

## USAID AND ITS FUTURE

FRIDAY, APRIL 1, 2011

Commission on Wartime Contracting

Washington, D.C.

The Committee met, pursuant to notice, at 9:30 a.m., in Room 216, Hart Senate Office Building, Hon. Christopher Shays, Co-Chairman of the Commission, presiding.

Present: Commissioners Ervin, Green, Henke, Schinasi, Tiefer, Zakheim.

SHAYS:

Good morning and welcome, Dr. Shah. I'm Christopher Shays, co-chairman of the Commission on Wartime Contracting in Iraq and Afghanistan.

The other commissioners at the dais are Clark Kent Ervin, Grant Green, Robert Henke, Katherine Schinasi, Charles Tiefer, and Dov Zakheim. Our co-chairman, Michael Thibault, could not attend today.

Our hearing will end sharply at 11:00 a.m., so this is a short statement. Our topic, USAID and its future, is important because the U.S. Agency for International Development's past raises troubling questions about its role in contingency contracting.

For more than two decades, U.S. military doctrine has held that contractors are part of the total force, along with Guard and reserve units and federal civilians. At USAID, contractors and grant recipients are essentially the total force. Further, as the recent Quadrennial Diplomacy and Development Review, or QDDR, issued by the Department of State said of itself and USAID, "Contracts with and grants to private entities often represents the default option to fill growing needs."

We have seen that even an enormous organization like the Department of Defense finds managing and overseeing contracts a huge undertaking. In fact, DoD contract management has been on the Government Accountability Office's high-risk list of federal programs for almost 20 years. For a small agency like USAID, choosing effective and sustainable projects, defining requirements, selecting contractors and grantees, monitoring performance, and imposing accountability may present even greater challenges than at DoD.

Complicating USAID's operations is the fact that it must not only arrange traditional foreign assistance and economic development missions in more than 90 countries, but also coordinate with the U.S. military on stabilization operations in combat theaters.

The commission's concerns include whether USAID has the resources and systems needed for effective oversight of contracts and contractors; whether the agency is fully and properly

considering contractors' and grantees' past performance as it arranges new work; whether USAID is adequately staffed and resourced to control waste, fraud, and abuse; whether it gives due regard to host nations' ability to sustain projects like the Kandahar Power Initiative in Afghanistan; whether the agency's Office of Transition Initiatives is adequately staffed and empowered to ensure effective interagency coordination in contingency operations; whether USAID has adequate safeguards for its implementing partners' use of private security contractors whose actions can reflect on the United States and undermine larger goals; and whether the agency is effectively promoting competition and accountability, as opposed to unnecessarily making sole-source awards and treating some contractors as, quote, "too big to fail."

We are not alone in mentioning such concerns. The GAO has reported that USAID has not consistently applied contract-management procedures, that USAID's own inspector general has noted serious management and performance challenges, including acquisition, human capital, and information technology. USAID itself has told us that only 10 percent of past-performance reports on its contractors have been completed. And USAID administrator Dr. Shah has said, "For too long, USAID has taken on the bad habits of a large government bureaucracy."

Dr. Shah is with us today to discuss these concerns and to update us on the impacts of his reform agenda, USAID Forward, and his expectations for the agency's future. We also look forward to hearing his reaction to our February 24th second interim report to Congress as it bears on USAID.

The commission thanks you, Dr. Shah, for joining us today, and we know that you're kind of the new kid on the block here. So what's happened in the past is something that you can correct and we look forward to having you here.

So if you would stand—as you know, we swear in all our witnesses.

Do you solemnly swear or affirm that the testimony you will give before this commission will be the truth, the whole truth and nothing but the truth?

Note for the record that Dr. Shah has responded in the affirmative.

Dr. Shah, you have up to 10 minutes. And then what we're going to do is we're going to allocate 10 minutes to each of us. We can accumulate some time for a second round. If one of us uses the 10 minutes, then they're finished.

So, welcome.

SHAH:

Thank you.

Thank you, Chairman Shays and members of the commission. I appreciate the opportunity to appear before you today and certainly thank you for the time, attention, and work you have done on this crucial topic.

I, of course, had the pleasure of meeting with you behind closed doors earlier in January, and really did appreciate that venue for learning your perspectives on how to improve our

performance in wartime contracting environments and have taken to heart many of the comments and recommendations and suggestions coming out of that discussion.

You know, USAID staff conduct their work in conflict and crisis environments throughout the world. The subject of today's discussion will undoubtedly focus on Afghanistan and Iraq in particular, but there are a broad range of crisis environments in which a number of our program staff and our operations take place in, including recent humanitarian actions in a broad variety of places around the world.

In Afghanistan, in the most volatile regions of Afghanistan, our workers work side by side with the military, playing a crucial role in stabilizing district governance, in improving the quality of services provided to ordinary Afghan people, and ultimately helping to create the stability and development and governance contexts that will pave the way for our troops to return home safely.

We believe this work is critical to the administration's transition policy, and as noted in this year's annual review of Afghanistan and Pakistan programs, that making our work sustainable and durable is a specific goal in order to facilitate that transition.

We've had some important gains over this past several years throughout Afghanistan in particular. We've returned more than two-and-a-half-million girls to school since the fall of the Taliban, helped rebuild the country's infrastructure in a number of different communities and districts around the country, promoted more than 16,000 civil-service trainees and integrated them into the aggregate tashkil (Table of Organization and Equipment), and encouraged farmers to move away from illicit crops and into the formal economy with a recent push in agriculture that has had some remarkable results in environments like the Arghandab valley.

In Iraq, as our military draws down, our mission has shifted from counterinsurgency and stabilization programs to a focus on long-term economic growth, strengthening governance, resettling Iraqi refugees, and handling the challenges presented by internally displaced persons. In that context, we've seen significant recent progress in encouraging the Iraqis to take on the responsibilities financially from a management perspective and from a procurement perspective of investing in their own reconstruction and development.

To generate local wealth, our programs have helped reach more than 30,000 women with microfinance and lending that has enabled economic activity of over \$62 million. Our agribusiness programs have helped create nearly 40,000 jobs in a sustainable and effective way. And our work with the government in specially strengthening different ministries has allowed for improved tax revenue collection, program management, and financial management. These are all critical, as our goal is to create the environment and the conditions that no longer require our assistance.

Because our work is so central and so critical to national security, and a point that the commission has made very, very strongly, we take constant reform and performance-improvement incredibly seriously. The work we perform in these areas of active conflict is difficult and complex. But we believe that we can get better at the way we manage programs and projects and in our efforts to improve our basic contracting mechanisms.

The interim report that was referenced cites 32 recommendations, many of which we strongly support and agree with; in fact, many of which are consistent with a set of reforms I've put in place at USAID that I call USAID Forward. In total, these reforms are designed to help look at the entire operational model of development to ensure that more dollars get to beneficiaries, to ensure that we get better results, and to make sure that everything from program design to program implementation to monitoring and evaluation is done to a standard of excellence so that we can report back to the American people that we're generating real results and real outcomes, and we know that we're getting better at doing that every day.

These aggressive reforms have covered a broad range of areas. They're not simply focused on procurement and contracting, although that is a major, major thrust of the effort. And I look forward, as this discussion progresses to describing the full range of those reforms, including some of the things we're doing to reintroduce science and technology and targeted innovations that are designed to really structurally reduce the costs of achieving the outcomes we seek, whether we're looking at mobile banking in Afghanistan to help improve the way we pay public employees and to reduce the risk of corruption, or whether we're distributing improved seed varieties to farmers so that they get better yields and can rebuild the basis of their rural economy and the rural economic infrastructure.

With respect to the report in particular, I'd like to highlight four observations that I hope to discuss as we go through today. First, we believe USAID should be an accountable civilian partner to the United States military in these environments. In order to do that, we seek to embrace interagency processes, to engage deeply in interagency planning and implementation and review programs and efforts, and to make sure that we have the capacity to be an effective partner which requires populating our missions and our programs in these environments in a fundamentally different way.

