to increase rural family farm production and productivity and strengthen links between the Government of the Islamic Republic of Afghanistan and its people through the \$360 million USAID-funded Afghan Vouchers for Increased Productive Agriculture project. In coordination with the Ministry of Agriculture, Irrigation and Livestock (MAIL) and Afghan private sector firms, IRD has delivered 335,483 agricultural vouchers to small farmers in the 17 months since the project began. The project has been implemented in some of the most resource-scarce and drought-affected districts in 18 provinces across northern Afghanistan and has provided over 12,000 tons of improved wheat seed, over 55,000 tons of fertilizer, and appropriate training for both farmers and MAIL staff. In Helmand and Kandahar provinces in the south, the project has generated since September 2009 over 11,000 temporary cash-for-work jobs in some of the most conflict-affected districts within both provinces. Agriculture vouchers, farmer training and small in-kind grants programs for farmers are starting up in both provinces.

AVIPA Plus is closely coordinated with USAID, Provincial Reconstruction Teams (especially in Helmand and Kandahar), U.S. and Coalition forces (especially in

Regional Command South), and other USAID implementing partners. There are several major challenges to implementing the project: U.S. government civilian personnel rotations; U.S. government security restrictions; and shifting U.S. government policy and priorities.

Like SPR-SEA, capacity building has been a key element of AVIPA since its inception. IRD works directly with MAIL at the national, provincial and district levels to build expand and improve service delivery to farmers and farmer organizations. IRD also supports local private sector firms in procuring, distributing and transporting seeds and fertilizer. At the village and district level, activities are designed to boost ownership by local Shurras, farmer groups, and community development organizations. Extensive training for farmers and MAIL staff is built into program activities as is a co-pay requirement to generate expanded funding for MAIL service delivery to farmers. Of the 1,100 AVIPA Plus employees across the 20 provinces where the program operates, 1,066 are Afghans.

In terms of contracting, AVIPA's use of vouchers and small-in kind grants as service delivery mechanisms reduces the risk of fraud and corruption. Likewise, IRD routinely uses competitive contracting for sub-grants and sub-contracts and requires background checks of all potential sub-grantees and sub-contractors through the epis.gov system, which tracks firms and individuals through the U.S. Department of Treasury's Office of Foreign Assets Control and excluded party lists. Close coordination with USAID, other USAID implementing partners (especially in the south) and local leaders also helps to eliminate and/or reduce potential fraud and corruption.

Human Resources and Logistical Services Program (HRLS)

The Human Resources and Logistical Services program is a unique and flexible tool that allows USAID to outsource specialized services at will. The \$85 million program gives the USAID mission in Afghanistan the flexibility to meet nearly any programmatic requirement and broadens its capability to ensure that program objectives are being met in a timely and professional manner. For example, under HRLS, IRD's expatriate and national engineers provide fully documented, start-to-finish oversight from pre-construction to final warranty inspection on all of USAID's infrastructure projects

across Afghanistan, including dangerous areas in the south and the east. IRD road engineers conduct daily site visits for larger road infrastructure projects, such as Kishem to Faizabad or Gardez to Khost, or periodical visits for smaller projects, such as the Shamshapoor Bridge project in Nangahar or TO-14's road Operation and Maintenance program (18 roads covering more than 1,500 km).

The HRLS program has conducted over 30,000 missions by national and expatriate staff since 2004 with only two incidents to report, one improvised explosive device (no casualties, only slight damage to a vehicle) and one kidnapping (the HRLS national staff member was freed after two days of captivity with no ransom paid by the program). IRD attributes this generally positive record to hiring local engineers from the areas where the jobs are located.

As part of the mandate of the HRLS program, IRD is responsible for conducting quality assurance on USAID-funded power generation projects, such as the Darunta Hydro Power Plan near Jalalabad as well as the 105 megawatt power plant outside Kabul. In both cases, HRLS engineers (expatriates and nationals) are stationed at the work site to give USAID implementing partners leading the project qualified observations regarding the quality and accuracy of the planned and executed work conducted at the site. IRD reports to USAID on a weekly, monthly and quarterly basis, allowing USAID to follow progress on each power generation project. IRD ensures that the partners are meeting the terms of their contract, the approved construction schedule and that facilities are constructed within appropriate engineering standards.

The HRLS program's mandate includes keeping track not only of USAID implementing partners' infrastructure work in the road, building, water, power and other sectors, but also other international and military donor infrastructure activities to give USAID a comprehensive picture of the overall U.S. investment. USAID had the foresight to fund within the HRLS program the initiation of the Afghanistan Infrastructure Data Center (AIDC) for this purpose. Another result of the AIDC's work is complete and accurate record keeping of USAID IP infrastructure activities, which enables USAID to address all inquiries from the Special Inspector General for Afghanistan, RIG, GAO, and Congress directly to the AIDC so that it can easily respond with maps, data and other supporting documentation.

Addressing Allegations of Fraud and Corruption

IRD takes any allegations of fraud and abuse extremely seriously and even more so when they involve concerns about the use of U.S. taxpayer dollars. IRD works closely with auditors at USAID, imposes strict internal controls and uses best practices to ensure the proper management of its programs and also to mitigate the potential for fraud or corruption, and to detect any such improprieties at an early stage should they occur. These include but are not limited to controls over project approval, tendering, contracting and disbursing funds. IRD's internal control system includes a separation of duties and oversight, and no single person can control the entire process. In addition, IRD's financial statement and internal controls are audited each year by an independent public accounting firm.

Taxation Issues

The Tax Law in Afghanistan changed on March 21, 2009. The law now obligates all companies including USAID implementing partners, like IRD, to collect and remit partial income tax from each payment made to Afghan vendors and subcontractors. The Government of Afghanistan's Tax Ministry has been imposing a penalty of 10 percent every day for non-remittances after 10 calendar days. USAID did not communicate this change in the law to partners until November 2009. Now implementing partners must amend open subcontracts/vendor purchase orders and collect taxes retroactively. Although IRD is complying with this retroactive assessment of taxes for all open vendors, the Tax Ministry has decided to assess penalties for the delay in transmitting back income taxes since March 21, 2009, unless the U.S. Embassy makes an alternative arrangement with the Government of Afghanistan. The deadline is January 31, 2010. After that deadline, penalties will be assessed to all USAID-funded NGOs like IRD. These penalties cannot be recovered from USAID and may total \$1 million. IRD cannot afford this type of unrecoverable cost.

SPOT Database

On January 28, 2009, IRD was informed by USAID via USAID/Iraq A&A Notice 09-002 of the formal launch of the SPOT system. Effective immediately, as an implementing partner, IRD was mandated to begin requesting privileges granted by Letter of Agreement (LOA) forms through SPOT. IRD's use of the LOAs was essential for allowing its staff to move freely around strategic cities in Iraq under the protection of the U.S. Department of Defense. IRD made the decision to register its staff with the database as a matter of life or death for its staff. In the future, IRD urges that strict safeguards be put in place within the SPOT database to protect the identity of all users.

Thank you for your attention. I would be pleased to respond to any questions.