

U.S. House Appropriations Committee
Subcommittee on State, Foreign Operations, and Related Programs
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Ambassador Richard C. Holbrooke
Statement for the Record

Chairwoman Lowey, Ranking Member Granger, and other Members of the Subcommittee, thank you for the invitation to appear before you today to discuss our civilian and anti-corruption efforts in Afghanistan. I am pleased to be here with Dr. Rajiv Shah, and I would like to thank him and his entire team at USAID for the continued support and commitment to the mission in Afghanistan and Pakistan.

I want to commend the Chairwoman and the Subcommittee for your constructive oversight. You have spent weeks and months asking good, tough questions. We are here today to help answer those questions; to be candid about the challenges that face us all; and to share what we're doing to best deal with the very challenging circumstances we face on the ground in Afghanistan.

I just returned from the Kabul Conference with Secretary Clinton and Administrator Shah. The trip reinforced to me why we're in Afghanistan in the first place. Our core mission in Afghanistan is to disrupt, dismantle, and defeat al-Qaeda. Today, more than 1,000 U. S. Government civilian employees from ten departments and agencies are serving in Afghanistan, in partnership with our military forces, to support this mission and bring stability to that war-torn land. As Dr. Shah and I have seen firsthand, these brave civilians are implementing a range of programs under extremely dangerous and challenging circumstances – rebuilding Afghanistan's once vibrant agricultural sector, and working with Afghan ministries to improve provision of health, education, justice, and other services outside of provincial capitals. As President Obama, Secretary Clinton, and General Petraeus have all emphasized, the civilian mission is crucial to the success of our overall strategy in Afghanistan. While our military mission in Afghanistan is not open-ended, our civilian commitment, with Congressional support, will continue, long after our combat troops come home.

It is also worth noting that the signing of the Transit Trade Agreement between Afghanistan and Pakistan on July 18, in which Secretary Clinton was asked to witness, was a landmark event, the most important Afghanistan-Pakistan agreement in at least 50 years and represents the most significant bilateral

economic treaty ever signed between Afghanistan and Pakistan. It will open up markets between the two countries (reducing transit costs between both countries by half, lowering import costs and making exports more price competitive); expand trade to Central Asia; create new employment opportunities; and bring Afghanistan and Pakistan closer together – a sign of greater regional cooperation. Afghanistan now has greater access to sea and land ports of Pakistan; and for the very first time, Afghan trucks can take goods up to Wagah border for transport across the border and into Indian markets (but not into India directly).

This agreement came out of a commitment made by President Zardari and President Karzai to President Obama a year ago (May 9, 2009) at the White House to reach agreement. Foreign Minister Qureshi and other members of the Pakistan government lauded the agreement, and signaled that relations between the U.S. and Pakistan and with Afghanistan were, for the first time, becoming more stable and secure; maturing from "aid to trade." This agreement would not have happened without U.S. encouragement to both sides. We hope to further expand on this trade soon with the passage of the Reconstruction Opportunity Zone legislation and seek Congressional support to create market access for Pakistan and Afghanistan. This transit trade agreement will allow the goods to flow from the region, and we hope that U.S. legislation will allow the creation of employment opportunities as an alternative to extremist recruitment.

Our commitment to these efforts and to implementing our new Afghanistan strategy includes a strong commitment to enhanced accountability and oversight of U.S. foreign assistance. While assuming greater risks in our implementation of programs, we are also committed to providing oversight and to working with the Afghan government to improve the transparency and accountability of its ministries.

With this in mind, I'd like to turn directly to the issue of money flows leaving Afghanistan. This issue has received a good deal of media attention lately, and I would like to note that, while reports of cash leaving Afghanistan in large quantities via Kabul International Airport have been circulating for years, it was not until the past year that we had the experts in place in Kabul and in Washington to help the Afghan government develop an understanding of these flows.

