

**ARE CHANGES IN SECURITY POLICY JEOPARD-  
IZING USAID RECONSTRUCTION PROJECTS AND  
PERSONNEL IN AFGHANISTAN?**

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**HEARING**

BEFORE THE  
SUBCOMMITTEE ON NATIONAL SECURITY,  
HOMELAND DEFENSE AND FOREIGN OPERATIONS  
OF THE  
COMMITTEE ON OVERSIGHT  
AND GOVERNMENT REFORM  
HOUSE OF REPRESENTATIVES

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**ARE CHANGES IN SECURITY POLICY JEOP-  
ARDIZING USAID RECONSTRUCTION  
PROJECTS AND PERSONNEL IN AFGHANI-  
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**Thursday, March 29, 2012,**

HOUSE OF REPRESENTATIVES,  
SUBCOMMITTEE ON NATIONAL SECURITY, HOMELAND  
DEFENSE, AND FOREIGN OPERATIONS,  
COMMITTEE ON OVERSIGHT AND GOVERNMENT REFORM,  
*Washington, D.C.*

The subcommittee met, pursuant to call, at 9:35 a.m., in Room 2154, Rayburn House Office Building, Hon. Jason Chaffetz [chairman of the subcommittee] presiding.

Present: Representatives Chaffetz and Tierney.

Staff Present: Ali Ahmad, Majority Deputy Press Secretary; Thomas A. Alexander, Majority Senior Counsel; Robert Borden, Majority General Counsel; Will L. Boyington, Majority Staff Assistant; Molly Boyd, Majority Parliamentarian; John Cuaderes, Majority Deputy Staff Director; Mitchell S. Kominsky, Majority Counsel; Justin LoFranco, Majority Press Assistant; Jaron Bourke, Minority Director of Administration; Devon Hill, Minority Staff Assistant; Peter Kenny, Minority Counsel; Rory Sheehan, Minority New Media Press Secretary; and Carlos Uriarte, Minority Counsel.

Mr. CHAFFETZ. The Committee will come to order.

I will state the Committee mission statement.

We exist to secure two fundamental principles. First, Americans have a right to know that the money Washington takes from them is well spent and, second, Americans deserve an efficient, effective government that works for them. Our duty on the Oversight and Government Reform Committee is to protect these rights. Our solemn responsibility is to hold government accountable to taxpayers, because taxpayers have a right to know what they get from their government. We will work tirelessly in partnership with citizen watchdogs to deliver the facts to the American people and bring genuine reform to the Federal bureaucracy.

This is the mission of the Oversight and Government Reform Committee

I want to thank everybody for their participation in today's hearing, which is entitled, "Are Changes in Security Policy Jeopardizing USAID Reconstruction Projects and Personnel in Afghanistan?" I would like to welcome Ranking Member Tierney and members of the Subcommittee and members of the audience that are here with us today.

National Security Subcommittee has a long history of overseeing U.S.-funded reconstruction efforts abroad. Last year alone, the Subcommittee held six hearings on Iraq, Afghanistan, and the billions spent on earthquake relief in Haiti.

We have seen a common theme: the Federal Government appears to be incapable, at least thus far, of tracking its expenditures. Time and again it cannot readily provide data, simple data, such as the amount of money spent, the number of projects completed, the number of projects ongoing, and whether projects are on time, on budget, and whether they were actually completed. The simple request, for instance, know the location or see a photo is often met with bewilderment and inability to provide that information.

The failure to track this data in real time demonstrates an extreme lack of oversight. It also tells this Congress that bureaucrats in Washington have little visibility or control over the billions of dollars spent overseas. I continue to work on a piece of legislation that will hopefully rectify this. Hopefully we can do that in a very bipartisan way.

Oftentimes, the Inspectors General are the last bastion of accountability in the Executive Branch. Unfortunately, President Obama has failed to appoint replacements for the State Department, Defense Department, USAID, and SIGAR, the Special Inspector General for Afghan Reconstruction, which is, in essence, all the major players in Afghanistan. We don't have even an appointment, let alone a Senate confirmation, for the major people that are responsible for the oversight within Afghanistan.

In fact, the State Department has not had an IG since December 2007. This is just inexcusable and I think a disservice to the American people, and it makes me wonder if this President, President Obama, simply doesn't want somebody looking over his shoulder and want people in there on a full-time basis with the authority to get the job done. I think it is inexcusable to have so many vacancies at this point.

In some cases there is significant disagreement between the agencies and the oversight community. We saw this recently with the Special Inspector General for Afghan Reconstruction and USAID. On March 9th, 2012, Mr. Steven Trent sent a management alert to Dr. Ken Yamashita regarding Afghan President Karzai's Presidential Decree 62, PD 62, as it is called. PD 62 mandates that U.S. implementing partners cannot use private security companies after March 20th, 2012. Instead, the contractors and nongovernment organizations must contract with the recently formed Afghan Public Protection Force, or the APPF. So in addition to providing goods and services at no cost to the Afghan people, the American people must also pay President Karzai for security.

Mr. Trent's management alert outlined several core concerns: one, the transition to using the Afghan Public Protection Force may cause taxpayers an additional \$55 million during the first year on 13 different projects. Part of this is due to a staggering 20 percent profit margin demanded by President Karzai. Number two, the Afghan Public Protection Force may not be capable of providing adequate security for the implementing partners; and, third, approximately 1.34 billion U.S. dollars in taxpayer funded projects may be at risk of modification or perhaps even termination.

According to International Relief and Development, a nonprofit NGO, the transition to APPF may increase costs by approximately 15 percent. This expense is then passed on to the American taxpayers. In response to SIGAR's concern, Dr. Yamashita wrote the following on March 13th, 2012: "USAID acknowledges the issues identified in the observations, but rejects the SIGAR management letter in its entirety due to the inadequate comparisons, speculative assumptions, and inaccurate statements within the document." USAID did not merely object to SIGAR's findings, it rejected them in its entirety.

We often see contrasts, we often see disagreements on particular points, but what strikes me about this particular one is just the total and complete dismissal of this report from top to bottom. Thus, we are holding this hearing.

The purpose of today's hearing is to reconcile these assessments. In doing so, we will take a broader look at whether this new security policy makes sense, whether it is in the best interest of the American taxpayer, and whether we can exceed under this rubric.

The American people have little patience for government waste and lack of progress in Afghanistan. If, after 10 years, we are no closer to defining and achieving success, then Congress and the Obama Administration should reassess our future in Afghanistan.

I hope that our discussion today will provide some clarity. I look forward to the hearing and the panel. I appreciate the two gentlemen who are joining us today and their commitment to our Country and our betterment, future. I really do appreciate their expertise and look forward to a good discussion.

I would now like to recognize the Ranking Member, the gentleman from Massachusetts, a friend, Mr. Tierney, for his opening statement.

Mr. TIERNEY. Thank you very much, Mr. Chairman. Thanks for having this hearing.

Thanks to both of you gentlemen for coming here and testifying today.

I can't let go unanswered just the comment that the Chairman made with regard to not having appointments in various important positions. I agree that there are a number of important positions that need to be filled in this Country and that are not filled, but I do take note of the insistence in the Senate of having cloture votes on every single thing that comes down the line, and the amount of obstruction that has gone on with regard to the President's attempts to appoint everything from the Consumer Protection Bureau to the FHFA director to judges to the National Labor Relations Board.

When you have a minority party and minority leadership that says that their sole goal in life is to make sure that this sitting President doesn't win a second term, I think that that is the indication of why things aren't getting done in this Country in large scale, and particularly why we don't have appointments in very important places and I would question whether or not that is the best thing for this Country.

And I think if we want to start talking about working in a bipartisan way, that is a darn good place to start. Let's fill these positions so that we can move forward and keep this Country safe and

keep our economy moving on that basis. So before we start loading up criticism at any one president on that basis, let's get the congressional places functioning, and particularly the Senate, with regard to allowing people to be nominated and then have a debate and vote on that.

This is important business that we are talking about here today. These are people that are working very hard to try and make the policy of the past government and the current government work in Afghanistan, and people are putting their lives at risk. We have to make sure that we are doing everything we can to keep them safe and that the security mechanisms that are put in place actually are effective. I have some serious questions about that and I have talked to Mr. Thier about it and would be happy to have the conversation with Mr. Trent about just how we are proceeding over there and whether or not it is the most efficient way, whether or not it is the safest way, and whether or not we are just throwing bad money after worst on that.

I would just ask the Chairman, with unanimous consent, to enter my written remarks into the record, then we can proceed. I think it would be instructive to hear the witnesses and have an exchange of questions.

Mr. CHAFFETZ. Without objection, so ordered.

In the spirit of flushing this out, my criticism of the President thus far is that in most cases there hasn't even been a nomination. So I agree the stagnation in the Senate is clearly a problem, and a bipartisan problem. I don't know what that other body does, quite frankly, all day. They ought to give up the wheelchair races and the Wednesday night Bingo and actually do something.

Mr. TIERNEY. If the Chairman would yield for a second. And, therefore, you see the President's frustration. When he nominates people, they end up having to withdraw because they can't get action. So if the Senate would show a little bit of an attempt here to work as a government should work, then I think the whole thing would move a little bit more smoothly.

Mr. CHAFFETZ. And I would concur and work with you. My criticism of the President thus far is the lack of nominations, and we will continue to work on that, because I think ultimately our goal is the same and I think we are unified in that. We need people with authority, confirmed by the Senate, in these active positions.

Nevertheless, maybe we will have another hearing about that.

Let's move forward, though. Members will have seven days to submit opening statements for the record.

We would now like to recognize our panel. Mr. Steven Trent is the Acting Special Inspector General for Afghan Reconstruction and Mr. Alexander Thier is the Assistant to the Administrator for the Office of Afghan and Pakistan Affairs at the U.S. Agency for International Development. Both gentlemen have very distinguished careers and backgrounds, very well qualified for their positions. We appreciate their participation here today.

Pursuant to Committee rules, all witnesses will be sworn in before they testify, so if the gentlemen would please rise and raise your right hands.



Do you solemnly swear or affirm that the testimony you are about to give will be the truth, the whole truth, and nothing but the truth?

[Witnesses respond in the affirmative.]

Mr. CHAFFETZ. Thank you. Let the record reflect the witnesses answered in the affirmative.

In order to allow time for discussion, we would like you to limit your testimony to five minutes. We will obviously submit your entire opening statement for the record. But at this time we will now recognize Mr. Trent for five minutes.

## STATEMENTS OF WITNESSES

### STATEMENT OF STEVEN J. TRENT

Mr. TRENT. Mr. Chairman, Ranking Member Tierney, and members of the Committee, thank you for inviting me here today to discuss changes in Afghanistan's private security contractor policies and their impact on USAID reconstruction projects and personnel in Afghanistan.

President Karzai's decision to dissolve private security contractors, or PSCs, and transfer the responsibility to an Afghan state-owned enterprise ultimately affects all U.S. international reconstruction programs. Under a two-year bridging strategy, the new Afghan Public Protection Force, known as the APPF, was to assume security responsibilities for all development projects and convoys by March 20th of this year, and for all military construction sites and bases a year from now.

The transition most immediately affects AID, as the largest single funder for development projects in Afghanistan. SIGAR has conducted a number of PSC-related audits and is currently conducting an audit of the cost of PSCs used by AID's implementing partners from 2009 through 2011. Earlier this month SIGAR alerted AID to issues we believed warranted immediate consideration in light of this transition to the APPF.

Our primary concerns are over increased costs and the possible disruption or termination of reconstruction projects if the APPF cannot provide the necessary security. Security costs for reconstruction projects have steadily and significantly increased in recent years. Our ongoing audit work indicates that AID-implementing partners employing PSCs are currently spending an average of 14 percent of the value of their contracts on security services. We noted one project whose security comprised 42 percent of the overall contract value.