Second, we believe procurement reform is central to our ability to be successful. In the FY 2012 budget, I've proposed and requested very specific investments made to enable the agency to take on a very fundamental reform of how we do contracting, how we do contract oversight and management, and how we manage the entire procurement process. While requiring some initial investments, these reforms, I believe, will save us hundreds of millions of dollars a year over time as we do a better job of reining in contract partners and of creating a more collaborative work environment that is more results-oriented.

Third, we believe that we need more flexibility in our human resources and more targeted investment in basic human resources that allow us to conduct government functions more effectively and efficiently. I look forward to describing the glide path of the full-time equivalents at USAID over the last several decades, and believe that provides an appropriate context for assessing the kind of investment we need to make in our own capabilities to be more effective and be more efficient, and to be better stewards of American taxpayer resources.

And fourth, I'd like to speak about the resources themselves. At the end of the day, we believe that this work needs to be resourced, and I would cite General Petraeus, who just eloquently two weeks ago, in this environment on the Hill, talked about how he believed adequate resourcing of State Department and USAID was critical to the success of the mission in Afghanistan and critical to the transition that we all seek.

Ultimately, our work is about achieving results. And in the past year, we believe we've implemented an aggressive set of reforms to be more effective and more results-oriented. We're replacing large multi-year international contracts with one-year or 18-month contracts which give us more options, improving the amount of core competition that exists in our various contracting mechanisms.

We've more than tripled the number of contracting officers and more than doubled, actually, more than tripled the overall size of our staff and our programmatic capacity for oversight and engagement with programs and partners in environments like Afghanistan. We've also done a much better job of integrating programs so that we have visibility into subcontracts, and we have less layers in our contract programs so we can more effectively track the flow of financial resources and how that links to performance.

I see these efforts as an effective first effort to dramatically improve the way we work. I am eager to be here today with you because I take your work very seriously. I'm eager to learn about the recommendations that will come from this commission over the course of the next several months.

And in all honesty, I seek your support and your partnership in helping to do something that I believe is critical for our national security writ large, and that is rebuild a great development agency that has the capability and capacity to take on and effectively oversee the mission, especially in wartime environments.

I want to close just by pointing out what we all know—that our people around the world, but particularly in these environments, take real risks and put themselves at real personal sacrifice in order to carry out the mission. They do this because they are serving our country just as much as anybody else in that theater and in that environment. And I'm honored to work on behalf of them.

Thank you.

SHAYS:

Thank you, Dr. Shah. We're going to begin with questions now.

Commissioner Henke will go first and then Commissioner Schinasi and then Commissioner Zakheim, Commissioner Ervin, Commissioner Green, and then Commissioner Tiefer, and then I will go. Some may choose to use their full 10 minutes right away and some may break it up into two parts.

Let me just say the commission appreciates your work. We want to get into specifics and we certainly appreciate the work of your people. But I think you know and we know that it's an agency that is troubled and needs major improvement.

And, with that, Mr. Henke.

HENKE:

Dr. Shah, good morning and thank you for being here. And thank you also for being what I perceive to be a reform-minded person and for providing what I see as some of the intellectual capital and intellectual leadership needed to reform AID.

Your last statement in your testimony was about risks your people take. And your testimony uses phrases like "areas of conflict and crisis" and "zones of active conflict." Administrator Shah, just for our understanding, how many countries is AID in currently? It operates in how many countries?

SHAH:

More than 100.

HENKE:

OK.

Well, today, this commission's purview is really over two of those, Iraq and Afghanistan, obviously. In Iraq, we're on a glide path to have our troops leave in December 2011. How many countries is AID in where our military forces are involved in active kinetic offensive combat operations?

SHAH:

Well, certainly Afghanistan.

HENKE:

OK.

SHAH:

Yeah.

HENKE:

So, one. It seems to me that traditional development thought of is on a time span, a time horizon of five, 10, 15 years, long-term relationships, capacity-building involvement. It also seems to me that your central challenge is doing development in a combat zone where the military tempo is measured in weeks and months.

So my question to you, my first question—we have to be pretty brief, with our time limits—can development be done in a war zone?

SHAH:

Absolutely. It does require thinking through what the distinctions between stabilization programming and long-term development programming. It requires using and deploying tools that are data-oriented, as we have, like the district-stability framework in Afghanistan, that allows us to identify the causes in local communities of instability and address those in a pointed way.

It requires an operational construct that differs from the traditional mission structure, which is why we've devolved authority to our people and PRTs in Afghanistan and built project mechanisms that can move much more quickly, and improved oversight at that distal point of service and programmatic implementation.

And it requires more depth of engagement in interagency processes, because ultimately we are part of a joint civ-mil effort. That effort is reviewed through everything from rehearsal of concept drills on a biannual basis to more detailed cooperative programming on a day-to-day ongoing basis.

HENKE:

Is there a point beyond which the combat is so intense, is so active, that AID could not operate? I mean, we could conceive of a . . .

SHAH:

Yes, absolutely.

HENKE:

But your statement, I believe, is that we're not there now in Afghanistan. Is that fair?

SHAH:

Well, we're constantly partnering with our military to make sure we adjust our implementation schedules around active kinetic operations. We cannot operate or ask our partners to operate in environments where the security situation doesn't enable that. But it's a more nuanced and more specific mapping of where we can and where we cannot operate, and that takes place on a regular basis with the military.

HENKE:

On that very point, can you tell us how many people, how many AID people have you lost in Afghanistan?

SHAH:

Well, we have not lost direct-hire USAID personnel.

HENKE:

OK.

SHAH:

We . . .

HENKE:

How many. .

SHAH:

We work through our implementing partners, many of whom are Afghan nationals and since 2003 we've lost 383 of our core implementing-partner personnel. And . . .

HENKE:

And how many security personnel? Those are implementing partners who are guarded by security contractors. How many security contractors have you lost?

SHAH:

You know, I would have to come back to you with a specific number on that.

HENKE:

OK. So you've lost no direct hires, no USAID employees, no government employees. You've lost 383 implementing partners in Afghanistan. So my question to you is this: Afghan President Karzai, presidential decree 62, if he would say tomorrow all private security must leave—we came close there last winter— we know, you know, your implementing partners would leave. They couldn't operate in that environment. They wouldn't accept Afghan security, Afghan-provided security, as it currently exists.

So it seems that security is critical to your mission, to controlling your mission and to do development. If it's not inherently governmental—let's take that topic, that term off the table—in a war zone, should security still be performed by federal employees?

SHAH:

Well, you know I would step back for a moment and describe the PSC issue more broadly. And of all U.S. engagement in Afghanistan, the largest cohort of private security contractors are employed by the U.S. military to support fixed-point installations, convoys, and training sites for ANSF (Afghan National Security Forces) and others.

USAID and our other civilian partners also require private security contractors, particularly for specific types of projects, like larger infrastructure construction projects.

HENKE:

How many, just quickly, how many private security contractors does AID have in Afghanistan? What's the count?

SHAH:

I don't have that number with me immediately. When we were looking earlier, about three or four months ago, it was closer, I think, to 8,000 or 9,000.

HENKE:

OK. So you've got 8,000 security contractors. So on my question, if it's not inherently governmental, should security in a war zone still be performed by federal employees? It seems to me it's at least mission critical.

SHAH:

It is mission critical for certain types of projects. There are three things I should highlight about this issue. First, we agree with the presidential decree that suggests most recently that we have a 12-month glide path to develop essentially an exit strategy for private security contractors for this type of work.

Second, in order to implement that, we have to look at a broad number of ways to provide security. Some of that will be through this APPF (Afghan Public Protection Force) mechanism that will be set up as a replacement operation. Some of that will be through . . .

HENKE:

That's Afghan government . . .

SHAH:

That's the Afghan government, but it'll be actually a public-private partnership with existing private security contract organizations.

HENKE:

OK.

SHAH:

The second is we need to look at, and we are doing this, how to reduce the security requirements on different types of projects. Sometimes that's doable and sometimes that's not. For, you know, a large building and energy facility, it's probably not as feasible. But for a broad range of other programs, you can actually come up with mechanisms that require less physical security needs and build that into program design in a much more conscious and active way, which we are doing.

And third, we are working with our own military, of course, to identify, for certain types of projects, that are, of course, mission critical, a mechanism to ensure that we have security partnership with U.S. forces that are on the ground and able to provide that security.