Today, we assess that a substantial portion of this money leaving through the Kabul International Airport is officially declared – a major development made possible over the past year by our capacity building efforts in conjunction with the Afghan Ministry of the Interior. Additionally, Treasury and USAID are working

hard to build Afghanistan's ability to track funds and enable the Afghan government and the interagency to combat any illegal money transfers. It is important to recognize that, without these successes in tracking funds and associated transparency, recent press reports on this topic would not have been possible. These efforts by our colleagues at Treasury and USAID increase transparency and help shine the light of day on corrupt transactions.

While some of the money leaving Afghanistan is likely the result of illegal activity, we have accountability for the vast majority of funds being spent in Afghanistan that fall under State and USAID jurisdiction. To the contrary, given that Afghanistan is largely a cash-based economy with a small formal financial sector and a large trade deficit of nearly \$7 billion, we would expect to see large movements of cash legally cross the border to pay for imports.

The goods and services going into Afghanistan are frequently paid for in cash. At present, only five percent of the Afghan population reportedly uses the formal financial system, while the remainder continues to use cash or barter. Those who do use the formal system may prefer to send their money overseas to countries with more developed banking institutions.

An important U.S. Government priority is to work with Afghan officials to increase the percentage of Afghans who use formal financial channels. One tool in this effort is the development of salary disbursements through mobile banking, which will increase the ability of Afghans to earn and transfer money without fear that this money will be lost or stolen. This innovation is currently being implemented in a pilot program for the salary disbursements of approximately 2,000 Afghan National Police, many of whom previously reported having upwards of 30 percent of their salaries stolen from them when they were paid in cash. Our current efforts to improve banking, economic productivity, and the investment climate in Afghanistan will help to keep more money in Afghanistan, but these programs take root over time and require security.

Combating corruption is consistently raised in our bilateral meetings with the Government of Afghanistan. Anti-corruption efforts were addressed very directly at the London Conference in January and again just last week at the Kabul Conference. Attorney General Holder also raised the issue of anti-corruption with Afghan government ministers during his trip to Kabul last month.

President Karzai identified corruption as a major concern in his inaugural address and in subsequent shuras and we have underscored the importance of strengthening Afghan entities and authorities to prosecute corrupt officials who abuse the public

trust. President Karzai and the Government of Afghanistan take this issue very seriously and have announced a number of tangible steps they will be taking to enhance transparency and accountability and crack down on this problem.

The Government of Afghanistan's most significant anti-corruption achievements in the past eighteen months have been the creation of (1) the Major-Crimes Task Force, a multi-ministry initiative responsible for investigating corruption, kidnapping and organized crime cases and preparing them for prosecution; (2) an Anti-Corruption Unit of prosecutors within the Attorney General's Office; and (3) an Anti-Corruption Tribunal of specially vetted judges to oversee high-profile cases. The tribunal has already received 79 cases from the Anti-Corruption Unit and current conviction rates stand above 90 percent. We support all three of these initiatives. Finally, a three-year, \$30 million USAID program supporting the High Office of Oversight (HOO) at central and provincial levels will begin later this year. Our assistance, that your subcommittee generously provides, will help HOO develop its internal investigative and complaint tracking capacities and coordination across government agencies.

President Karzai issued a Presidential Decree in March 2010 addressing the corruption issues and action points agreed to in the London communiqué, such as: empowering the HOO as the lead on corruption issues in coordination with implementing partners; designating investigative powers for the HOO; and establishing a Monitoring and Evaluation Committee comprised of Afghan and international experts.

In another positive sign, President Karzai recently ordered the HOO to investigate all illegal business-related activities starting with those who are related to government officials – including his own family members – and those related to his deputies, ministers, members of parliament, etc. At the recent Kabul Conference, Karzai also announced the publishing of additional public official asset declarations, the strengthening of the independence of the HOO through the development of the Monitoring and Evaluation Committee, and the establishment of a Special Ministers Court to prosecute government officials.