SIGAR's analysis found the transition to the APPF may increase Afghan labor costs by as much as 25 to 46 percent and expat labor costs by as much as 200 percent. In January of this year, AID released an analysis of its implementing partners' contingency plans for the transition. This analysis concluded that if the APPF cannot provide necessary security, at least 10 major AID funded projects, valued at nearly \$900 million, would be at risk of termination. Another 19 projects, worth about \$450 million, would need to be modified.

Although AID disagreed with our alert letter, neither AID nor any of the U.S. Government agencies involved in Afghanistan's re-

construction systematically tracks security costs. No one knows how much the transition to the APPF is going to cost, but all agree it will cost more. How much more will ultimately depend on the APPF's capacity to provide the full range of security services. The true increase in cost may not be known for a year or more as the fledgling APPF develops.

I think it is important to realize that the current rush to establish contracts with the APPF is not the end game. At the moment, we have more questions than answers about how the APPF is actually going to operate. The bridging strategy called for developmental assessments of the APPF at the 6, 9, and 12 month marks. The six-month assessment, completed in September of 2011, found that the APPF was not ready to assume essential PSC responsibilities, such as training, equipping, and deploying guard forces to meet contract requirements. The December assessment at the 9 month mark has not been finalized, and we are now at the 12 month assessment point.

SIGAR has suggested that AID determine if funding will be available to cover additional security costs for projects that will continue after the transition and assess the effect increased security costs will have on project implementation. SIGAR also suggested that AID address increased security costs before deciding to make a new award. In other words, AID should carefully and objectively consider whether the expected benefits of a reconstruction project outweigh the rising costs of security.

Security is central to the reconstruction effort and SIGAR will continue to closely monitor transition to the APPF, assess transitional outcomes, and keep key policy and decision makers informed about the results of our work.

Thank you, and I am happy to take any questions from the Committee.

[Prepared statement of Mr. Trent follows:]

STATEMENTS OF STEVEN J. TRENT, ACTING INSPECTOR GENERAL FOR AFGHANISTAN RECONSTRUCTION; AND J. ALEXANDER THIER, ASSISTANT TO THE ADMINISTRATOR AND DIRECTOR OF THE OFFICE OF AFGHANISTAN AND PAKISTAN AFFAIRS, U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT

STATEMENT OF STEVEN J. TRENT

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Security is central to the reconstruction effort and SIGAR will continue to closely monitor transition to the APPF, assess transitional outcomes, and keep key policy and decision makers informed about the results of our work.

Thank you, and I am happy to take any questions from the Committee.

Mr. CHAFFETZ. Thank you.  
Mr. Thier?

**STATEMENT OF J. ALEXANDER THIER**

Mr. THIER. Thank you, Chairman Chaffetz and Ranking Member Tierney. Thanks for the opportunity to discuss the potential impacts of PD 62 upon the safety and security of our development programs and personnel in Afghanistan today.

Over the past 19 years I have worked side-by-side with thousands of American, Afghan, and international public servants in Afghanistan, and these dedicated people risk their lives for the greater good, and their efforts have improved the lives of millions.

The safety and security of both USAID staff and implementing personnel who work with USAID in Afghanistan are the highest priority of our agency and for me personally. Many people working with USAID in Afghanistan have sacrificed to support U.S. national security and to help to bring stability to the people of Afghanistan, and I have personally lost many friends. We must not forget that these gains come at a great cost.

For this reason, since the passage of PD 62, the United States Government, and our agency in particular, has devoted significant energy to working with our partners on this transition required under Afghan law.

USAID's development assistance to Afghanistan continues to remain a critical component in supporting our core national security objectives and our efforts are a critical component of the whole of government's civil military effort to advance these objectives. I also believe that our programs there are delivering meaningful results. It is really critical to keep in mind the situation that Afghanistan faced a decade ago. I first served in Afghanistan nearly four years during the civil war, when the country was literally dismantling every vestige of a functioning state that it had once had.

But since 2002 we have supported Afghanistan's impressive development progress in vital areas, despite operating under some of the world's toughest conditions. This includes enormous progress in education, health care, and economic growth.

Over the last 18 months, USAID has been adjusting our programming and our business model in Afghanistan to ensure that our portfolio reflects both the most effective and cost-effective priorities.

Under PD 62, responsibility for security services in Afghanistan for civilian development programs and projects transferred to the APPF as of March 20th, 2012.

USAID has made a concerted effort with its partners to reduce overall reliance on PSCs and the need for armed guards in the last 18 months. Many, in fact most, of our partners do not use armed guards and have reduced their need for these services through community engagement and other tested approaches. As of March 1st, 2012, only 32 of 91 USAID projects required protection by PSCs, and of the 59 remaining projects, which represent 75 percent of our funding, they do not require armed security and, therefore, will not utilize APPF for guards.

USAID has worked intensively with those partners who do require APPF with the NATO training mission in Afghanistan to

manage this transaction without sacrificing security and to ensure that our critical efforts to stabilize Afghanistan continue. The transition model is a two-part process. First, partners contract with the APPF for services and their PSC guards convert to APPF guards; same guards, different uniforms. Second, the partner may choose to contract with a risk management company to provide security, advice, and consulting.

In recent months, particularly after the September report that Mr. Trent has discussed, the APPF has significantly improved its capabilities and many of the necessary milestones for the APPF transition have been reached. Of the 32 USAID projects that have indicated that they will contract with the APPF, as of this week, 23 have successfully contracted and the remaining 9 projects are at various levels of negotiation. The APPF is already operational in several key sites and interim licenses granted by the Ministry of Interior have provided additional time for remaining programs to find a solution to their security requirements. Enormous credit must be given to NATO team, who worked tirelessly with the Afghan government and USAID and our partners.

In addition to addressing security concerns, USAID has also been carefully monitoring the costs associated with this transition. We have conducted an assessment of security costs for 15 of the 23 projects that have converted from PSCs to APPF and RMC contracts. This initial assessment indicates that overall average costs based on a side-by-side comparison, including all costs associated with security for those projects, is 16 percent higher under the APPF and RMC model. As the process of transition to APPF proceeds, we will continue to monitor costs and seek opportunities to reduce overall expenses without sacrificing security.

We are committed to a continued joint effort working closely with the NATO mission, Congress, the Afghan government, our Inspectors General, both internal and SIGAR, and international partners to sustain and improve on the development investments made during the past decade.

Thanks for the opportunity to discuss this critical issue, and I look forward to your questions and advice.

[Prepared statement of Mr. Thier follows:]

**Statement for the Record**  
**J. Alexander Thier**  
**Assistant to the USAID Administrator and Director of the**  
**Office of Afghanistan and Pakistan Affairs**  
**Before the House Oversight & Government Reform Subcommittee on**  
**National Security, Homeland Defense and Foreign Operations**  
**March 29, 2012 8:30 a.m.**

Chairman Chaffetz, Ranking Member Tierney, distinguished Members of the Subcommittee, it is an honor to appear before you today. Thank you for the opportunity to discuss the potential impact of Afghanistan's Presidential Decree 62 upon the safety and security of development programs and personnel in Afghanistan. As Assistant to the Administrator and Director of the United States Agency for International Development's (USAID) Office of Afghanistan and Pakistan Affairs, I oversee the strategy and execution of our programs and operations in both of these countries.

Over the past 19 years, working in both the public and private sectors, I have toiled side by side with thousands of American, Afghan, and international public servants in Afghanistan. These dedicated people risk their lives for the greater good, and their efforts have improved the lives of millions. But I also have lost many friends, and place enormous personal importance on the safety and security of our staff and partners.

The safety and security of both USAID staff and implementing partner personnel who work with USAID in Afghanistan are of the highest priority to our Agency. Many people working with USAID in Afghanistan have sacrificed to support U.S. national security and to help bring stability to the people of Afghanistan. We must not forget that these gains have come at great cost. These partners are people with whom we work every day. They are friends and colleagues.

For this reason, since the passage of Decree 62, the United States Government, and our Agency in particular, has devoted significant energy to working with our partners on the transition required under that law.

USAID maintains a significant effort in Afghanistan and our programs there are delivering results. USAID's development assistance to Afghanistan continues to remain a critical component in supporting our core U.S. national security objective: to disrupt, dismantle, and defeat al-Qaida, and prevent Afghanistan from ever again becoming a safe-haven from which extremists can attack the US and our allies. USAID's efforts are a critical component of a whole of government, civil-military effort to advance this strategic objective. Together, we are committed to promoting the development of a stable Afghanistan by

partnering with the Afghan government and the Afghan people to solidify a foundation of sustainable economic growth and effective, legitimate governance.

Over 380 American USAID staff, hundreds of other American civilians, and thousands of Afghans take risks every day to implement USAID programs and turn the tide against violent extremists. Since 2003, 387 people working for USAID partner organizations in Afghanistan have been killed in action and another 658 wounded in action. Between 2009 and 2010, there was a two-fold increase in the number of attacks on partners, from an average of 29 a month in 2009 to 57 a month in 2010.

Despite these enormous challenges, our mission in Afghanistan is delivering results.

It is important to keep in mind the situation Afghanistan faced a decade ago. I first served in Afghanistan for nearly four years from 1993-1996, as a civil war was literally dismantling every vestige of a functioning state.

- A third of the populations were refugees, and more were leaving.
- Another third were dependent on food aid from the international community for their survival.
- Half of the population, Afghan women, were about to be plunged into darkness and destitution by the Taliban.

The world had largely abandoned Afghanistan.

But since 2002, we have supported Afghanistan's impressive development progress in vital areas despite operating under some of the world's toughest conditions. For example:

- Agricultural production and employment have helped to transform insurgent strongholds into productive communities.
- Enrollment in schools has increased from 900,000 boys under Taliban rule (with nearly 0% girls) to eight million children in schools today, 35 percent of whom are girls.
- Per capita income has increased from \$200 per year to \$500, and annual economic growth has averaged 8-10% for the last decade.
- The Afghanistan Mortality Survey – a landmark comprehensive health study – was released publicly in November. The survey shows:
  - 64 percent of the Afghan population now has access to a health care facility, up from less than 10 percent a decade ago;
  - Adult life expectancy has increased from approximately 44 to 62 years – likely the largest increase of any country in the world in the last decade; and
  - Maternal mortality is now less than 500 deaths per 100,000 live births, three times lower than the 1,600 deaths out of 100,000 live births reported by UNICEF in 2002.



While these gains are significant, Afghanistan remains one of the poorest countries in the world. And these gains remain fragile as Afghanistan is a high-risk environment and our efforts continue to face considerable challenges.

Over the last 18 months, USAID has been adjusting both our programming and our business model to ensure that our portfolio reflects the most cost-effective priorities. Last June, Administrator Shah issued Sustainability Guidance that mandates that all of our programs in Afghanistan be reviewed and adjusted to ensure they are implemented according to our driving principles of accountability, sustainability, and social and gender inclusion, and that they be implemented in partnership with the Afghan government. Allocation of aid resources will increasingly be based on maximizing capacity-building initiatives and development impacts as aid budgets shrink to enable a viable Afghan transition.

In June of last year President Obama announced the US will transition security responsibilities to the Afghan government by the end of 2014. Afghans are already assuming more operational and financial responsibility for the security of their own people. This is a necessary and positive development.

As part of this process, Afghan President Hamid Karzai issued Presidential Decree 62 in August 2010, calling for the disbandment of Private Security Companies (or PSCs). These security firms provide guards and other security services for a variety of international and domestic organizations engaged in civilian development, including USAID implementing partners. We respect the sovereignty of the Afghan government and its right to regulate the provision of security services within Afghanistan.

Under Presidential Decree 62 (PD 62), responsibility for security services for civilian development programs and projects transferred to the Afghan Public Protection Force (APPF) as of March 20, 2012. USAID has been part of an interagency U.S./Afghanistan International Security Assistance Force (ISAF) team working to ensure that the security needs of USAID implementing partners, and others, using APPF guards are addressed and that our critical efforts to stabilize Afghanistan continue.