So we're looking at it as a holistic issue. We agree with the presidential decree. We think it is important to reduce the reliance on private security contractors. And we believe it's important to improve the sort of oversight standards of the behavior of those contractors.

HENKE:

Sure. I think we agree with it in concept. We'd like Afghanistan to be a place where you didn't need private security.

SHAH:

Yes.

HENKE:

We'd like the Afghan government to be more capable. So conceptually, we agree with that. Do your partners think that they're going to have the APPF Afghan forces capable in 12 months? Or are they going to leave when those Afghan forces provide their security?

SHAH:

Well, there's variation across, you know, I've pulled in our top 20 partners a couple of times to have this discussion. There's two or three of the larger ones that do more of the fixed infrastructure, are very focused on the risks of not having the APPF meet its own targets. Most of

the others believe they have a pathway where they can be effective under the current decree system.

HENKE:

If the Afghan government hires the same people, private contractors through what you call the public-private partnership, aren't we just allowing the Afghan government to skim off the top? I mean, couldn't that just fuel corruption?

SHAH:

Well, it needs to be managed in a way that reduces that risk. I . . .

HENKE:

It may be indelicate to say in a public setting, but I wanted to try to . . .

SHAH:

I think it can be done in a way that manages that risk. I think the important point is that the Afghan government believes, and we agree with this belief, that they need to have more control and operational responsibility for armed security contractors operating in their jurisdiction. And that is part of the glide path of transition. And we take that very seriously.

HENKE:

So if these forces are stood up in a year, but your partners say "we don't trust them, we're not going to do it," you're still in a bind.

SHAH:

Right.

HENKE:

You're going to have to leave.

SHAH:

If we cannot come up with alternatives to provide security either through APPF, which is our first aspiration, or through program redesign that reduces the requirements, then we would have to make the tradeoffs against the actual programs, yes.

HENKE:

Thank you.

SHAYS:

Thank you very much, Dr. Shah and Commissioner Henke.

Ms. Schinasi?

SCHINASI:

Dr. Shah, good morning.

SHAH:

Good morning.

SCHINASI:

I'm going to start by saying in the year that I've been on the commission I've seen tremendous change in your agency, in the attitude of the people that work there and in the policies that you've promulgated. So in particular, I think the fact that recognizing that management is a core capacity and not just a nice afterthought. And going after more skilled acquisition professionals to try and help with that management are the two that I would focus on.

I will say we hear an oft-heard complaint from the implementing partners is that there are not enough USAID people with whom they can interact. So I think your efforts to supplement your staff are in the right direction. But I'm also frustrated because lessons are being slowly learned, and we worry on this commission about institutionalizing those lessons.

And so my questions to you are going to be about how do you do that. And there are a couple of areas that I want to focus on. We have identified or defined, I guess, waste in part as ill-conceived projects. If they're not right when you start, there's no way you're going to have success when you get to the end.

And drawing on the statement that you make in your testimony on strong civil-military cooperation—I'm going to ask you in the interagency context—it seems to me that at many times the agencies are actually working at cross-purposes.

So we hear stories about a USAID project and partners who spend 18 months trying to work with a village and get the right project in place, only to have the money come in through the military vehicle of the Commander's Emergency Response Program (CERP), build something else, totally throw off all the—my question to you is: Is that a problem on the ground? Where do you

look to solve that problem? Do you look to solve it in the province? Do you look to solve it in the capital? Is it something that has to happen in Washington?

SHAH:

Well, I would just step back and, first, thank you for your comments about the reforms that are underway because our team, especially in Afghanistan, has worked very hard under Earl Gast, our mission director, to put in place an effort we call "A-cubed," accountable assistance for Afghanistan, that has had meaningful impact on oversight and accountability. And I appreciate your recognizing that.

Second, I would step back and point out that I believe strongly that development is a discipline. And I go back to the chairman's opening comment, or to one of the opening comments, that suggested we work in a long-term time horizon. And that's true. Development, real development and development of governance does take significant time and focus, but how we do the work matters.

And there are things we can do in the very short term that can lay the groundwork for effective development and governance-capability growth over time, or there are things that can take place in the short term that will, frankly, undermine the ability to build sound local governance and sustainable long-term development.

And so I believe it is our responsibility as development experts and as a development agency to participate in an inclusive way at the interagency processes in Washington, in Kabul, in the province, and in the district, to make sure that we're serving as an effective partner and an effective voice, bringing to that discussion the core disciplinary insights of development and making sure that those insights help structure and inform program design that is designed to achieve short-term stabilization outcomes and lay the groundwork for a much longer development strategy.

SCHINASI:

So let me ask you specifically, you know, when we look at projects that have failed, it's predictable. Those failures are predictable. What mechanism do you have and are you using anything to learn those lessons with your interagency partners? Is there a formal process? And if not, would you consider putting something like that in place?

SHAH:

Well, I would certainly welcome recommendations from the commission. I'll give you a few examples of some processes we've put in place to try to do this.

First, we've implemented a new evaluation policy at USAID that I think is quickly becoming the standard for all development partners around the world, which says for every major project we will collect baseline data, establish mechanisms for collecting counterfactual observations, and

then measure that against treatment groups in terms of where we're putting the interventions in place.

SCHINASI:

Is that for ongoing projects, excuse me. Are you going to apply to that to ongoing . . . ?

SHAH:

We are applying that to as many ongoing as we can, and certainly on new ones. And that includes, you know, continuations of current programs and projects. We then said that all of those project evaluations will be made public within three months of project completion. And that will both allow the public to hold us to account and will also, I think, create an incredible amount of data on program performance and what are the things that drive good performance and what are the things that, frankly, don't, so that people, ourselves included, but anyone else engaged in development—the United States military or the World Bank or the U.K., anyone—can gain and learn from those insights and do things better.

SCHINASI:

The question is will they adopt that, because, as you know, the success of CERP is can you spend the money and how many projects can you start, which is a very different approach than the one that you're talking about.

SHAH:

So then I would talk about the mechanisms to allow for those insights to be applied effectively. One, I believe, is what we call ROC drill, the rehearsal-of-concept drill. And when I started, I felt like we were partners at these ROC drills, but not doing enough to articulate both the strengths and weaknesses of different programmatic approaches and really working in a deep, collaborative way to make sure our programs made sense together.

Second, we have the integration that you see at the PRTs, I think, is an important mechanism for doing that. It only works if our people have the capacity and are going to, you know, articulate the insights of if you pay people to go to a shura that that may, you know, be the opposite of a different program that might not be paying people to go to shuras, and the interaction of those two things matter in terms of building local governance. Those are relatively technical issues that can get worked out at that level and do.

I was just in rural Nangarhar sitting with an integrated PRT team. They had deployed a district-stability-framework tool that we had developed that essentially used survey data to identify the root causes of instability in the area. And then they were aligning USAID resources and CERP resources against programmatic constructs that were focused on achieving impact against those two or three priority indicators.

And I'll just say a third mechanism that I think is very important for getting the outcome you're seeking is having some shared metrics. So we're now implementing and looking at what we call a "sufficiency audit" across the programs. That sufficiency audit asks some basic questions. Are program benefits durable? Will program gains be sustained? What is the unit-cost per capita of programmatic investment and what does that mean given our expectations of funding availability over the next three years or five years for sustaining those gains?

And I think that's the kind of analysis that we need to do and will make a very big difference. And you know, to be honest, I've been very pleased with the willingness of military commanders to work in partnership with us, despite our relatively small size in relation to that. So . . .

SCHINASI:

We hear more good things about collaboration at the lowest level, frankly, than we do at the middle level. So that was part of what is the forcing mechanism there.

Second thing I just want to ask you about briefly, one of the other problems that has been talked about a lot for the civil-military integration is getting civilians out into the field. You don't seem to have trouble doing that. What is it that you do that some of the other agencies can't do to get civilians out into these teams?

SHAH:

Oh, at the PRTs?

SCHINASI:

Yes.

SHAH:

Well, the . . .

SCHINASI:

Or even in country.

SHAH:

Yeah. Well, we now have more people outside of Kabul in communities in Afghanistan in total than we did in all of Afghanistan when I started. And I think that is a testament to the rapid growth of our staffing for those programs.