We are encouraged by the steps that President Karzai and his government have taken in recent months to follow through on these anti-corruption commitments. However, it is clear that more needs to be done. Afghanistan still needs an anti-corruption law with national jurisdiction that solidifies the Major Crimes Task Force. Fortunately, however, we do have many safeguards in place to help with this effort in the meantime. For example, with State funding and oversight by my

office, the Treasury-led Illicit Finance Task Force has enabled the U.S. Department of Homeland Security to assist the Afghan Government in improving its capacity to interdict, investigate, and prosecute those involved in Bulk Cash Smuggling. By the end of 2010, USAID will have provided \$1.4 million in critical start-up assistance to the HOO.

Along with these anti-corruption efforts, we need to ensure that the much-needed civilian assistance money we spend in Afghanistan is being used wisely. Key to these efforts have been four initiatives designed to maximize the effectiveness of our civilian assistance and include: (1) enhanced accountability and oversight; (2) implementation of smarter contracting; (3) decentralization of our assistance programs and platforms; and (4) increased direct assistance to Afghan ministries with proper vetting. Let me say a few words about each of these efforts.

(1) Accountability and Oversight: As Dr. Shah will explain in greater detail, USAID operates multiple oversight systems to ensure U.S. taxpayer money is spent properly. These include: pre-award conferences (to set oversight and reporting standards); regular monitoring and evaluation actions (to track expenses against work plans and services delivered); site visits; and reviews of payment claims (which require invoices for work completed). USAID and Mission staff throughout the country report on a regular basis to Embassy officials. We have already seen positive results from having more civilian personnel in ministries and PRTs – whether they are auditors, technical advisors, or Foreign Service officers. They can identify and report on specific allegations of corruption for further investigation. In addition, the Bureau of International Narcotics and Law Enforcement is also requesting \$450 million in INCLE funds, of which \$190 million is slated for Administration of Justice and \$240,000 is scheduled for counter narcotics.

We are also closely scrutinizing the process by which we award contracts to local entities, is at the Government of Afghanistan's request. Our goal is to ensure that our contracting procedures reinforce our support for the Afghan government and do not inadvertently distort local economic and political circumstances by disproportionately benefitting one party. This is a critical issue for the U.S. Government, especially for the Department of Defense (DoD) given the huge commitment of its resources. Secretary Clinton and Secretary Gates are both keenly focused on this issue. Under Admiral Mullen's leadership, a joint interagency task force, Task Force 2010 (TF 2010), has been established to review all DoD contracts in order to limit contract-related fraud. As General Petraeus has

stated, this task force will “follow the money” to ensure that taxpayer dollars do not end up subverting the war effort.

State and USAID are in the process of standing up a working group to participate in TF 2010 under the leadership of Ambassador William Todd, the Coordinating Director for Development and Economic Affairs at Embassy Kabul. While TF 2010 is focused primarily on DoD contracting, State and USAID representatives will play a vital role in ensuring Defense, State, and USAID are sharing information effectively, benefiting from each others’ experiences, and proceeding with their contracting practices and reforms in a synchronized manner. Ambassador Todd and his team will concurrently review USAID and State contracts as well as procurement policy and management and closely synchronize efforts with TF2010.

Recognizing that the substantial international assistance to Afghanistan has the potential to contribute to corruption, USAID has increased its U.S. government staffing to 271 personnel, with approximately 157 of those working outside Kabul. Personnel are present in Kabul, on Provincial Reconstruction Teams, District Support Teams and Regional Platforms. These individuals bring with them a wide variety of skills including backgrounds in financial management, auditing, democracy and governance and law. Being placed in the field allows these personnel to monitor and oversee USAID interventions in their regions and keep activities aligned with the priorities put forth by the Afghan people.

In FY 2010, we will be devoting rigorous resources to tackle corruption and diversion of assistance. For example, we have introduced performance-based implementation mechanisms and significantly decreased the overall percent of multi-year contracts to U.S. entities. Separately, Treasury and USAID perform advisory work with Afghanistan’s central bank (DAB) to improve financial regulation and oversight of banks as well as informal banking networks called “hawalas.” To date, 475 hawalas have been licensed by DAB, whereas no hawalas were licensed just three years ago. In fact, licensed banks as well as hawaladars now must regularly submit reports to the central bank or face fines or forced closure. Finally, Treasury is providing assistance to Afghan officials in creating and strengthening a financial intelligence unit that helps to identify, monitor, and combat flows of illicit finance and links this to the multi-year USAID program to expand the DAB’s capacity to supervise its growing financial system for safety and soundness.