USAID has made a concerted effort with its partners to reduce overall reliance on PSCs. Many of our partners do not use PSCs, or have reduced their need for these services through community engagement and other tested approaches. As of March 1, 2012, only 32 out of the 91 USAID projects required protection by PSCs, compared to the 43 programs that utilized PSCs just this past summer. The remaining 59 projects do not require armed security and therefore will not utilize the APPF for guards.

USAID has worked intensively with those partners requiring APPF and with NATO Training Mission-Afghanistan's (NTM-A's) APPF Advisory Group (AAG) to manage this transition without sacrificing security. The APPF is a "state-owned enterprise," managed by the Afghan Ministry of Interior. A joint Afghan government-ISAF assessment of APPF last year

concluded that additional support was needed to develop APPF's business and operations practices before it would be fully self-sufficient. The AAG has been working intensively to create an APPF capable of fulfilling its mission.

The transition model is a two-part process. First, partners contract with the APPF for services, and their PSC guards have converted to APPF guards. Same guards, different uniforms. Second, the partner may choose to contract with a Risk Management Company (RMC) to provide security advice and consulting. Employees of these firms may be lightly armed and work closely with the senior management of the firms that have hired them. In many cases, the private security companies that previously provided guard services to our partners formed new affiliates to operate as risk management companies. So far 15 firms have been granted RMC licenses to operate in Afghanistan.

In recent months, the APPF has significantly improved its capabilities, and many of the necessary milestones for the APPF transition have been reached. Of the 32 USAID projects that have indicated that they will contract with the APPF, as of this week, 18 have signed contracts with APPF, and the remaining projects are at various levels in the negotiation process with the APPF. The APPF is already operational in several key sites, and interim licenses granted by the Ministry of Interior have provided additional time for remaining programs to find a solution to their security requirements. Enormous credit must be given to the NATO team and the AAG, which worked tirelessly with the Afghan government and USAID and our partners. Ensuring that transition to the APPF does not create a gap in security for our development projects has been a central and continuing goal of this effort.

In addition to addressing security concerns, USAID has also been carefully monitoring costs. We have conducted an assessment of security costs for 15 projects that have converted from PSCs to APPF and RMC contracts. Data included cost information for RMCs, Logistical Support, APPF, and PSC cost for one month prior to transition and one month after transition. This initial assessment indicates that the overall average cost, based on side-by-side comparison, is 16% higher with the APPF/RMC model. As the process of transition to APPF proceeds, we will continue to monitor costs and seek opportunities to reduce overall expenses without sacrificing security.

We remain in constant contact with our implementing partners, working together to address mutual concerns. Thus far, all of our partners have chosen to continue to operate in Afghanistan through this transition.

We are committed to a continued joint effort, working closely with AAG, NTM-A, Congress, the Afghan Government, and international partners to sustain and improve on the development investments made during the past decade.

Thank you for the opportunity to discuss this important issue, and I welcome your questions and guidance.

Mr. CHAFFETZ. Thank you both. I will now recognize myself for five minutes.

I would ask unanimous consent to insert into the record a written statement from the Professional Services Council. They have 350-plus members and I would like to insert that into the record. Without objection, so ordered.

Mr. Thier, to simplify this, to read through this letter from USAID that came back from Mr. Yamashita, who is the Mission Director there for USAID, there isn't going to be an increased safety concern, it is not going to cost more money, you are not going to have projects pulling out. Is that an oversimplification? That is in essence what they are saying, is pretty much don't worry about it, nothing is going to change.

Mr. THIER. Let me say that we are concerned, as we have been since day one and, in fact, before PD 62, about all of these issues because they are constantly evolving. What the mission response and my testimony represents is the best information that we have as of today, because it has been a very rapidly evolving situation. We were, indeed, six months ago very concerned about the potential that some of our important development programs may shut down as a result of this transition not succeeding. What we have seen, in fact, is that of the 32 projects that say that they require security, 23 of them have successfully contracted.

Mr. CHAFFETZ. I understand that. The question is, is it going to cost more money?

Mr. THIER. I think there are three issues. One is whether we are now concerned that projects are going to shut down on the immediate time frame, and my response to that is that our current indications as of today are that none of our projects are going to shut down.

Mr. CHAFFETZ. Okay, so none are going to terminate.

Mr. THIER. Right.

Mr. CHAFFETZ. Nobody is going to leave. The risk that Mr. Trent shows up there, which you look at the worst case scenario, that is what they are supposed to do, is highlight the worst case scenario. So you are saying it is going to be zero and the Inspector is telling us that there could be up to \$899 million worth of projects that are abandoned.

Mr. THIER. I certainly can't say that it is going to be zero. What I know is that of the projects that we were concerned about, none of them are now indicating a likelihood of shutting down in the near term. Now, I certainly can't say that that won't be the case in the future, but we—

Mr. CHAFFETZ. That is what Mr. Yamashita said. He said that none of them today are saying—said already been analyzing and preparing the transition for years and not one partner has stated that the organization would withdraw from Afghanistan because of the transition to the APPF.

Mr. THIER. And that is exactly right. As of today, not a single one of our partners is planning to shut down—

Mr. CHAFFETZ. Safety is an obviously huge concern. Since 2003, USAID partners and personnel, there have been 1,000 people that have either been killed or injured; roughly just over a third of those people have been killed. One of the biggest concerns is safety. You

don't see any disruption in the safety of what these people are doing? Because, as you rightly point out, these people are putting their lives on the line in the most difficult of circumstances. You don't see any decrease in the safety of these people that are out there working for us?

Mr. Thier Thus far we do not have indications. And this is obviously from our partners who are going through this process and making these contracts. We do not have any indication that there is any decrease or increase in security. And there are really two critical facts here: one, that our reliance on armed guards has dramatically decreased in the last 18 months, in part because we wanted to decrease our need or necessity for the APPF and PSCs for both cost reasons and security reasons leading up to this transition.

Of those remaining who still feel the need for these services, they have gone forward. They are the ones who are responsible for the safety and security of their employees, and I talk to these people very day. They would not do this unless they were confident, as of today, that the safety and security of their employees was going to be okay under this model.

Now, that may change, but at the moment they are all saying we are willing to make this transition because we feel comfortable with the way things have worked out.

Mr. CHAFFETZ. And the cost? You don't anticipate this is going to have an increase in cost?

Mr. THIER. At the moment, we are trying to look at this very intensively, and we ordered this side-by-side comparison of 15 projects, and what our implementing partners have said, based on their current contracts and their plans, that we see a 16 percent cost increase.

Now, I can't guarantee that some projects won't be more; others won't be less. We are also continuing to try to get some of our projects off of this entirely, which is, frankly, a much greater degree of cost savings than the incremental cost of the transition. But our analysis, which is looking at the actual contracts that have been signed and what our partners say they need today to secure their sites has a roughly 16 percent increase over 15 out of 23 contracts that have been signed.

Mr. CHAFFETZ. This would be the 20 percent profit margin that the President is wanting to put in who knows what bank account?

Mr. THIER. Well, it is split between several contracts. And whether the increase is coming from the risk management company side of the house or the APPF side of the house, I would have to let you know; I don't have that breakdown.

Mr. CHAFFETZ. Mr. Trent, I obviously want to give you time to respond to this, but I will come back to you. But in the essence of time, let me recognize the Ranking Member for five minutes.

Mr. TIERNEY. Thank you.

So this question is for both of you. Take it in whichever order you want. My understanding is for those remaining projects that require security, the deal is that now they are going to have APPF forces there, who I don't know that we have a great deal of confidence in their abilities on that; there has always been trouble with the training of the security forces of Afghanistan.

So they are going to come in, and then for those that are still having trouble deciding how they are going to operate in this system, we are going to be able to have management risk companies, who are essentially going to be the same people that used to be contracting for the job to now layer on and oversee them. Then we are going to pay them on a cost-plus basis and add on the 20 percent profit.

So if I work this calculation all the way out, is the ISAF forces, NATO and the United States and others, contribute money to Afghanistan, Afghanistan uses all of that money to try to build a security force, they then take the funded security force and assign it to these projects, which are paid for by the United States and other countries' money for the development of that; charge them for the security by the people who are paid for by these people on a per person basis on cost-plus; and then manage them with people that used to be there without further management or whatever, one less layer, and pay for them and then add a 20 percent profit to it. Is that about right, Mr. Trent?

Mr. TRENT. Congressman, we have paid a large amount of money through MLI to buy weapons and various equipment. Your characterization, I think, has certainly a consideration. I think that is not—I can't say it is an unfair way to look at it. I would be interested in AID's response to that.

Mr. TIERNEY. So would I.

Mr. Thier?

Mr. THIER. Thank you. So let me just clarify one thing about I think the way this is functioning. The guards who were working for the private security contractors on March 19th changed their uniforms and go to work for the APPF. So this is not a——

Mr. TIERNEY. Without any further training.

Mr. THIER.—not a separate guard force. And in most cases, I think in all cases thus far, the same guards who they were paying for their private security contractors have now become APPF guards. So literally a change of uniform on that day. So the same people who they relied on and paid and trained to fulfill that role are the same people who are guarding them on March 21st, but wearing the APPF uniform.

At the same time a number of private security contractors, and perhaps other companies, have signed up to become risk management consultants.

Mr. TIERNEY. These are the same people that used to have what now are the APPF people when they had the old uniforms. These are the people that managed them——

Mr. THIER. Exactly. The old model was essentially some expatriate managers with Afghan guards, and that has now been split into two things: the Afghan guards now work for the APPF and the expatriates, if they are hired, work for these risk management companies, advising the firm on security.

So what was previously one contract has now become two different contracts, one for the Afghan guards, one for the expatriate guards. And that is voluntary. The implementing partners don't have to sign up with the APPF, but if they want those services they do. They don't have to sign up with the risk management company, but if they want those services they do.

So that is the basic model of how this is meant to function.

It is true that the international community has supported the standing up of a guard force to make this transition. It is our goal with the APPF, as with many of the other Afghan entities, to wean them off of—

Mr. TIERNEY. Let me just focus us back. So, so far we have taken one entity for security, made it into two. It is already funded by the United States and others on that basis. So you have just now broken it into two and you are now paying them on a cost per person basis; you break it down for the gun, for the uniform, whatever expenses are there, right?

Mr. THIER. I would have to look at the contract to see how it is actually worded in terms of the costs, so I am sorry I don't have that level of specificity.

Mr. TIERNEY. But there is going to be a 20 percent profit margin allowed on those contracts, right?

Mr. THIER. My understanding of the 20 percent is that it is not a profit in the—this is a state-owned enterprise. It is not a profit in the sense that this is something that is going to be used as profit to be distributed to individuals.

Mr. TIERNEY. You say that. Given the history of corruption and ineptitude in this country, you think that adding additional layers and opportunities and another 20 percent is not an opportunity for further graft and corruption and driving a wedge between people in that country and their government?

Mr. THIER. What is critical in this regard is that this entity, like all of the other Afghan entities that we are supporting, needs to have very rigorous accounting and oversight mechanisms to ensure that that doesn't happen.

Mr. TIERNEY. Which brings me to the next problem. You fairly well admit that you don't have great vision into any of these contracts, particularly when it comes to security. Is that going to change? Are you telling us that now you are going to start looking at these security contracts and tracking the money?

Mr. THIER. Our people review every contract. I am just saying that I specifically don't know the mechanism that you are asking about, about whether it is costed out by the individual or in a different way. But certainly our contracting officers are required to review these contracts and have approved every single one.

Mr. TIERNEY. I want to come back and revisit this, but I know my time is up.

Mr. CHAFFETZ. Well, I just want to follow up on that line of questioning here. It is my understanding that USAID issued a blanket waiver for sole source subcontracts between U.S. companies and the APPF. How does that further your ability to look into the money that is going out?