In terms of what we're doing to get them out, we are working in greater partnership with the military. So as they have transport and security resources that enable movement, they're

prioritizing us higher than they were 18 months ago. I credit that with the leadership culture on their side and on a shared partnership that in some places like Arghandab around our agriculture programs, for example, is making a real difference.

A second thing we've done is to really try to appropriately engage locally employed staff and foreign-service nationals who have more freedom of movement and flexibility in their ability to see programs and review things when our U.S. direct hires are unable to do that. So I think those are two mechanisms that have worked.

A third is we've just created a culture internally with our own promotion precepts and our review board on staff promotion that says service in CPCs—we call them critical priority countries—is a part of being part of USAID's foreign service and is a part of your advancement within our agency. And I think that's made a big difference as well.

SHAYS:

Thank you, Dr. Shah.

Dr. Zakheim?

ZAKHEIM:

Thank you, Mr. Chairman.

Dr. Shah, like everybody else, I really welcome what you've been trying to do and I especially appreciate your reaching out to us to be part of your solution. I want to ask you a few questions about personnel, almost following up on what you started to say.

You've got an Office of Transition Initiatives and an Office of Foreign Disaster Assistance that, when I was out in Afghanistan recently with Co-chairman Shays, really got my attention. These folks seem to be more attuned to contingencies like Afghanistan and Iraq than any other part of AID.

I was just looking through their booklet about the last 15 years. And I just want to read out some of the things they write. In countries prone to ethnic violence, programs must be tailored to local realities and target strategic regions outside capital cities where conflicted communities are more frequent and central governments have less control. Look beyond the usual suspects; local partnership, funding flexibility, assume a venture capitalist approach.

To me, this is exactly what AID should be doing in contingencies. These folks at OTI (Office of Transition Initiatives) have six government personnel. That is it. Everyone else is a contractor. A lot of them are PSCs, not private security, but personal-services contractors. And it turns out that since number two at that office is a PSC, hiring becomes difficult because a govvy cannot work for a PSC.

Moreover, OTI and OFDA (Office of Foreign Disaster Assistance) seem like outliers. They seem like what the special operations forces (SOF) were in the Pentagon 25 years ago. Now, the SOF folks have their own line. You can become a four-star general. In fact, one became chairman of

the Joint Chiefs. They have their own budget control. They have their own programs. And of course, they're making a huge difference, particularly, we all know, at the beginning of the Afghan War.

How do you get OTI and OFDA to be part of the AID culture to the point where they have the same possibilities, the same growth, the same potential that the SOF folks do?

SHAH:

Well, thank you. I appreciate this insight and think it's very, very helpful. When I started at USAID, within a week we confronted the tragic earthquake in Haiti. And my first few months at the agency were really overwhelmed by the immediate priority of coordinating an interagency response that was spearheaded by OFDA, the Office of Foreign Disaster Assistance, and OTI, the Office of Transition Initiatives.

And I have a huge amount of gratitude to them. And I also learned a lot by working with them, that then went into structuring how we're doing the USAID Forward reforms, because my goal was to say the flexibility, speed, efficiency, and reporting structures that they are able to put in place rapidly and efficiently, I think, should define a little bit more of the rest of the whole organization.

So my view has always been to take those capabilities, and I've studied whether is it the notwithstanding-authorities they have or rather is it the contract mechanisms, something we call the "swift tool." I think we've concluded it's mostly the swift tool and the way that that's presented and developed, as opposed to any specific authorities. And the good news there is we can then build those kinds of mechanisms and tools into other parts of our portfolio.

But your question is a little bit different, so I want to address your question specifically. First, I just want to point out that this chart over here demonstrates from 1970 to 2012, but that's with a proposed increase between '11 and '12, a downward path on actual U.S. direct-hire staffing at USAID. While if you look in real dollar terms the programmatic responsibilities haven't scaled down. In fact, as you look in the last decade, and especially in wartime and difficult-to-operate environments, they've scaled up dramatically.

So I believe reinvesting in our core staff capabilities is an important national security investment. And that's why this administration has presented an FY '12 budget that asks specifically for 95 development-leadership-initiative (DLI) mid-career technical professionals that would allow us to do much better program-oversight management.

ZAKHEIM:

Excuse me. How many of those folks would go into OTI and OFDA?

SHAH:

Well, that's the third piece of this. So the DLI is probably, right now as they're structured, would not, although I'm interested in playing out your recommendation.

The second part of the staffing is 70 procurement officials that would help us basically restructure our Office of Acquisition and Assistance and power our implementation and procurement-reform agenda, which I think will be very critical to building the kinds of partners that give us the exit strategies over time that we're seeking.

And third, it includes an in-sourcing strategy for OTI and for OFDA. I felt frankly, from the Haiti experience, that we were so outmatched and I give our military colleagues so much credit for literally sending over teams of planners and helping us build and integrate a team. But we frankly need to have more capability to be better partners. And it was from that experience that I picked up the phrase that they use to describe us as a "high-value, low-density" partner. It took me a moment to realize that that, I think, is a compliment.

But we have to do more to be a little bit less low-density. And I think in-sourcing PSC positions at OTI and OFDA is absolutely part of that strategy, particularly on planning and management. There are a few issues with the special-forces construct that I would appreciate further guidance on.

You know, my goal is to transform the whole agency to make it more nimble. And I wonder if there's a risk that concentrating those resources in a special forces-like cone takes some of the reform agenda off of the other part or maybe it can be done in a way that it actually accelerates the reforms in the other part.

A second question I had is really, and I shouldn't be asking questions in this setting, I know, but the second point I wanted to make was just some of the contracting—some of the flexibilities they have as contractors are operationally valuable. And that's not to suggest that that's reason alone for not having those individuals serve as direct-hire staff. I just want to work through the details of making sure we don't, under OPM rules or under larger federal government rules, we don't end up restricting some of the flexibilities that we currently value.

ZAKHEIM:

OK. Well, I'll be happy to work with you on it, since, in my experience, I've dealt with the SOF and the expansion of SOF and it certainly didn't come at the expense of DoD.

Let me ask you briefly—my time is running out, you've got another category of folks called forward-service-limited folks. And when I was out in Afghanistan, I was deeply impressed by these folks. They're young, they're brilliant, they go to excellent universities. They have virtually combat experience. These people are the ones that are going out in the field and getting shot at, but they can only work five years. They're told they cannot be absorbed into AID. They cannot compete for vacancies, even though there are vacancies. You're losing the best people that you have. What are you going to do about that?

SHAH:

Well, I very much appreciate this question. This is where the mid-career technical-hiring capacity in the FY '12 budget would make a huge difference because, frankly, foreign-service-limited staff that prove their worth in service to our country in Afghanistan, that prove that they can handle combat zones, work in partnership with other agencies, be results-oriented and succeed in that environment, absolutely should be integrated into the full staff.

ZAKHEIM:

Let me interrupt. You've got a problem here. It's not you. It's a problem, and that is these folks have to apply through a crazy, and I underscore crazy, computerized system, hiring system called AVUE. And if they don't know how to check the box properly and they don't say the right things, they can't get jobs no matter what they've done. As you answer, can you address that, too, please?

SHAH:

Sure. You know, one of my goals is to use the Afghanistan program as a way to identify strong foreign-service-limited staff and integrate them into the agency. On my last trip, I conducted and on every trip subsequently I will conduct ceremonies for those that we are effectively absorbing. And we had four that I was able to do that with on my last trip, and they are outstanding.

In terms of AVUE and in terms of the hiring process, with the mid-career technical hiring in DLI that we're proposing, we would be able to have streamlined processes for them to come in. We would be able to have preferential recruiting strategies for people. And we're able to design criteria that are fair and transparent that value the experience and the performance demonstrated in this environment.

So I have asked the Congress for support for the FY '12 budget because I consider that a critical part of enhancing our capabilities and better serving our national security mission.

ZAKHEIM:

And then very quickly, there's a village-stability-operations program run by the special ops forces. They need more AID people. Not talking about a lot of people. Are you doing something about that? It's a successful program. It needs your folks.

SHAYS:

In the next 20 seconds.

SHAH:

Yup. Absolutely.