We also support a robust role for the Special Inspector General for Afghan Reconstruction (SIGAR) and the USAID Inspector General in Afghanistan to investigate vigorously any allegations of diversion of U.S. taxpayer funds from our programs. The SIGAR's role in evaluating internal controls and implementation of assistance programs, as well as State Regional Inspector General's expanded role shaping program design and implementation, has helped us reduce fraud and improve accountability.

(2) Smarter Contracting: We have done a full review of all major contracts and eliminated those that did not meet our objectives. In other cases, when contracting requirements cannot be adequately defined in advance, we work to break down contracts into smaller, more flexible mechanisms. Additionally, we are attempting to shift away from large U.S.-based contracts and grants to smaller, more flexible mechanisms with fewer sub-contractors and grantees that enable greater on-the-ground oversight. These smaller contracts and grants will be managed by U.S. officials in the field, closer to the actual activity implementation, making it easier for those same officials to monitor and oversee projects to ensure the proper use of taxpayers' funds. In most cases these contracts and grants are implemented by local Afghan personnel making them more efficient, helping to building Afghan capacity, and bypassing the middleman.

(3) Decentralization: Today, USAID officials posted to regional civilian-military platforms bring with them funding and flexible authorities to enhance the responsiveness of programs and support local Afghan priorities. This decentralized approach has enhanced development activities at the provincial and district level, and also proven to be more cost effective. Moreover, decentralizing assistance has made it easier for forward deployed U.S. Government civilians and their Afghan implementing partners to oversee and monitor the success of our programs and prevent fraud.

(4) Increased Direct Assistance: While expanding our sub-national footprint, we have also worked to streamline and enhance national level programs, following the successful models that were pursued in education and health in the early years of the war effort. To build Afghan institutional capacity, we joined the international community in committing to increase our direct assistance through Afghan government mechanisms. Our assistance is being directed away from large international contractors to proven Afghan programs, such as the National Solidarity Program which is part of the World Bank-Administered Afghanistan Reconstruction Trust Fund. We also provide support for the Afghan Civil Service

Commission to help professionalize the Afghan civil service and enable Afghans to assume greater responsibility for their country's economic development.

To receive direct assistance from the U.S., Afghan ministries must undergo a thorough process of certification in which they are evaluated and audited on a wide range of accountability and transparency standards. This direct assistance does not go to budget support. As a result of the rigors of the process, to date we have only certified three ministries – the Ministry of Finance, the Ministry of Public Health, and the Ministry of Communications and Information Technology. Our goal is to have 40 percent of U.S. assistance delivered through local entities (Afghan government or local non-governmental organizations) by December 2010 and to certify six of the core Afghan ministries in the same time period.

Make no mistake; the mission ahead of us in Afghanistan will be difficult. We have lost over a thousand American lives, with many more wounded, and devoted significant resources to this effort aimed at destroying al-Qaeda and securing Afghanistan so it will never again be fertile ground for extremists who want to attack us again. We face many obstacles to achieving our civilian goals, including an unstable security situation and limited, but improving, Afghan government capacity. But, I believe we are now beginning to see initial results from these changes in approach in several areas, particularly in rebuilding the agriculture sector, perhaps our greatest non-security initiative.

For example, we have distributed discounted wheat seed to over 366,000 farmers and employed over 70,000 Afghans in Kandahar alone on short-term infrastructure projects. Additionally, Afghan apples and other fresh fruit are being air-freighted to India for the first time. We are also making strides in the areas of counternarcotics, where more than 50 interdiction operations have led to 50 percent of former poppy land being converted to licit use. In the area of women's rights, now more than 25 percent of members of parliament are female and more than 2.4 million girls are enrolled in primary and secondary schools.

I look forward to continuing to work with you as you continue to conduct your critical oversight, and I stand ready to answer any and all of your questions. Thank you again for giving me the opportunity to be here today.