I would also say that SIGAR has issued a table here. I don't know if you had a chance to look at Table 1, which basically outlines things, for instance, such as martyr contribution, pension payments. They even have a line item of profit, 20 percent of above total. So if you could look at that, that is on page 4 of what they issued to you.

Where do you take exception with what they put out there?

Mr. THIER. Maybe somebody can hand me the—

Mr. CHAFFETZ. I will give you a moment to highlight that.

Let me allow Mr. Trent to explain this Table 1, because if you are summarily dismissing the report in its entirety, they are pretty detailed and specific about food stipend and training and martyr contribution, hazard pay, to be determined by the customer, what the AK-47 rifle costs. Where would USAID find fault in this table?

Go ahead, Mr. Trent, if you could explain. I want to make sure Mr. Thier has an chance to catch up to it.

Mr. TRENT. This is the APPF fee schedule off of the APPF website that was published, that we used to calculate our estimation of increased cost. All of these items, I think there are 14 various categories from basic salary to medicine, etcetera, can be lumped into what is referred to in the industry as a burden rate.

We calculated a burden rate for current PSC operations under current AID implementing partners' contracts, from which we pulled a number of invoices for the year 2011. We determined the burden rate. We took that basic salary, average salary rate and we punched it into the APPF fee schedule, which is the table that is under discussion here. And that is how we arrived at our estimation that costs were going to increase between 25 and 46 percent.

I have no information that costs are other than what are published on the APPF website.

Mr. CHAFFETZ. Mr. Thier?

Mr. THIER. Thanks. So as to these costs, I don't have disagreement, per se, with—

Mr. CHAFFETZ. But the administrator, the person on the ground, Mr. Yamashita, he summarily dismissed it, said it was inaccurate.

Mr. THIER. Well, I think what he was concerned about was the conclusion of the estimation of cost increases that were used in this report versus our own work, because, as I said, we actually looked at 15 different contracts side-by-side to capture every single aspect of the security costs that would be incurred, and we came up with a far lower figure. And in talking to our implementing partners, we did not come to the same conclusion about the need to triple the number of expatriates. So I don't think he was disagreeing with the table; I think he was just disagreeing with the conclusion about the estimated cost increases when you compare apples to apples.

Mr. CHAFFETZ. That is not exactly what he said. He said he disagreed with the report in its entirety, which would lead me to believe he disagrees with this table.

But, Mr. Trent, do you care to respond to that?

Mr. TRENT. I would like to say that the—and this goes a bit back to a prior question, but the increased costs that we foresee are not—security costs do not hinge on a signed contract, and having contracts now signed or even the initial lay-down of contracts side-by-side. The true cost of security is going to hinge on APPF's ability to deliver security services as we move forward passed this contract signing phase. That is where we have serious concerns over APPF's capacity.

The September 11th assessment was damning, if you will, on APPF, and as I understand, I have heard that there has been significant progress made since then. We are concerned that the December 9 month assessment has not been completed or published,

which I think would have given certainly SIGAR a better insight as to what progress had been made between September and December. We are now at the 12 month assessment point, and we look forward to seeing the documentation on increases of APPF capacity between September and the next assessment that comes out, if and when that is finalized and published.

So I think it is important to understand that expatriate costs that we estimate here are not, we did not imagine that the RMCs and the IPs were going to go out on March 20th and hire additional expat staff. As APPF capacity is either built or isn't built to meet the needs of the implementing partners' adequate security, we have the estimations from OSAC and PSC, as well as a number of implementing partners, they will hire more expats to fill the security gaps that the APPF cannot fill, if they are not able to develop the capacity; and that is where we see the increase in expat costs coming in the next year.

Mr. CHAFFETZ. Mr. Thier?

Mr. THIER. No, I just wanted to respond because I very, very strongly agree with Mr. Trent and just want to make clear that, first of all, we do not know what is going to happen in months from now, and I don't want you to have—

Mr. CHAFFETZ. Okay, wait, wait, wait. Let's examine that comment because what the Inspector General is saying, they are foreshadowing what might happen in the future, and you summarily dismissed it; no, absolutely none of that is going to happen. No increased costs; there is not going to be increased safety costs; nobody is going to leave the country. Don't worry about it. You guys are flat out wrong.

You are very nice gentlemen, you are very nice to Mr. Trent here, but don't sit here and tell me that you agree with him when the person on the ground said we totally disagree with you and everything that you wrote.

Mr. THIER. Because I think we are talking about very different things, and this, I think, is a critical point to make. We are analyzing the situation, a rapidly evolving situation on the ground as it exists today. We are talking to our partners every day. Literally, I had to change my testimony because a new contract was signed overnight. So the situation is evolving.

What I can tell you is what we know right now.

Mr. CHAFFETZ. But isn't what the Special Inspector here doing is looking into the future and giving a warning shot, saying, look, beware? Isn't that fair? That is why I am just stunned that you would just summarily dismiss all of this. But you are saying we don't know what is going to happen.

Mr. THIER. We don't. We can't know what is going to happen. I don't think any of us can say that we know what is going to happen. We have very elaborate contingency plans that try to think through all of these issues. I think that what I am trying to clarify here is that we don't know whether costs will go up; we don't know whether costs will go down.

Mr. CHAFFETZ. But you just—

Mr. THIER. We don't know whether the need for guards will go up or whether the need for guards will go down. What we are seeing—



Mr. CHAFFETZ. So then why is the Inspector General wrong?

Mr. THIER. I think that all—he is not wrong. What we found—

Mr. CHAFFETZ. That is not what was written.

Mr. THIER. All we found is that the conclusions in this report we do not feel are supported by the data that we currently have in hand, and that is the best that we can do, is to look at what we have now and make a determination about what we think is happening.

It is really critical because I think what we all have to understand here is that six months ago, when we saw this report, we all had very grave concerns about what was going on, and we are working literally on a day-to-day and hour-to-hour basis to make this transition as successful as possible and to reduce the costs not only for these contracts, but over all that we incur for security in Afghanistan so we can spend more of the taxpayers' money on the things that we are trying to accomplish there.

Mr. CHAFFETZ. Okay, I am sorry. I have gone way over my time. I recognize the gentleman from Massachusetts.

Mr. TIERNEY. Thank you.

You know, we have real issues with a lot of things that are happening over there in terms of insight into contracts, and particularly subcontracts and the whole contracting process. In the trucking contracts there was no insight at all to the subcontracts; they had no idea who were the drivers, no idea who was providing security. No oversight on that.

On the oil delivery, the Department of Defense and Department of State couldn't even tell us who the company was. They knew the name of the corporation. They had no idea who the principals were or where they were organized. No insight into that contract. The Defense Logistics Agency and the food contract now arguing over almost \$1 billion or \$2 billion of costs because they drew up what appears to be a questionable contract and their lack of oversight in coming to terms even over a multi-year period on that.

This is a concern here. You have very little insight into these contracts and now somebody comes along and says this is what we foresee could happen. It seems to me you plan for the worst. You hope for the best, but you plan for the worst. I think Mr. Trent has given you the worst case scenario of what might happen here. You are acknowledging that you don't know, it might happen. So are you planning for what Mr. Trent has said may well happen, or are you just hoping for the best and not planning for the worst?

Mr. THIER. No. We are planning for the worst. We have—

Mr. TIERNEY. How?

Mr. THIER.—with our implementing partners, detailed contingency plans about what happens if, what happens. We did this all the way through this transition process and we continue to put those in place.

Mr. TIERNEY. Well, what if all 32 remaining companies that need security end up needing the APPF, find out that that is not really totally up to speed, end up having to hire risk companies on top of that and then paying the 20 percent on that? What is the cost increase when all that happens?

Mr. THIER. We don't know the answer to that question. Literally on a project by project basis we require contingency plans to think

through all of these eventualities. Some of those projects may choose to increase their RMCs; some of them may choose to operate in a different fashion.

Mr. TIERNEY. But as you do that, at some point you have that information and you aggregate it, and you turn around and you say this is the worst case scenario by our best analysis. I suggest that that is not a bad plan right now, to go and do that.

Mr. Trent, when you talked to people and you got your projections, I assume you went and talked to some of Mr. Thier's partners, the people that he deals with on the ground, right?

Mr. TRENT. That is correct, sir.

Mr. TIERNEY. It would be the same people, Mr. Thier, that you talk to.

Mr. THIER. Absolutely.

Mr. TIERNEY. So, Mr. Trent, you got one story and, Mr. Thier, you got another? Because Mr. Trent is saying that when he talked to them they saw some issues, and you are saying that you had a nice talk with them and they got everything planned out and everything is okay.

So, Mr. Trent, tell me a little bit about how your conversation with those people went.

Mr. TRENT. Well, Congressman, we met with six of AID's implementing partners. One of them indicated to us very clearly that they would be withdrawing if security services could be provided. Let me, if I may, say Dr. Yamashita's response to us, there are two tipping points here, the first being March 20th and contracts to be signed and the risk of reconstruction projects, disruption or termination on the 21st and people are walking away from jobs.

I think that Dr. Yamashita's letter to us, one, exhibits some of the frustration that is ongoing in this process by all people involved and, two, I think it is focused more on March 20th and that everything is going to be all right on March 20th. And from what I understand, there are a number of contingency plans in place with existing guards with USAID on March 20th. There is a flurry of contracts, more being signed every day.

But the implementing partners, OSAC, PSC, have indicated to us that it is the ability of the APPF to deliver the security that is ultimately going to be the tipping point on the risk that development of projects face, and that the IP, implementing partners, face. So I think there is some explanation for the tone and tenor of the AID response to SIGAR in respect of focusing on the 20th and all the efforts that were underway to sign contracts so that everything was fine on the 21st, everything kept going on the 21st.

But the bigger issue here, from our perspective, from SIGAR's perspective, is the capacity of the APPF to function, and we are concerned about that in light of the general ministerial capacity in Afghanistan, and that we were trying to stand up a 25,000 man organization here in a relatively one, two year period, and we find that there are just numerous issues involved with that that are going to have real risk impact on developmental projects as we go forward.

Mr. TIERNEY. Mr. Chairman, just as an aside, I might suggest that would be a great hearing for us to have. We have had hearings in the past on capacity of the security in Afghanistan, but this

specific aspect of maybe getting in an international crisis group or some other third party analysis of that and our own folks and see where we are at on that, because I agree with you, this is going to be a huge determinative what happens going forward.

Let me just get back, if I can, Mr. Thier, to the 20 percent issue. For some reason it is sticking in my craw that we particularly fund the standing up of these security folks and then we pay for a per person basis. And even though it is not a supposedly profit-oriented group, I assume the ones making the profit are going to be the so-called management risk people; they are going to make a pretty good profit. But then why are we paying 20 percent on top of that? And how do we explain that to the taxpayers? We just keep circling our money back and at some point somebody is taking it out, but it ain't us.

Mr. THIER. To put it simply, my understanding of the 20 percent is to make the APPF self-sufficient, it is not to distribute profit to any individual that is not part of the charter; it is to make the organization able to carry on its business operations in the future.

Mr. TIERNEY. What is the per person cost for if not that?

It is broken down to how many different things, Mr. Trent, twenty something?

Mr. TRENT. Fifteen items.

Mr. TIERNEY. Fifteen items. And they are paying for each single thing down there to make themselves sufficient. So why the 20 percent on top of that?

Mr. THIER. Again, my best understanding of it is that what they are trying to do is to make this a self-sufficient entity. Part of what this APPF is designed to do, frankly, is to protect what is hopefully going to be a growing private sector in Afghanistan as well, so they were looking at the standing up of this new entity as something that would be around for a number of years and would need to be sustaining so that they could provide those security services as they continued to come online. Again, it was not to provide profit to any individual.