I will look forward to learning more about that. We are in a number of different contexts. I'm not sure that's specific to the request you're making, but I will explore that . . .

ZAKHEIM:

Thank you.

SHAYS:

Thank you.

We'll now go to Commissioner Ervin.

ERVIN:

Thank you very much, Mr. Chairman.

Dr. Shah, likewise, I want to welcome you to today's hearing and I want to thank you for taking time to be with us. And I must say that when I heard of your nomination by the president and reflected on your professional background, your academic background, and your youthful vigor, I might say, I was really cheered by that.

And I regarded it, as I think we all do, an indication that the president intended to restore AID to its former glory and to make it again an integral partner, not just in the important work of humanitarian-assistance development as an end of itself, but also as a means to, arguably, the larger end of achieving America's strategic national security objectives.

And so I want to say that as a predicate and to let you know that I personally am supportive of you and the work that AID does, as I think all of us are.

With that as a predicate, I wanted to focus my questions largely on two things: one, your prepared statement submitted for the record, which was a little different from what you said orally, but consistent; and also you referenced having come in January to brief a number of us commissioners and staff. I was not able to be at that particular meeting, but I have the notes of it. So I wanted to focus my questions, as I say, on those two things.

Before doing that, though, I just wanted to ask kind of a threshold question. It seems to me, if I were the AID administrator, and I gather that you're broadly supportive of this, your testimony indicates that your record indicates that. For me, it wouldn't be just a question of moving toward these particular goals that I'm going to talk about. But, for me, these goals, achieving these goals would be a prerequisite before any project is undertaken by AID.

So I just want to go through this and see whether you agree with that and whether you could pledge to us that, henceforth anyway, if that's not presently the case, that meeting these criteria be a prerequisite before AID undertakes a project.

One, for me, would be local buy-in. And by local buy-in, I just don't mean local acquiescence in a project that the United States government ultimately decides to undertake, but ideally that a project is one that the locality requests itself, wants, and not just accedes to; that it be culturally appropriate; that it be locally sustainable; that there be local investment, by which I mean not money necessarily, but certainly sweat equity, but also that ideally local contractors be involved in the project; that it be competitively awarded and that before the award, past performance is taken into account for those contractors who performed in the past; and also that there be accountability on the back end such that contractors that perform poorly aren't considered for future contracts.

Would you agree that all those things and perhaps others ought to be prerequisites for AID?

SHAH:

Well, I believe those should be criteria. And the purpose of our mechanisms for both doing program design and going through those consultative processes before programs begin and having a process to select partners is all designed for the objective of achieving results and achieving those results in a sustainable way.

And we know that getting that local buy-in improves results, improves sustainability. We know that using past performance, but also using a number of other criteria, like fully understanding who's the specific, that's the construct of the local staff that will be implementing a particular project, and what is their team's performance, that is probably the single greatest indicator of outcomes going forward.

So yes, I believe these are all criteria that should be evaluated. My sense is that there's a distinction between past performance for a large firm and really understanding who's the implementation team on a particular project, are they the right people to do it well, and having that discussion up front.

ERVIN:

Thank you.

With regard to your briefing to us, your meeting with us in January, one of the things I understand you said is that you have reduced, AID has reduced by 46 percent the length of time to award a competitive contract. And the length currently is 330 days. Math is not my strong suit, but 46 percent is close to half and 330 days is close to a year.

So what that means is that it used to take two years for AID to competitively award a contract. And now it takes only one year. One year seems too long to me. Why does it still take that long?

SHAH:

Well, we have a process that we've done a kind of comprehensive business-process review of our contracting system. And we believe we can achieve that roughly 40 to 50 percent reduction in

time horizon based on authorities and capabilities we have to do on our own. And we're charging against that.

In order to get it down even further, we have two additional things we can do. One is there are a handful—and we're still exploring the details of this—of legislative support and reporting requirements that we'd like to propose some changes in that would enable faster movement on that, but maintain accountability as a core focus.

The second is, as we've done in Afghanistan around some of the power, road, and vertical-structure programs, using more effectively constructed indefinite-quantity contract tools that are smaller, that enable more partners to be in the system, that can allow us to move very, very quickly, but in a competitive way and in a manner where partners have been preselected based on some of the criteria you identified, and they stand ready to go.

So if I created the impression that it takes a year to do a contract, we just did a contract in Egypt in three weeks and reprogrammed that. And we can do that time and again. But from an aggregate kind of management perspective, I've tried to have the team focus on a comprehensive procurement review. And I want to get our average down as low as absolutely possible, not counting the quick tools, like smartly constructed IQCs (Indefinite Quantity Contracts), that I think add a lot of value, while I'm very worried about some of the mega-IQCs that, you know, that I think have some risks entailed in them.

ERVIN:

Thank you. Now let me ask about your prepared statement, certain of the things that you have underway. One of the things that you've mentioned a couple of times, appropriately, is the performance evaluations by independent third parties. Where are you with that? How many have you done? What's the plan going forward in terms of numbers to be done?

Who are these independent third-party evaluators? Are they NGOs? Are they contractors? If they're contractors, would they in the future be able to bid on future AID contracts, et cetera?

SHAH:

So, one of the things I've really tried to do is de-couple the evaluation from the implementation. And this table here just is our mechanism internally of tracking the internal flow of a dollar. And because evaluation is so dependent on program design, the program has to be designed from the beginning to collect data and enable strong evaluation. I think it makes sense to just very quickly describe this.

ERVIN:

Do you have paper copies of that?

SHAH:

We will share them.

ERVIN:

Let me just say we really can't see the axis and . . .

SHAH:

Oh, OK.

ERVIN:

So don't spend too much time, because you'll have to . . .

SHAH:

OK. OK.

Well, let me then just say that the game plan here is to do more in-sourcing of strategic planning, which allows for better interagency collaboration, I think lowers the cost of that piece by about 50 percent. It involves more in-sourcing of program design, which is where you start to develop the right constructs for evaluation. (Aside to staff: That's OK. We don't need to use that.) And that, I think, will again lower the cost of doing that work and allow more money to go into implementation and evaluation.

In implementation and evaluation, I'd like to see the relative dollar have greater proportion in those areas, because that drives program benefits and real learning. And then the evaluation, to be very specific about it, is we have created a new centralized function of learning evaluation and research in Washington.

They have created a cohort of partners that are capable of supporting our missions around the world doing evaluation to standard. They are not the implementing partners. And they have been given a very specific policy, which we can share with the commission, on how to conduct those evaluations so they're a standardization of how we do that work and learning.

ERVIN:

Just so I'm clear, and I know that our time is limited, are you saying that the evaluators are in-house AID personnel?

SHAH:

Well, a lot of them will be contractors, but they will be managed by a centralized evaluation group that is in-house AID personnel. And they will work against protocols that are established by that group, which reduces the variability and evaluation quality across . . .

ERVIN:

Right. And what proposition of those would be contractors, would you say? Or are contractors presently?

SHAH:

I would have to come back to you with a specific.

ERVIN:

But just a ballpark? I mean, is it half? Is it 10 percent?

SHAH:

I would think it would be more than half. But there's a difference between, you know—and I've been very involved in this when I was in different venues in this space. A lot of the core labor hours of evaluation is data collection. And we don't need to use scarce direct-hire time collecting that data if we have validated tools that can be populated and executed that way.

The real difficult things to do are to design programs so that they can have rigorous evaluations and to have quality control on the conduct and reporting on evaluations as they're executed. Those will be done by U.S. direct hires. And I can come back to you with the specific answer on the ratio.

ERVIN:

Thank you.

SHAYS:

Thank you very much.

And we'll now go to Mr. Green.

GREEN:

Thank you.

Dr. Shah, thank you for being here.

As someone and this may not be a surprise to you, as someone who has long been a critic of AID management, I finally, as some of the others up here have acknowledged, see a glimmer of hope. And that is that the current leadership in the organization not only cares about assistance,

stabilization, and development mission, but cares about how the organization is run, which has been, in my estimation, weak for the past few years.

That being said, you've heard from others up here that we still have concerns, some of which have been addressed today—some you acknowledged in your opening statement, some were mentioned by the commissioners—other areas that we will not have time to get to today that, you know, they're short answers, but I won't ask you to respond, the status of SPOT (Synchronized Predeployment and Operational Tracker); the fact that it appears that OTI, as good as they may be, may have some inherently governmental functions being performed by contractors.

And then a big one is oversight of your implementing partners and, in particular, oversight of subcontractors. I commend you for your statement and also for the reform agenda, USAID Forward, developing metrics, fostering innovation, redeploying resources, measuring, monitoring, et cetera, et cetera. Those are excellent objectives. They're all nice words, but I'm concerned about on-the ground implementation. Just like some of the criticism of the QDDR (Quadrennial Diplomacy and Development Review), there is little reference to how.

Now you've addressed some of that verbally today, but that's my interest. And I've heard not once in the opening statement the term "sustainability." We've referenced it subsequently in some of the dialogue here. The fact that probably sustainability is the greatest source of waste in U.S. government spending, I'm interested in some detail about how you deal with that.

In following somewhat in the line of questioning that Commissioners Schinasi and Ervin followed, we've got a huge number of projects that have been built, completed, some are under construction that have to be operated and maintained. Many are not being used for their stated purpose or have fallen into disrepair.

Now, not all of this is AID stuff. Corps of Engineers does things. You've heard reference to CERP. There are many projects associated with CERP. But you've got roads. You've got irrigation systems. You've got schools that are sometimes built and there are no teachers. You've got clinics that are built with no equipment and no doctors. And I won't mention the Kabul power plant.

What I would like you to do is tell us in some detail about the process that USAID uses or proposes to use in evaluating projects for sustainability, both financially and skills, before a contract or a grant is awarded. I'm not concerned about the post-contract analysis. What I want to know is how you pick the project and how you evaluate it both financially and skills before a contract is awarded.

SHAH:

Well, thank you for your focus on implementation, sir, and I would just . . .

GREEN:

Sustainability.

SHAH:

. . . and sustainability.

On implementation of sustainability, we have created a sufficiency audit that is a validated tool that we developed here in Washington and with our colleagues in USAID Kabul. And they are reviewing the full range of programs, including all new proposed programs based on the audit tool.

And it is really designed to implement the president's guidance that programs, projects, and outcomes should be sustainable and durable in Afghanistan. And I think this is a very important tool. It tracks financial sustainability, where there are really only two pathways for most projects to be sustained, through public financing or through private-sector financing.

And as we look and review programs like cash-for-work programs, they are literally redesigning and developing mechanisms to transition people who are on cash-for-work programming, which is, you know, the equivalent of public employment, to private-sector partners who can take on the responsibilities in a clean, private-sector engagement of clearing out drainage canals, improving agricultural productivity, marketing, and selling those products.

Just to give you one specific example of the results of applying that kind of sufficiency audit is we redesign programs in and around Surkh Rod district to—and that's a broader project than that—so that the agricultural programs we were supporting are now very focused on who their buyers are. And they are upgrading the quality and the standards of, in this case, high-value vegetable production.

They are seeking and putting in place contracts with DoD which will be a purchaser there and that will—that's just one step towards getting them up to full export level so they can export to Dubai and other environments.

GREEN:

OK, Director Shah, if I may, you've sort of convinced me that you've got a process. How long has this process been in place? And the follow-up to that is, if it's been in place for some time, why do we have so many projects that cannot and will not, in an Afghan economy, be sustainable?

SHAH:

Well, the sufficiency audit and the implementation that I just described has been developed over the past six months, has been used rigorously since January, and is, you know, having these redesign implications as we speak.

In terms of overall sustainability, I should just mention, you know, we also have a priority as part of the civ-mil plan to identify ways to provide stabilization outcomes quickly. And sometimes you do things in that construct . . .

GREEN:

That don't make sense.

SHAH:

Well, that might get you stabilization outcomes quickly and require, then, a pathway to sustainability.

GREEN:

But waste a lot of money.

SHAH:

Well, I would argue that, especially when I look at the tradeoffs, like in Arghandab valley, for example, there were a number of these programs. And I felt they had a very high level of per capita spending when you looked at what per capita income was there. It's part of the civ-mil plan. By USAID's resourcing standards it is far higher in terms of investment intensity than what we do in other parts of the world where we're more focused on that cost piece.

But compared to the cost of having a Stryker brigade patrolling in those areas and potentially losing lives, as they were doing before these programs were put in place and worked, it actually, in terms of both U.S. dollars and the treasure of our lives, was more efficient.

GREEN:

Thank you.

One more quick question here, following up on Commissioner Zakheim. What are you doing to encourage cross-assignment, interdepartmental cross-assignments between State and even DoD? And I've got just about a minute left, so . . .

SHAH:

Well, we have expanded the number of cross-assignments, actually at a number of different levels. As part of the QDDR, the secretary is making a concerted effort to have more USAID individuals serve as ambassadors in different environments.

GREEN:

How many do you have now? How many USAID . . .

SHAH:

I think we have four or five.

GREEN:

OK.

SHAH:

And our goal internally is to get much, much higher than that.

GREEN:

OK.

SHAH:

Second, is we've being doing a lot to make sure even below that level, our deputy-mission directors, our contracting officers, rotate through divisions like IPA (Interagency Provincial Affairs) in Kabul, so that they get exposure to the embassy structure as well as . . .

GREEN:

Do you have any folks from DoD?

SHAH:

We have a number of DoD individuals embedded at USAID. I'm very grateful for the military for making that happen. And we have our people there. Obviously, one-for-one trades have different capacity implications as they represent a different proposition of our overall force. But, yes, and again, that's also at a very high level and all the way down the line. And I . . .

GREEN:

My time is out, but keep pushing it.

SHAH:

Thank you.

SHAYS:

Thank you very much.

Mr. Tiefer?

TIEFER:

Dr. Shah, I came back a week ago after two weeks in Afghanistan with Chairman Mike Thibault, who has been a great leader for me and the commission in investigation trips. I went to Kandahar. You know as well as I that's a key front on the counterinsurgency war in Afghanistan. And there I asked about a key electrical facility to win over Afghans, the giant transmission line that will eventually be built to bring cheap power to Kandahar City from a hydroelectric project, the Kajaki dam, in Helmand province.

Now the map on the easel shows the projected route of the line, first south, which is down, and then over to the east to bring the power to Kandahar City. The original plan was for AID itself, the U.S., to contract to build the line. I'm sorry this intro is going so long, but I will get to the point soon in which we can trade short Qs and As.

This AID bar graph, which is also up, which the RC South (Regional Command South) military briefed me on, is an AID draft. It shows the hope, which is awfully optimistic even in what it says, that you'll do the IQC and then compete the specific task order for the transmission line—that's at the very bottom of the chart—sometime in 2013.

Alright. Here are my short Q&A. Is it true that there is some new thought being considered at AID, the RC South military know about it, that you would do the contract by taking the Afghan power utility, which is known as DABS, D-A-B-S, building up its capacity to do this big project, and they would contract for the line. I know this isn't the finalized idea. I just want to know if there's any consideration about this and, if so, when it started.

SHAH:

Well, I'd just step back and suggest that our goal here is to develop a sustainable energy sector for Afghanistan while also meeting the immediate COIN (counterinsurgency) requirements of quickly providing energy in places like Kandahar where the integrated civ-mil team believes that that will add the most value in terms of COIN effects in that theater of action.

In terms of how you get sustainability, there are a few constructs that we're trying to follow. Number one, have a local Afghan institution that can take responsibility for management, maintenance, oversight and ongoing effective . . .

TIEFER:

Dr. Shah, my time's terribly short. Can you tell me whether one of the considering thoughts is to give it to the Afghan power utility DABS to build the transmission line?

SHAH:

Well, we are working, so in that regard, because I want to explain why, because the point is to get use sustainability. And to get sustainability, we believe we should be exploring, and we are, effectively building DABS' capacity to do this, embedding the kind of procurement and financial management teams that would be required for rapid immediate . . .

TIEFER:

Dr. Shah, I admire you. I think you're a strong, creative, praiseworthy leader. I don't want to be saying, well, it's three times I've asked you. I'm going to take your answer as meaning yes, that it's being considered for DABS to do it.