Mr. TIERNEY. I don't buy it, but I hear your explanation; I thank you for it. So when you talk about some of these implementing partners saying that they are no longer going to need security, what are they doing differently that allows them to negate that cost?

Mr. THIER. Several things have been done. Some projects that required significant amounts of private security have gone away. For instance, we are doing much less in terms of things like road building, because we feel we have built enough roads and the roads that are built need to be maintained. So that has diminished the need.

Some projects have gone to more of a community engagement approach, and that is combined with the fact that we have tried to cut out subcontracting levels, something that you raised before, and often contract directly with the Afghan implementing partners, who the for-profit companies were subcontracting with. And by cutting out that layer and having more Afghans doing the direct implementation and having a greater degree of community engagement, that has also required a lesser amount of guards.

Overall, in the last 18 months, there has been a dramatic overall reduction in our need for security, and given how these costs have

risen over the last few years, that savings is enormous, because that is money that is now going directly to projects instead of to the security to protect them.

Mr. TIERNEY. What is AID's plan to get the remaining 32 onto that notion or that idea that they won't need security either? In other words, putting it all down into the local people's capacity to build their own roads, take care of their own water treatment facilities, do whatever other projects you have, and then being so invested maybe they won't find their neighbors coming in and trashing them when they are working on them, or at least they will protect against that.

Mr. THIER. I think in some areas it is going to remain necessary to have some of those projects with that sort of protection, both because the expatriate managers of programs in Kabul and other urban centers will continue to require that level of surety. In some cases it is equipment that needs to be protected.

So there will continue to be some small, I think, but diminishing demand for those services. We also continue to work in extremely dangerous locations side-by-side with the military, and particularly in those locations there is often a need for security and, frankly—

Mr. TIERNEY. What is the military for?

Mr. THIER. Well, our military is there to perform a different mission, and we don't want them performing the mission of protecting our AID programs, so they can do the job that they were sent to Afghanistan to perform.

Mr. CHAFFETZ. There was a 90-day extension granted by the Afghan government. Why was that?

Mr. THIER. As we were all working madly to reach the March 20th deadline successfully, it was evident that all of the projects would not have contracts with either the APPF or the RMCs in time, so we negotiated with the Ministry of Interior to grant licenses anywhere from 30 to 60 to 90 days for those companies that had entered into the negotiation or contracting process to ensure that there were no disruptions in that process, and they granted those licenses just days before the transition, and that has opened up the space for the remaining companies to enter into those contracts without having any disruption to the security that they are provided.

Mr. CHAFFETZ. Mr. Trent, do you care to add anything to that?

Mr. TRENT. I would like to add one thing to Congressman Tierney's comment on the profit.

Mr. CHAFFETZ. Sure.

Mr. TRENT. And certainly SIGAR doesn't have any opinion on profit amounts; 20 percent, 5 percent, 8 percent, 100 percent, we don't have a position on that. But I would point out that in the APPF schedule of fees there is an administrative and overhead cost which is 65 percent of base salary of an Afghan guard. One would think might serve to make the APPF a stand alone agency with those administrative costs. And then we have profit on top of that. But that is just to point out; I make no judgment on that.

I would also like to mention that we are conducting, this alert letter originated out of a large private security contractor audit of AID implementing partners, private security contracts, which is still ongoing. But during that audit we looked at 35 of the largest

AID projects conducted in Afghanistan between 2009 and 2011, and those 35 projects accounted for 70 percent of all funds disbursed by USAID during that time period; and of those 35 projects, 29 of them all had security services, most through PSCs and one through their own internal security. So during that time frame SIGAR's observation was that all the large USAID projects are associated, or were during that three-year time frame, associated with security up until December of this year.

Mr. CHAFFETZ. I recognize the gentleman from Massachusetts.

Mr. TIERNEY. Mr. Trent, let me just ask you this. When this report was written, and now after this hearing, what ideally would be the result that you would hope would come from this?

Mr. TRENT. Well, the alert letter was sent just to communicate to AID our concerns over what we see as a clear possibility for increased costs. We would hope that AID would take those considerations as they move forward and at some point here security costs and overhead charges, if security can be termed to be part of the overall overhead for a project or contract, at some point we would want all implementing agencies to be considering the perceived benefit from projects against the overhead of what it costs to administer and implement the project; and with security costs going up, we hope that AID, as well as other implementing partners, will be factoring that in to their decisions.

When we go to conduct an audit on a particular program, and I am being somewhat hypothetical here, and we see overhead charges at 70 percent of the cost, we make no comment on whether that is appropriate or not, but what we would like to see is a reasoned determination from the outset of that project that the risks and the realization that the overhead exceeds the money going into the project, that there was a policy decision made knowingly, objectively made to carry out the project notwithstanding the security costs or the overhead costs. From an audit perspective, we would like to see that.

So that is all we are asking AID to do here, is to consider those costs and plan for them.

Mr. TIERNEY. Mr. Thier, can we accommodate that?

Mr. THIER. Absolutely. I mean, as I think you know, the first time we met, when I was a private citizen, I have been writing about and concerned about for years rule of law in Afghanistan and the costs of our reconstruction effort, and one of the pleasures of having this opportunity to serve in the government has been to try and bring these practices to bear on what we are doing. I think that we have made some great gains in the accountability of our program in Afghanistan in the last 18 months, and we will continue to do that.

Let me also be clear. We welcome the SIGAR's role. We welcome our IG's role. We have worked with them very effectively over the last year and a half, and we will continue to do so.

Mr. TIERNEY. Well, thank you. What I really want to know, and I hope what this Committee wants to know, is are you going to make the kind of analysis that Mr. Trent just described, and give us a feeling of whether or not you have considered all those things and what the benefit is particularly when the costs outweigh, the management costs and the overhead outweigh the project costs

itself, so that this Committee can then look to you to find out why we are proceeding with a particular project if that is the case. So if you would do that for us.

If you would also project out those 32 projects that are going on in the worst case scenario for us, just in case. Give us that reasonably soon so we have an idea on that. And, lastly—and you can do those things?

Mr. THIER. Absolutely.

Mr. TIERNEY. Thank you. And the last thing is why has the assessment or the progress of the APPF not been released?

Mr. THIER. I am afraid I can't speak to that. The December report, I have never seen that report and I can't say why it has not been released.

Mr. TIERNEY. It must concern you?

Mr. THIER. I understand that it is the U.S. Government, the Afghan government, and ISAF that jointly conduct that, and I honestly have no idea what is in that report or why—

Mr. TIERNEY. But it should weigh heavily on you because that is such a large part of your analysis going forward, I would think. Have you made any requests for it or asked to see it?

Mr. THIER. I have not personally. What I would add is that, as Mr. Trent and I both acknowledged, the situation has evolved so substantially in the past few months that I don't know whether the conclusions of that report would still be relevant, but it would certainly be interesting to see.

Mr. TIERNEY. Thank you, Mr. Chairman. I hope that we would press for it as well and move on from there.

Thank you both gentlemen.

Mr. CHAFFETZ. I just want to give each of you an opportunity. Is there anything that you would like to add as we conclude here? We will start with Mr. Thier and then Mr. Trent.

Mr. THIER. Thank you.

Mr. CHAFFETZ. Mr. Trent?

Mr. TRENT. I would just point out that the next assessment, Congressman Tierney, is due out this month, the 12-month assessment, and I think we are all looking forward to seeing that one, and we certainly hope that that is finalized and published here in the next month or two.

Mr. CHAFFETZ. I want to thank both of you for your commitment to this Country and the work that you do. It is difficult.

I need to tell you that in this particular situation I do, again, find it stunning, the tone of Mr. Yamashita's general comments. I think that I am concerned when there is such a disparity between the two entities. I think everybody is probably trying to achieve the same goal, but personally I am offended by the direction that Afghanistan is going.

When we talk about same guards, different uniforms, and then we are adding on profit and overhead, that is their words, not my words, profit and overhead, we are going to spend more for exactly the same thing in order to pad somebody's bank account. I hope we don't wake up one day and just find all this money sitting over in Dubai or something like that, which I am afraid is really what we are ultimately doing.

I don't think we have visibility in what has happened in the past. I don't think we have visibility in what is moving forward in the future. In fact, I think this nation-building exercise is a huge debacle. I feel for the people who are pouring their hearts and souls and lives into trying to help what is happening here in Afghanistan, but we need more exposure and oversight.

I don't expect somebody with a pencil and a pad of paper standing next to each person, but we are moving, in my estimation, in the wrong direction. We pay for everything. The American taxpayers have poured out their pocketbooks time and time and time again, and for the Afghan government to come in and say, well, now we need a profit, that is a deep concern.

Mr. TIERNEY. Mr. Chairman, might I just jointly ask before any of those contracts get signed or we get committed to them with a 20 percent profit, can we get from your folks an explanation, a heads up that it is going to happen and a full explanation of why they think it is necessary to put that amount in there, and then have a conversation about that? I find it just incredibly disturbing that that is going on and I would like to think that we can get out in front of this.

Mr. CHAFFETZ. And to add on to those comments, my concern is that USAID has just issued unilateral waivers. They can go sign these contracts and, I guess maybe that is the recognition that there is no other option. The Afghan government is saying you have no choice, you have to do this. I think we are being pushed around and I don't think the State Department is doing enough to stand up for what we are doing. We are paying for everything; we should be able to provide the security that is needed there.

Mr. Thier, go ahead.

Mr. THIER. So just to answer the waiver question, the purpose of a sole source waiver, if you have no other source, and in this case the sovereign Afghan government has required this, so you are exactly correct, Mr. Chairman, the only reason for that waiver, it does not diminish any kind of oversight or anything like that, it just says that there is not a competition because this sole source is in fact required.

And just to respond, Representative Tierney, just to be clear, there have been 23 contracts signed already, and those are in operation.

Mr. TIERNEY. Shame on us. Shame on us, because there is an option: You tell Mr. Karzai that everything stops unless he stops this sort of thing, I don't want to use a word that will get taken out of context, but when you put it out there that you can't do this unless you pay us another 20 percent on top of all the other costs or whatever, enough is enough.

I have watched his act for a long time and I know he is a man trying to do a job and things of that nature, but there is enough questionability going on about the nature of transactions in that country and who is making the profit and where the money is going, not being able to be traced or whatever, that somebody in our chain should have stood up and said it may be a sole source, but there is always one last option, we just don't do it.

Just like you won't put the APPF out there; we won't put our people at risk if those are the terms. And instead we rolled over

again. So there are remaining contracts. Maybe we ought to think about watching them a little bit closer.

Mr. CHAFFETZ. Can USAID provide us an explanation, at least try to extract from the Afghan government why there is a 65 percent overhead on the cost of the personnel plus the 20 percent profit? I mean, this is just taken from their website. So I think it does demand an explanation and you are in the best position to get that explanation.

Mr. THIER. Absolutely. Your concern about the 20 percent is loud and clear, and I will make sure that we get a more comprehensive explanation of exactly what those funds are intended for.

Mr. CHAFFETZ. And I guess I would ask that SIGAR watch that closely. We don't want to just see them change the name, suddenly you see overhead go to 85 percent and suddenly they get rid of that word profit. I think they are probably being as honest as they can here. I think they are saying, yes, this is the Dubai account and we will go ahead and just transfer that right into the Karzai family account. So please keep your eye on that; it is sickening, this whole thing.

With that, this Committee stands adjourned.

[Whereupon, at 9:33 a.m., the subcommittee was adjourned.]