Now, currently, AID does not have a consultant to build up DABS' capacity, does it, for the big, new challenge to contract for a whole huge line. You've got, you know, your normal crew of Black and Veatch and so forth, and Berger, the fraud, to build the capacity just to get the bills paid, just to have the meters work. You do not have a consultant that will build the capacity for the plant. Am I wrong?

SHAH:

This was a model we used with the Department of Health in the public health in Afghanistan that has worked very well, of embedding procurement, financial management, implementation capability in an Afghan institution and then working over years to build their basic capability. It is part of our sustainability strategy. And it's part of having institutions that we can step away from over time and leave something lasting as a result of the investments . . .

TIEFER:

Thank you, Dr. Shah. I'm going to take the answer as yes to that also, that you don't have a consultant in place to build the capacity for a big plant. So it could take 2011 just to contract to get such a contractor, because you have to get the IQC in place first, then do a task order to get that consultant. And then 2012, to build DABS' capacity up, especially because I know you are watchful, I'm on your side.

You have to build that capacity way up to keep it by the energy minister, who is, of course, Ismail Khan—a notoriously corrupt warlord tied in so tight to Karzai that Eikenberry couldn't pry them apart, despite his trying—who would just love to take a cut of this lucrative contract coming down. So I know you're trying to keep him out. So it wouldn't be until 2013 that you would even get that capacity looking good. Isn't there a real risk that the transmission line will not be built until 2015?

SHAH:

Sir, I disagree with that. I think that our team is very focused on this timeline. We have moved quickly on this project. We are committed to this piece in particular because of its sustainability effect for the entire power sector. And it is one of our top priorities. And I expect our team to execute on the timelines they've presented. And they're very focused on that.

TIEFER:

Are you serious, that you think that a chart, you sure don't mean it could be done in 2013, when you haven't even started building up the agency's capacities. So let me go on from there. And assuming it'll be done in maybe 2014, you hope for, if we can't get that transmission line done until then, we are doomed to have our forces stuck there in Kandahar province and Helmand province, fighting and dying for years and years to come. That's where the public is viewing this as a 10-year war, a 10-year, trillion-dollar war.

SHAH:

Sir, with all due respect, I believe that last conclusion is not an effective characterization of where we are. This project includes immediate efforts to build capacity and power distribution in Kandahar. That will have immediate effects. We then have a number of different programs to expand both generation and transmission capacity . . .

TIEFER:

I'm glad you mentioned that, Dr. Shah, because I want to ask you about that. What we want there is cheap power. Right now we're building diesel generation, which is so expensive the Afghan individuals can't afford it. Afghan light industry can't afford it. The Afghan government can't afford it. We saw the same thing in the Kabul power plant. Karzai's budget would be busted, so the U.S. has to pick up the tab. And they're not even going to run the generator at full capacity.

Won't our military worry that the delay for years to come before cheap power comes in will interfere with them wooing the Kandahar locals and also the Helmand poppy growers? Because the other part, if you look at the map, the other part of this transmission line goes west to Lashkar Gah, which is the capital of Helmand province, which is not merely the poppy-growing, opium-providing capital of Afghanistan, but of the world. Aren't our military worried?

SHAH:

Sir, this is an effort where we've had a strong integrated program design. And it's designed around generating power in different timelines from different mechanisms. There are all kinds of risks in working in a war zone. And there are risks of potential delays, potential accelerations. But I know for a fact that if we do not take sustainability seriously from the beginning of this project, we're not going to have, you know, over 10 years a real sustainability strategy.

TIEFER:

I'm going ask questions for the record on this because my time is short and I hope I will get real answers, because your staff have given me the runaround about Louis Berger and the "tea" deal with them.

A different matter: The Kabul Bank went into a panic and is looking like it's going to be taken down with \$1 trillion of losses because it's a giant Ponzi scheme. Now that's not AID's fault. That is not AID's fault, not just not yours but not AID's fault. But there was an AID contractor, Deloitte Touche, with a \$3 million contract to mentor the bank.

And Deloitte passed up vital opportunities to warn AID and the U.S. government what was coming, which the government could dearly have used. AID IG recently wrote a good report on that. And you de-scoped the Deloitte contract, but there's still room for you to do things. You haven't yet done the past-performance report for Deloitte. And it could be harsh and that would affect their future contracting.

I want to understand if AID has a basis to do so and to do that. I started looking at Afghanistan and I will need documents, which I hope you will agree that your people will provide. Two stand out. There was a bank-examination report that Deloitte failed to provide, which would have been a tip-off. And AID IG did an interview with the leading Deloitte adviser, where he admitted big-time faults.

Can I have these? I am fitting them together with work that I don't think either AID or AID IG has been able to, with a strong office called the Afghan Finance Threat Center, which is extremely knowledgeable about corruption in general and the Kabul Bank in particular. The picture is not pretty. It looks like Deloitte failed its contractual duties. Will you let me get those needed documents?

SHAH:

Sure. We are working in a deeply integrated way with the terrorist-threat finance group. We have had a number of important success stories with our vetting system that we've put in place under the leadership of Earl Gast and others . . .

SHAYS:

Dr. Shah, his time has ended. And thank you for providing that information. I have 10 minutes and we will have about five minutes to throw out to the other commissioners. We will get you out of here.

SHAH:

Thank you.

SHAYS:

. . . at 11 o'clock.

When I heard your statement, I felt like it was written by folks who've been there for the 20 years. It had a feeling while we are doing these reforms, we've been doing reforms, and we're doing reforms. The sense of the commission is that you have a very troubled agency that you have to change significantly. And while we're not looking for you to bash the past, there didn't come across in your testimony that there's a real sense of urgency.

You've been understaffed. You have been asked to do things by others and put your name on it, USAID, on projects you never wanted to do, and so on. And I just want to know, do you feel that there is a sense of urgency and that your agency is troubled and needs to make significant strides forward?

SHAH:

I have a sense of urgency. I've always had a sense of urgency because I think our work saves lives and hunger and protects our national security. And I'm deeply passionate and committed to that for a broad range of professional and personal and other reasons.

SHAYS:

So is the answer no, that you don't think it's a troubled agency? I . . .

SHAH:

Well, the answer is I have a deep sense of urgency as the leadership teams I put in place, especially in Afghanistan and . . .

SHAYS:

So do you feel that your agency has been a troubled agency that needs major reform? It's a simple question and the answer is no or yes.

SHAH:

Well, of course we need reform. I think all parts of the government need reform and I, sir, well, let me just finish because I respect the partnership we've had in this. I believe we're being aggressive about the reforms and operating with a sense of urgency. I'll tell you why I don't like using terms . . .

SHAYS:

No, I don't want you to tell me in my 10 minutes.

SHAH:

OK.

SHAYS:

The bottom line is you talked about all the great things USAID is doing. Well, when you spend billions of dollars, you're going to do a lot of great things. So to me, that's a filler in a statement. Just candidly, what I was hoping was that you would say we've got this problem, we're going to do this, this, this, and this. And what you would say privately should be said publicly, in my judgment, because anyone listening to this hearing or seeing it would think, "Well, this is nice—he's going to move forward with its reform."

So I just want to be on record with you. I think it's important to be very clear. You are taking on a very troubled agency. I know people who wouldn't want your job because they think it's almost impossible. I appreciate that you don't think it's impossible, but waste takes many forms. It's ill-conceived projects. It's projects that don't fit in culturally, politically, and economically, or that can't be supported or maintained/.

Isn't it true that your agency or that that can't be supported or maintained? Isn't it true that your agency has been involved in projects that aren't culturally, politically, and economically sensitive to the society? And isn't it true that it has taken on projects that cannot be supported or maintained?

SHAH:

I'm sure if you looked across eight years or nine years of history in Afghanistan . . .

SHAYS:

The answer is yes.

SHAH:

. . . absolutely.

SHAYS:

You're right. So the second is, isn't it true that your agency has been involved in some poor planning and oversight of government projects and that some of your contractors have performed badly?

SHAH:

And we've been aggressive about reining that in and improving oversight. And I, you know, to speak to your point about urgency, in just 14 months, in fact, in just, yeah, in just 14 months,

we've restructured how we do award mechanisms. We've rebuilt a partner-vetting system in Afghanistan. We've implemented financial controls around subcontracts and in new contracts are shrinking the number of tiering layers so we have more visibility. We've improved project oversight by tripling the number of contract officers and building a program-support unit in our Office of Acquisition Assistance here in Washington, D.C. And we've devolved significant authority . . .

SHAYS:

And that's . . .

SHAH:

. . . and all of that is in the context of tripling the overall size of our footprint there, because one of the things I think you've highlighted and that I completely agree with is that when you take on a mission like this, you need to be resourced and have your people on the ground at a capacity that allows you to do it.

SHAYS:

And you have not been properly resourced. Correct?

SHAH:

And I don't think this agency has been properly resourced over the last several decades, no.

SHAYS:

So let me ask you this. You give out billions of dollars for contracting grants. Define to me how you can guarantee contracts are more likely to be competitive than a grant. Correct or not?

SHAH:

I think the percentages are slightly higher for contracts. But I don't think it's a big . . .

SHAYS:

But you give out more grants than contracts. You give out, at least in '09, you gave out about over 60 percent of—were grants and . . .

SHAH:

That's right.

SHAYS:

. . . 40 percent. I'm a big fan of NGOs. Now . . .

SHAH:

I think it's different in Afghanistan and in wartime environments it's more contracts than grants, but . . .

SHAYS:

OK. That's important to clarify. So the question I'm asking, though, is how do you provide for a competitive process in a grant versus a contract?

SHAH:

Well, we can use many of the same mechanisms. You do requests for proposals. And you seek a number of different bids and then you make a judgment about which partner is most effective and efficient at achieving the outcomes designed.

I think you can also build milestone-based payments in, which is something we've done more aggressively. And you can use all of the same constructs around improved oversight and program design in both acquisition and in assistance. So we have not exempted any part of the portfolio from the overall reform effort.

SHAYS:

In the document that we worked a good long time on, we had 32 recommendations. Is there any recommendation, some of these aren't in your lane, but is there any recommendation that you would take an issue with, that you would want us to reconsider?

SHAH:

I think we are providing next week a detailed response point by point. I would use that venue to take real issue with any specific thing. In my mind, I've reviewed the report and all of these recommendations move in absolutely the right direction. I think, in some cases, they get very specific. And as I was trying to think through how that fits with our reform agenda, I felt one or two might actually conflict a little bit with what we're doing.

So I seek the opportunity to ask about what's the best way to seek the outcome we all seek, which is more depth of competition, more flexibility, the ability to move more quickly, and the ability to do strong oversight, but against outcomes as opposed to tracking every input to a level of detail, which can often restrict an ability of a partner to effectively adapt to circumstances.

So I thought items one through four, in particular, were around capacity. And I felt those were things we want to embrace. Items six and seven around planning—we could go through the whole thing, but I thought it was helpful. And I'd like to work on a few of these where I just want to get a better understanding of what does that actually mean.

And then, of course, a number of these weren't designed for us, but I took to heart some of the recommendations in terms of even the Joint Chiefs. And I think we have some analogs that we could do that are consistent with the spirit of those recommendations.

SHAYS:

Well, thank you.

I'm going to yield back my two minutes—we have basically seven minutes left. I'll recognize Mr. Henke first, and just for a short question.

HENKE:

Dr. Shah, one of the challenges you have is that your operating account, your operating-expenses account is on one slope and your program account is on the other. You've explained that to us today. One of the things we've seen over and over again is customers walk into a contracting shop. They have about a \$200 million-item to put on contract. But that doesn't matter because the contracting shop can't expend its capacity.

The budget includes your idea for a working-capital fund to make it perhaps more scalable and more flexible. I guess the alternative is get in line, the procurement shop is a fixed size. It hasn't grown, hasn't kept up. So your procurement shop becomes a bottleneck. Can you give us one minute on working-capital fund, how it might work?

SHAH:

Certainly. Well, thank you for raising it. I think what we're proposing is that one percent of all program resources are specifically targeted for contract design-management oversight and go to building the contract capacity of the agency. In my mind, that would include supporting this construct that we need some specialized divisions within contracting to support wartime environments that have different needs and different issues that they want to deal with.

Our focus on 70 procurement hires is to build very specific capacities and capabilities because I think you need, you know, certain quantitative individuals that can help move us to more fixed-price contracting where that's appropriate, and to help structure milestones within contracts that are more clearly observable and more realistic for making go/no-go payment decisions. And it is designed to help extend the reach of that contract operation into missions, as we've now done in Afghanistan over the past year, which I think should be a model for other countries.

HENKE:

Thank you very much.

SHAYS:

Thank you, Dr. Shah.

Ms. Schinasi?

SCHINASI:

Just a short observation. As I look at your statement, you talk about the value of cost-plus contracts. That's not usually something that we're real fans of, but you don't mention in that context the need to definitize those contracts quickly. And that's where most of the issues come with cost contracts.

But I have a number of other questions. I wondered if—I'm going to submit those for the record. You also said there were some things you wanted to say, so I would encourage you submit that for our record as well.

I have several . . .

SHAYS:

OK.

SCHINASI:

. . . several different ones, so I think I . . .

SHAYS:

So, the bottom line is, and your folks have been very helpful. We'll submit some questions and requests. And if they're unreasonable, let me know.

SHAH:

OK.

SHAYS:

I know that Mr. Tiefer has made a request that you said you would provide. And so I'll go to Dr. Zakheim.

ZAKHEIM:

Thank you, Mr. Chairman.

You've talked a little bit about this. I'd like to emphasize it again. One of the biggest issues you have in your organization is culture. And when I was out in Afghanistan, and some of your best and brightest were speaking and we were talking about spreading those kinds of attitudes around, one of your people actually said, "that's not in our culture."

And it reminded me of being in Afghanistan in 2002, where I heard the same kind of stonewalling. One way to get a culture is education. Could you talk a little bit about how you're making efforts to, for instance, get more AID people into our professional military-education system at all levels? I mean, after all, it was Fort Leavenworth that really generated our current approach to contingency warfare that General Petraeus headed up.

Do you send people to the Command and Staff College? Will you be doing that? Could you talk about that, please?

SHAH:

Sure. Yes, this is an area where we really want to do a lot more. We do already send some individuals, both for their own training and their own course work. And we send people to teach at the War College and other training and educational facilities that the military operates.

In terms of my approach—and I would just say that I have a great deal of respect for the people at USAID and I'm honored to work with them. I also believe that we have been able to demonstrate quick movement in terms of highlighting and rewarding certain types of performance. For example, we made inclusive leadership performance against USAID Forward reforms and the ability to take measured, calculated risks, all three of our top senior management-director position requirements. And it literally changed the landscape in the first bidding round it was introduced, in terms of who went where. And I'm already seeing the impact of that in terms of our 22 priority-performance missions.

Second, we've introduced those same criteria for promotion precepts and for evaluation constructs. Our evaluation group is actually just meeting now on foreign-service evaluations. And this will be the first time that that new construct is used.

Third, I've just found our aggregate staff to be very responsive to the outcome of the QDDR and to a desire to embrace the mission and take on the performance. So I would just say I agree with you. Culture changes over time, but our team is going to be very performance-oriented. And I have great confidence that the kind of rapid improvement that you have seen over the course of the year in Afghanistan will be sustained in the years to come.

ZAKHEIM:

Thank you.

SHAYS:

Thank you.

Dr. Shah, we are grateful for your presence here today. We appreciate your work. We appreciate the work of your staff. We believe you have a major undertaking. We'd like to help you make USAID more responsive to the needs of our country. And we appreciate the dialogue that we will be having in the next few months for our final report, which will have some noticeable concerns and suggestions impacting organizations like yours. So thank you very much.

Is there any last comment that you want to make in a minute or two? And then we'll close out.

SHAH:

I just want to thank you for the work of the commission and I have made the request personally. I'll make it in this forum as well, that as you wrap up your work, I would like to issue an open invitation for commissioners and members of your staff to consider working with us.

I really do believe that this agency is embarking on one of the most transformative reforms of a federal bureaucracy right now. And for those who are excited by that prospect and seek to be part of that solution, we value your partnership and contributions. So thank you.

SHAYS:

That's a very nice way to end up, and all of us thank you for that.

This hearing is adjourned.