SUBMITTED STATEMENT  
OF THE  
PROFESSIONAL SERVICES COUNCIL  
FOR THE  
HOUSE COMMITTEE ON OVERSIGHT AND GOVERNMENT  
REFORM  
SUBCOMMITTEE ON NATIONAL SECURITY  
HEARING:  
**ARE CHANGES IN SECURITY POLICY JEOPARDIZING USAID  
RECONSTRUCTION PROJECTS AND PERSONNEL IN  
AFGHANISTAN?**  
MARCH 29, 2012

*Statement of the  
Professional Services Council  
March 29, 2012  
Page 1*

Chairman Chaffetz, Ranking Member Tierney  
and Members of the Subcommittee:

The Professional Services Council (PSC) commends the Oversight and Government Reform Committee's National Security Subcommittee for calling this hearing and appreciates the invitation to provide a statement for the record. The question posed in the hearing title—Are Changes in Security Policy Jeopardizing USAID Reconstruction Projects and Personnel in Afghanistan?—is an important and timely one. PSC and our member companies, both development firms and security providers performing tasks vital to U.S. policy goals in Afghanistan, are working with the U.S. government to find the best ways to respect the legitimate exercise of Afghan sovereign control over armed security forces while ensuring the ability of U.S. implementing partners to do their work effectively, efficiently and safely. We welcome robust oversight by Congress and the inspectors general during this unprecedented and evolving security transition.

PSC is the nation's largest association of government services contractors and counts among our nearly 350 member companies several dozen firms that provide critical support to U.S. government activities in contingency environments. That support includes logistics, engineering, infrastructure, satellite and information technology support, international development assistance, capacity building and more. Since 2010, soon after issuance of Afghan Presidential Decree 62 calling for dissolution of all private security companies operating there, PSC has been actively encouraging the Department of State and the U.S. Agency for International Development (USAID) to take every step necessary to ensure that the Afghanistan government's mandatory and exclusive replacement security system is transparent, accountable, and that it meets recognized security standards. Presidential Decree 62 took effect for development sites on March 21, 2012.

Exclusive use of the new state-owned enterprise, the Afghan Public Protection Force (APPF), to guard development projects and personnel imposes a wholly new security paradigm in a volatile, high risk environment. The mandated transition from known security contracting regimes to the evolving and unproven APPF processes has caused understandable unease among both for-profit and non-profit implementers. They are committed to their work in support of the U.S. government's development and reconstruction mission, and implementers are working with the International Security Assistance Force (ISAF) and the NATO Training Mission Afghanistan (NTM-A) to build APPF capabilities. This reflects once again the commitment of development professionals from for-profit and non-profit entities to sustain very difficult work in challenging, often very risky, environments.

Under current U.S. federal regulations and contract provisions, U.S. contractors awarded development projects by USAID are required to obtain and maintain their own security services, subject to a plethora of U.S. government controls, conditions and constraints. Thus, in answer to the question whether the transition jeopardizes, or poses increased risks, to U.S. development spending and personnel, companies see two sets of issues. In the near term, the transfer of security responsibilities from private contractors to the use of the APPF at current projects presents more business process uncertainties (e.g. prompt payments to guards, interpretation of complex contract clauses, dispute resolution procedures) than questions about guards' protection capabilities. That is because it is expected that the trained private security guards (mostly Afghans) implementers relied on prior to the effective date of the decree will sign up to return to the same projects as APPF personnel. So far, that has been the case. However, when bidding on new work in Afghanistan, companies will need to rely for the first time on the APPF for the vetting and training of new guards. Given growing concerns about so-called "green on blue" attacks by uniformed Afghans on U.S. and coalition personnel, the use of new APPF guards complicates both the risk assessment and cost projections when deciding whether, and at what price, development projects can be successfully completed in Afghanistan.

The process is new and definitive judgments on APPF effectiveness can only be made over time. However, as this transition proceeds, the U.S. government's implementing partners will need stronger support and guidance than has been available to date.

The magnitude of the challenge should not be minimized. To say, as some USAID officials do, that 75 percent of USAID's current portfolio in Afghanistan does not require armed security seems based on a raw project inventory rather than the substantial dollar value of the many critical development efforts for which the U.S. government requires contractors to procure adequate protection of assets and personnel at considerable cost. It would be misleading to suggest that the transition to the APPF will not have a fundamental impact on how USAID, and its for-profit and non-profit partners, do business in Afghanistan.

On February 6, 2012, PSC wrote to USAID Administrator Rajiv Shah [**Exhibit 1**] asking the agency to do more to facilitate the transition and reduce easily addressed uncertainties in the accelerated process of contracting with the APPF. The USAID Mission in Kabul had issued a blanket waiver to allow sole-source subcontracts between U.S. companies and the APPF. But the agency has not issued a parallel waiver for other than full and open competition for subcontracts between current implementers and their Risk Management Companies (RMCs), the licensed successors to private security providers who advise implementers on security

requirements and help supervise and train APPF guards. To minimize costs and risks during this initial phase of the transition, companies should be able to acquire the known, trusted services of their preferred RMC. The exigent circumstances and hurried pace of the mandated transition meet the criteria for a waiver. Asking companies and contracting officers to justify the need for a waiver on a case-by-case basis adds needless and avoidable uncertainty to an already complex and challenging contracting process. In a written response to PSC, USAID declined that request.<sup>1</sup>

In addition, PSC requested a policy determination that the fully loaded fixed daily compensation rate for APPF guards, which includes a martyr fee and a 20 percent profit, be deemed *de facto* fair and reasonable inasmuch as the non-negotiable rate was set by the directed source of the procurement—the monopoly provider—the APPF. Resolving that question now would eliminate the need for retrospective justification during project audits that can take place months or years after contract performance. USAID has taken that question under advisement.

We also asked USAID to provide consistent, written guidance for implementers to follow as they endeavor to meet USAID and State Department directives to exert every good faith effort to conclude complex contract negotiations with the APPF. Information provided during U.S. government events with implementers in Kabul and Washington was often general in nature and did not address key questions (e.g. the availability of Defense Base Act insurance coverage for APPF guards) arising in a quickly changing environment. We concur with the Special Inspector General for Afghanistan Reconstruction (SIGAR) that USAID's communication with implementing partners, while frequent, "often left important questions unanswered."<sup>2</sup> On February 21, 2012, PSC wrote to the SIGAR and the inspectors general for the Department of State and USAID [**Exhibit 2**] seeking their help identifying and mitigating business risks facing development companies as the APPF process unfolds.

In a related matter, the Subcommittee should be aware of on-going concerns PSC and our member companies have with the arbitrary taxes and fees being imposed by Afghanistan on U.S.-provided contracts. While the USAID has a bilateral agreement with the Islamic Republic of Afghanistan that ensures that no taxes or other charges are imposed on USAID contractors

<sup>1</sup> Letter from USAID to PSC (March 2, 2012) retrieved from [http://www.pscouncil.org/i/c/International\\_Development\\_Task\\_Force/c/c/InternationalDevelopmentTaskForce/International\\_Development\\_Task\\_Force.aspx?hkey=e1ad1618-b19b-48fe-8a2e-7562b18dbc8d](http://www.pscouncil.org/i/c/International_Development_Task_Force/c/c/InternationalDevelopmentTaskForce/International_Development_Task_Force.aspx?hkey=e1ad1618-b19b-48fe-8a2e-7562b18dbc8d)

<sup>2</sup> SIGAR management alert, retrieved from <http://www.sigar.mil/pdf/alerts/2012-03-15-appf-alert.pdf>, Enclosure 3, p. 3.

while performing work under U.S. government contracts in Afghanistan, the same does not hold true for contracts awarded by other federal agencies. Over the past two years, we have seen a significant increase in customs and border crossing fees, licensing fees, taxes not related to local Afghanistan expenses and other charges imposed on contractors. Congress shared our concerns with this troubling situation. The fiscal year 2012 Foreign Operations Appropriations Act contained a provision prohibiting payment of taxes on assistance and directing the State Department to clarify and strengthen bilateral agreements on the tax exemption. Other legislation passed the House as part of the fiscal year 2012 Defense Appropriations Act that would prohibit the government of Afghanistan from imposing taxes or fees on the performance of U.S. government contracts, but that provision was dropped from the final conference version of the DoD bill. In addition, PSC has raised this issue extensively with State and Treasury officials with little success. Uncertainty about foreign taxes presents a potentially significant cost burden that also affects the ability of U.S. firms to perform work in Afghanistan.

Finally, we want to convey to the Subcommittee our members' strong belief in the "soft power" of development and their enduring support for the development and reconstruction mission in Afghanistan. Despite setbacks and risks, the current delivery model remains the most effective and efficient. As PSC highlighted to Secretary of State Clinton in 2010 [**Exhibit 3**], shifting to a policy that is overly reliant on direct assistance to technically weak government ministries will create a significant risk of waste and abuse in an environment that is already highly vulnerable to mismanagement and corruption. We support the progress being made in Afghanistan and recognize the nature of the U.S. government/Afghanistan diplomatic relationships in the transition to full Afghanistan sovereignty. However, we remain concerned about the impact on security and business impacts of Afghan Presidential Decree 62 on U.S. citizens, contractors and all of their employees. We know the U.S. government shares our concerns for their safety and ability to fully execute their important work. In our view, more can and should be done to ensure a safe and secure performance relationship. U.S. development firms stand ready to work with their federal agency partners to craft a security policy that fully honors Afghan sovereignty while protecting U.S. personnel and taxpayer funds.



*The Voice of the Government Services Industry*

February 6, 2012

The Hon. Rajiv Shah  
Administrator  
U.S. Agency for International Development  
Ronald Reagan Building  
1300 Pennsylvania Avenue, NW  
Washington, DC 20523-1000

Dear Dr. Shah:

On behalf of the PSC member companies serving as implementing partners with the U.S. government on vital development projects in Afghanistan, this is to request immediate action by USAID to help U.S. companies meet the many challenges presented by the mandated transition from the use of private security to the exclusive use of forces provided by the Afghan Private Protection Force (APPF). With the March 21, 2012 deadline set by President Karzai so close, and with APPF capabilities and business systems still wholly untested, I hope you agree that everything possible should be done to reduce uncertainty and risks to life and property of those implementing USAID programs.

It is estimated that 75 complex contracts between the APPF, current implementers (for-profits and non-profits), and their new Risk Management Companies (RMCs) must be negotiated and implemented before the deadline. RMCs replace current private security providers and act as supervisors and trainers of APPF personnel. Not one contract has been completed to date because, among other reasons, so few RMCs have been licensed to operate by the Afghan government. We understand that at least 27 RMC applications are pending and, as of February 2, only one has been approved. Many of those RMC applications were filed by current private security providers who, if permitted, would provide continuity of security operations during this uncertain and risky transition.

To facilitate the transition to the APPF, the USAID Mission in Kabul recently issued a blanket waiver to allow sole-source subcontracts between U.S. implementers and the APPF. However, no similar waiver for other than full open competition has been issued with regard to subcontracts between current implementers and RMCs. The lack of a parallel waiver increases uncertainty and risk for both USAID and its implementing partners. The transition to the use of APPF forces will only be made more costly and risky if companies are not allowed to quickly acquire the known, trusted services of the RMC successor to their current security provider. Under these unprecedented and exigent circumstances, with the security of American and Afghan personnel at stake, and many millions of U.S. dollars being invested in development projects in Afghanistan, usual

Hon. Rajiv Shah  
February 6, 2012

business practices must give way, at least temporarily, to the extraordinary challenges posed by the March 21 deadline and the volatile Afghan security environment. We request that USAID immediately issue such a waiver for initial RMC contracts, with the need for an extended waiver period examined based on evidence of the maturation of APPF capabilities and business systems and the progress in licensing RMCs.

We appreciate that USAID officials in Washington and Kabul appear to be taking a pragmatic approach to implementing the Karzai government's security mandate. That is the right posture, but USAID has tasked the agency's implementing partners with the bulk of the burden to make the APPF work and shifted all the risk of failure to them as well. Yet many of our member companies and other implementing partners do not believe the APPF process can be operationalized in less than two months and perform at a level that will adequately protect U.S. lives and property. We hope the agency's pragmatic approach will include a realistic appraisal of the need for a temporary waiver for initial RMC contracts, reducing at least one element of uncertainty in an extremely uncertain security and business environment.

The APPF transition raises other serious issues of contracting policy and compliance that USAID can and should help address. The current USAID waiver directs U.S. implementers to contract with the APPF. That Afghan agency, in turn, has established a fully loaded fixed daily compensation rate that implementers must pay for guards. That rate includes a 20% fee, or profit, for the APPF on top of a processing fee and other charges. Given the directed source of this procurement, USAID should establish as a matter of contract administration and audit policy that the mandated rate is *de facto* fair and reasonable because of the inability of the implementing partners to provide any additional justification.

There is also a need for consistent, written guidance for USAID and its implementers to follow as they meet the USAID and State Department mandate to exert every good faith effort to conclude complex procurements quickly and make the APPF transition work. While implementers appreciate oral presentations at industry day events in Kabul and Washington, this difficult transition would be greatly facilitated if USAID's contracting officers and implementing partners had clear, reliable, written policies to inform and guide their decisions. In this unique, changing environment, some uncertainty is inevitable and your implementing partners are working tirelessly to meet the demands of this situation. But time is short and implementers need more than briefings, one-off conversations, and rumors if the APPF transition is going to be accomplished in an orderly, cost efficient manner.

Given how much remains to be accomplished – licensure of RMCs, complex and numerous contract negotiations, training of APPF guards – in less than two months, we request that the U.S. government not accept security standards for U.S. aid implementers that are inferior to those required for its own personnel. If in the weeks ahead it becomes


**Exhibit 1**

Hon. Rajiv Shah  
February 6, 2012

clear the APPI will not be in a position to provide adequate security for U.S. development projects, we request that you support your implementing partners in urging the Department of State to reach an agreement with the government of Afghanistan for an extension of the March 21 deadline.

Thank you for your immediate attention to these urgent matters. If you have any questions or need additional information please do not hesitate to contact me or Lawrence Halloran ([Lhalloran@pscouncil.org](mailto:Lhalloran@pscouncil.org)) on the PSC staff.

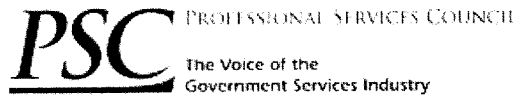
Sincerely,

A handwritten signature in black ink, appearing to read "Soloway", with a stylized initial "S" and a long horizontal stroke.

Stan Soloway  
President and CEO

cc: Alex Thier  
Larry Sampler





February 21, 2012

Steven J. Trent  
Acting Inspector General  
Office of the Special Inspector General for Afghanistan Reconstruction  
2530 Crystal Dr  
Arlington, VA 22202

Michael G. Carroll  
Acting Inspector General  
U.S. Agency for International Development  
USAID OIG  
Washington, DC 20523

Harold W. Gensel  
Deputy Inspector General  
U.S. Department of State  
Office of Inspector General  
2201 C Street, N.W.  
Washington, DC 20520

Dear Inspectors General:

The Professional Services Council (PSC) is the primary national association of companies providing professional and technical services to every agency of the federal government, prominently including the Department of State and USAID. PSC's membership includes most of the private sector implementing partners supporting USAID development assistance missions around the world, including Afghanistan, and our members are greatly affected by security contracting policies there. We are aware of ongoing work by your offices regarding the transition from the use of private security contractors to the exclusive use of the newly created Afghan Private Protection Force (APPF) by U.S. government agencies and U.S. development contractors by March 20, 2012. We share your concerns about the potential impact of the mandatory use of the APPF on the security of our workforce and on U.S. government officials and the fiscal implications of the transition to companies and the U.S. government. We therefore welcome and request your proactive, contemporaneous oversight of this unprecedented and time-constrained process.

As noted in the January 30, 2012 SIGAR Quarterly Report to Congress, the APPF was "unable to negotiate and establish legal and enforceable contracts with customers for security services." In addition, the report points to serious doubts about the capacity of the new state-owned APPF entity "to support the business operations that are essential to manage and execute contracted security services." Little additional progress has been made on either of these critical components. Nevertheless, USAID has told its contracting partners that the APPF is "open for business" and instructed development contractors to undertake every good faith effort to conclude sole-source subcontracts for complex security services with them.

As this novel process unfolds and contractors attempt to meet that mandate, we invite your audit and oversight staff to engage with us now in appropriate consultations to identify business process and compliance issues so we all have contemporaneous knowledge of the evolving situation and can anticipate and evaluate the true scope of the issues presented to the U.S. government and its implementing partners by contracts with the APPF. Among the issues we hope your early attention might help us address are how contractual requirements for the determinations of fair and reasonable pricing for these subcontractors will be evaluated, given the fact that the directed source for these security services, the APPF, requires payment of a fully loaded fixed daily compensation rate for APPF-provided guards that includes a 20 percent fee, or profit, for the APPF. Demonstrating the uncertainty and volatility of APPF pricing, companies attempting to negotiate security subcontracts were recently informed that the base rate for APPF uniforms had increased from \$506 to \$600 to reflect shipping costs and a 20 percent profit on those items as well. The APPF has also refused to accept standard flow-down clauses required by the Federal Acquisition Regulation (FAR) for subcontractors, including prohibitions on trafficking in persons.

We anticipate additional contractual issues because of the void left by the lack of any consistent, written guidance from USAID to implementers regarding standards for contracts with APPF. For example, it remains unclear how contractors are to comply with the vetting and training requirements of FAR 52.225-19 when applied to APPF guards over whom they have little control or recourse for non-performance. To date, implementers have only received oral presentations at industry day events in Kabul and Washington and one-off conversations with assigned contracting officers.

Inspectors General  
February 21, 2012  
Page 3

We appreciate and would value thorough contract oversight and your continuing attention to the security and compliance risks presented by the mandate to do business with the APPF. We request an opportunity to begin working with you now to identify and mitigate any of these risks as early in this process as possible. Thank you for your attention to this important matter. If you have any questions, please do not hesitate to contact me or Lawrence Halloran (at [Halleran@pscouncil.org](mailto:Halleran@pscouncil.org)) of the PSC staff.

Sincerely,

A handwritten signature in black ink, appearing to read "Soloway", written over a horizontal line.

Stan Soloway  
President and CEO



*The Voice of the Government Services Industry*

November 8, 2010

The Honorable Hillary R. Clinton  
Secretary of State  
U.S. Department of State  
2201 C Street, N.W.  
Washington, D.C. 20500

Dear Madame Secretary:

I am writing today on behalf of the more than 330 member companies of the Professional Services Council (PSC), the primary national association of companies providing professional and technical services to every agency of the federal government, prominently including the Department of State and USAID. Included in our membership is most of the private sector implementing partners supporting USAID development assistance missions around the world, including Afghanistan. As an organization, PSC has been deeply involved in and works closely with both State and USAID on the full range of issues and challenges associated with the work of these firms, particularly as it relates to both Iraq and Afghanistan. Most recently, we and our member firms have become increasingly concerned about the Afghan government's proposed ban on the use of private security personnel to protect development projects and those working on them.

As you know, President Karzai's original decree imposed a complete prohibition on the use of private security personnel after December 17. Soon thereafter, the U.S. government negotiated an exemption for the protection of U.S. diplomatic and military personnel but failed to include its implementing partners among those authorized to use private security when necessary. As of now, the decree would force development firms to cease using private security approximately 90 days after November 15, when the newly-formed commission's recommendation will be made to President Karzai regarding a transition of security responsibilities to Afghan police and armed forces.

U.S. development firms are vital extensions of USAID, operating in the most dangerous regions of Afghanistan. They depend on highly trained and vetted private security personnel (large numbers of whom are Afghan nationals) to provide essential security for compounds and staff movements. The use of private security by these firms is based on security policies and risk mitigation standards. Implementation of the decree would force development firms to adopt far less efficient implementation methods or close down projects altogether. The consequences of this would be significant and would include both the halting or delaying of vital programs designed to support the Afghan people, a diminution of the effectiveness of U.S. stabilization and counterinsurgency strategies, and the immediate unemployment of thousands of Afghan nationals currently

working on development and reconstruction projects, a result that itself would carry clear and disturbing implications. Indeed, the vast majority of employees working on development projects today are Afghan nationals. In some cases, the ratio of Afghan citizens to U.S. citizens or ex-patriots working on these projects is as high as 10:1.

While implementing partners are committed to working with USAID on a reliable and effective long-term solution to this problem, development contractors remain unconvinced that the Afghan National Security Forces (ANSF) as currently constituted present a viable current option for ensuring the safety of their personnel. Indeed, the State Department as recently as October 26 adopted the same position. The Special Inspector General for Afghanistan Reconstruction reached the same conclusion in his June 2010 report.

Some have also suggested that because non-governmental organizations (NGOs) do not use private security, development firms do not need to either. However, such a comparison is entirely inapt and ignores substantial differences in mission, location and status. Some NGOs do, in fact, use private security. Some, under their humanitarian charter, refuse to support the U.S. military in its implementation of the counterinsurgency strategy in Afghanistan. Many do not work in key conflict-ridden districts or other high-risk areas where U.S. development firms routinely work. Nor are most NGOs performing the kinds of high visibility project being executed by development firms, such as programs to strengthen the Afghan government; building roads, schools, and other infrastructure; and supporting the Afghan private sector through lending programs and more.

With all this in mind, we believe it is vital that the State Department:

- Negotiate a specific exemption for all USAID implementing partners engaged on projects in Afghanistan similar to that negotiated for diplomatic and military personnel;
- Direct USAID to issue authoritative, written instructions providing consistent guidance for all implementing partners on near-term actions required to respond to Afghan Presidential Decree 62. Currently, firms are being given contradictory and inconsistent guidance by State and USAID officials, such as requests to submit "minimum security" plans that are premised on reducing or eliminating the use of private security firms; and
- Direct the U.S. Embassy in Kabul to continue to support responsible efforts by the Afghan government to properly regulate private security contractors to ensure their greater control of security functions while ensuring that the objectives of U.S. funded development projects can be achieved.

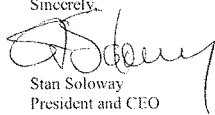
Furthermore, PSC believes that USAID's current approach to development and stabilization assistance in Afghanistan is the appropriate delivery model. Shifting to a policy that is overly reliant on direct assistance to technically weak government

ministries and local organizations will create a significant risk of waste and abuse in an environment that is already highly vulnerable to mismanagement and corruption. In such an environment, an appropriate security policy, which fully honors both Afghan sovereignty and the real security needs of development projects and personnel, is essential.

We look forward to working with your office and other federal agencies to chart the correct course forward.

Thank you for your time and consideration.

Sincerely,

A handwritten signature in black ink, appearing to read "Soloway", written over a horizontal line.

Stan Soloway  
President and CEO

cc: Amb. Richard Holbrooke  
Amb. Karl Eikenberry  
Amb. William Todd  
Administrator Rajiv Shah  
Mr. Earl W. Gast

**Opening Statement of Jason Chaffetz, Chairman  
Subcommittee on National Security, Homeland Defense, and Foreign Operations  
“Are Changes in Security Policy Jeopardizing USAID Reconstruction Projects and  
Personnel in Afghanistan?”  
March 29, 2012**

Good morning and welcome to today’s hearing: “Are Changes in Security Policy Jeopardizing USAID Reconstruction Projects and Personnel in Afghanistan?”

I would like to welcome Ranking Member Tierney, Members of the Subcommittee, and members of the audience.

The National Security Subcommittee has a long history of overseeing U.S. funded reconstruction efforts abroad. Last year alone, the Subcommittee held 6 hearings on Iraq, Afghanistan, and the billions spent on earthquake relief in Haiti.

We have seen a common theme: The federal government appears to be incapable of tracking its expenditures. Time and again, it cannot readily provide data such as: the amount of money spent; the number of projects completed; the number of projects ongoing; whether projects are on-time and on-budget; and whether they were actually completed.

The failure to track this data in real-time demonstrates an extreme lack of oversight. It also tells this Congress that bureaucrats in Washington have little visibility or control of the billions spent overseas.

Often times, the Inspectors General are the last bastion of accountability in the executive branch. Unfortunately, this President has failed to appoint replacements for the State Department, Defense Department, USAID, and SIGAR. The State Department has not had an IG since December of 2007.

In some cases, there is significant disagreement between the agencies and the oversight community. We saw this recently with the Special Inspector General for Afghanistan Reconstruction and USAID.

On March 9, 2012, Mr. Steven Trent sent a Management Alert to Dr. Ken Yamashita regarding Afghanistan President Karzai’s Presidential Decree 62. PD-62 mandates that U.S. implementing partners cannot use private security companies after March 20, 2012. Instead, U.S. contractors and non-governmental organizations must contract with the recently formed Afghan Public Protection Force.

So in addition to providing goods and services at no cost to the Afghan people, the American people must also pay President Karzai for security.

Mr. Trent’s Management Alert outlined several core concerns:

1. The transition to using the Afghan Public Protection Force may cost taxpayers an additional \$55 million during the first year on 13 projects. Part of this is due to a staggering 20% profit margin demanded by President Karzai;
2. The Afghan Public Protection Force may not be capable of providing adequate security for U.S. implementing partners; and
3. Approximately \$1.34 billion dollars in U.S. taxpayer funded projects may be at risk of modification or termination.

According to International Relief and Development – a non-profit NGO – the transition to APPF may increase its costs by approximately 15%. This expense is then passed on to the American taxpayer.

In response to SIGAR’s concerns, Dr. Yamashita wrote the following on March 13, 2012: “USAID acknowledges the issues identified in the observations but rejects the SIGAR Management Letter in its entirety due to the inadequate comparisons, speculative assumptions, and inaccurate statements within the document.”

USAID did not merely object to SIGAR’s findings. It rejected them in their “entirety.”

The purpose of today’s hearing is to reconcile these assessments. In so doing, we will take a broader look at whether this new security policy makes sense, whether it is in the best interests of the American taxpayer, and whether we can succeed under this rubric.

The American people have little patience for government waste and lack of progress in Afghanistan. If after ten years we are no closer to defining and achieving success, then Congress and the Obama Administration should reassess our future in Afghanistan.

I hope that our discussion today will provide some clarity. I look forward to hearing from the panel, and appreciate everyone’s willingness to be here.





SPECIAL INSPECTOR GENERAL FOR AFGHANISTAN RECONSTRUCTION

Main: 703-545-6000

1550 Crystal Drive, 9th Floor

Arlington, VA

Steven J Trent, Acting Special Inspector General

[www.sigar.mil](http://www.sigar.mil)

May 17, 2012

The Honorable Jason Chaffetz  
Chairman, Subcommittee on National Security, Homeland Defense, and Foreign Operations  
U.S. House of Representatives  
2157 Rayburn House Office Building  
Washington, D.C. 20515

Dear Chairman Chaffetz:

Attached is SIGAR's response to the question for the record submitted by Representative John Tierney, the Ranking Member of the Subcommittee. If you need any additional information, please contact SIGAR's Director for Communication and Congressional Relations, Mr. Timothy Nelson, at 703-545-5973 or [timothy.m.nelson32.civ@mail.mil](mailto:timothy.m.nelson32.civ@mail.mil).

Sincerely,

Steven J Trent

Acting Special Inspector General  
for Afghanistan Reconstruction

Enclosure

cc: Representative John Tierney, Ranking Member  
Subcommittee on National Security, Homeland Defense, and Foreign Operations



**SPECIAL INSPECTOR GENERAL FOR AFGHANISTAN RECONSTRUCTION**

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Steven J Trent, Acting Special Inspector General  
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**Question for the Record for the House Oversight and Government Reform Subcommittee on National Security, Homeland Defense, and Foreign Operations Hearing Held on March 29, 2012: "Are Changes in Security Policy Jeopardizing ASAIID Reconstruction Projects and Personnel in Afghanistan?"**

**Question for Steven J Trent, Acting Special Inspector General for Afghanistan Reconstruction, from Representative John Tierney, Ranking Member for the Subcommittee on National Security, Homeland Defense, and Foreign Operations.**

**Question:** A major recommendation of the Final Report issued by the Commission on Wartime Contracting was that action is needed to prevent massive new waste due to unsustainable projects. The Commission found that no matter how well-designed or well-executed a project, if the host government lacks the capacity or the willingness to fund, staff, and operate projects, then our efforts will have been for naught. How is the transition to the Afghan Public Protection Force going to affect you and your staff's ability to conduct future inspections and audits in the field?

**Answer:** The transition to the APPF could indirectly affect SIGAR's oversight. We do not directly rely on private security contractors for support when conducting our inspections, audits, and investigations. We use either embassy or military assets to support our movements. That said, with the military drawdown, we have concerns regarding our ability to visit project sites and interview witnesses. If the security environment deteriorates or if the Embassy and/or USFOR-A places more restrictions on travel as a result of their uncertainty about the reliability of security provided at project sites, then it will have further impact on an already challenging environment in which we are trying to conduct our work.

House Committee on Oversight and Government Reform *USAID Response*  
Subcommittee on National Security, Homeland Defense, and Foreign Operations

March 29, 2012 hearing

**“Are Changes in Security Policy Jeopardizing USAID Reconstruction Projects and Personnel in Afghanistan?”**

Chairman Jason Chaffetz

Question for the Record

1. **Please provide a comprehensive explanation from the Afghan Government as to why there is a 65 percent overhead on the cost of the personnel in addition to a 20 percent profit margin on USAID projects. Please verify whether cost increases stem from risk management companies or the APPF.**

There is not an additional 65 percent overhead cost; however there is a \$65 administrative overhead fee, which appears as a line item in the attached cost-per-guard fee structure as detailed on the APPF website as of June 13, 2012.

According to the APPF, the 20 percent charge is intended to primarily cover operation and expense, and to be reinvested in the APPF state-owned enterprise (SOE). The fee is intended to cover APPF headquarters office support, human relations, finance, customer service, and other operations, and is disclosed to all contracting parties.

The APPF operates under a charter as an SOE, pursuant to the Afghan law on state-owned enterprises. One hundred percent of the capital of such SOEs is owned by the state. Afghan law requires all SOEs to cover expenses incurred in the production of products and services, and to earn a profit.

The APPF charter sets the goal of no less than 10 percent in annual profit for the SOE itself. However, given the complexity and high costs associated with a start-up, it is too soon to calculate whether the APPF will achieve any earnings that exceed the cost of services provided.

If the SOE does accrue a profit at the end of the fiscal year, its charter clearly delineates how these funds will be allocated, including for working capital, payment of bank loans, personnel costs, and the compensation of unexpected losses. Any remaining amounts must be transferred to the budget of the state.

In written testimony provided to the committee, USAID stated that its preliminary assessment of security costs using a sample size of 15 projects that have converted from Private Security Companies (PSCs) to APPF and Risk Management Company (RMC) contracts “indicates that the overall average cost, based on side-by-side comparison, is 16% higher with the APPF/RMC model.” We noted that we would continue to monitor costs and seek opportunities to reduce overall expenses without sacrificing security.

In response to a more recent data call issued in April to implementing partners, security costs have actually decreased by 3.23 percent as a result of the transition to APPF. USAID asked partners to submit cost data on all projects that used PSCs prior to the APPF transition and then continued to use either APPF services and/or RMC services after the transition. We requested the total cost of the last month of the project’s PSC cost and the average monthly cost of new APPF, RMC, and logistic sub-contracts. To date, USAID has received responses from 34 of the 40 projects that had used PSC subcontracts prior to switching, indicating a cost savings of just over 3 percent at this early point in the process. We will continue to gather a fuller set of data over time.

**House Committee on Oversight and Government Reform**

**Subcommittee on National Security, Homeland Defense, and Foreign Operations**

**March 29, 2012 hearing**

**“Are Changes in Security Policy Jeopardizing USAID Reconstruction Projects and Personnel in Afghanistan?”**

**Ranking Member John Tierney**

**Questions for the Record**

- 1. Please provide specific analysis and accounting of the current and remaining contracts with USAID that will or do require APPF security support. Please provide information on the current and intended contracts between USAID partners and APPF, including the amounts, size, services, and costs.**

Out of the 93 USAID funded projects currently operating in Afghanistan (totaling approximately \$3,094,350,665) USAID partners implementing 34 of them are choosing to use APPF security services (\$1,298,482,815). Of these 34, implementing partners for 28 projects have completed signed contracts with APPF (\$996,229,347). The remaining six projects (\$302,253,468) include four new projects that were awarded following the March 20 APPF transition deadline whose managers have expressed interest in contracting APPF services. Implementing partners for the other two projects are in the final stages of contract negotiations with APPF. Those projects that are using APPF security services are concentrated in USAID’s infrastructure, economic growth, and democracy and governance portfolios.

- 2. Please provide detailed information, including a cost analysis of the APPF services and a break-down of the specific line-items costs, within the APPF contracts. Please provide a specific explanation of the APPF-contracts profit margin. What services or portion of the contract is this cost intended to cover?**

Attached please find the cost-per-guard fee structure as detailed on the APPF website as of June 13, 2012. The APPF charges a 20 percent fee on each contract. According to APPF, this charge is intended to primarily cover operation and expense, and to be reinvested in the APPF state-owned enterprise (SOE). The fee imposed on contracts is intended to cover APPF headquarters office support, human relations, finance, customer service, and other operations, and is disclosed to all contracting parties.

The APPF operates under a charter as an SOE, pursuant to the Afghan law on state-owned enterprises. One hundred percent of the capital of such SOEs is owned by the state. Afghan law requires all SOEs to cover expenses incurred in the production of products and services, and to earn a profit.

The APPF charter sets the goal of no less than 10 percent in annual profit for the SOE itself. However, given the complexity and high costs associated with a start-up, it is too soon to calculate whether the APPF will achieve any earnings that exceed the cost of services provided.

If the SOE does accrue a profit at the end of the fiscal year, its charter clearly delineates how these funds will be allocated, including for working capital, payment of bank loans, payment of personnel costs, and the compensation of unexpected losses. Any remaining amounts must be transferred to the budget of the state.

The APPF Advisory Group (AAG), a joint Afghan, U.S. Department of Defense, and U.S. Government civilian entity created to advise and build the capacity of the APPF, continues to work with the Afghan government to create mechanisms within the APPF that are intended to ensure transparent services to APPF customers, and to ensure that the funds collected by APPF are applied and distributed according to the mandate of its charter. We understand that the APPF is currently seeking to engage an international auditing firm to further develop sound financial practices. The APPF has invested notable effort into developing cost models and pricing structures that will enable it to provide effective security services, grow the enterprise, and develop full capability over time.

The goal of the APPF becoming a self-sustaining enterprise is consistent with our long-term policy goal, as articulated at the Bonn Conference, of ensuring that Afghan institutions achieve increasing self-sufficiency and sustainability, and will continue to develop throughout the post-2014 transition.

**3. Please provide detailed information on your contingency planning and analysis related to contracts with the APPF. How does your planning address concerns with APPF's potential inability to fulfill the security needs of USAID's contracting partners? What additional costs or contingencies are planned for in the event APPF is unable to perform the required security needs within the contracts?**

Roughly two-thirds of USAID- funded projects in Afghanistan do not use security services. Implementing partners who choose to use security services are required to give USAID contingency plans on how they would continue operations if APPF were unable to provide adequate security services. Throughout the transition process, USAID instructed IPs to update their contingency plans as warranted by changes in the ability of APPF to provide security services. Most contingency plans require relocation of expatriate staff from the field. If APPF is unable to perform the required security needs within the contracts, USAID would work on a case-by-case basis with implementing partners to modify or discontinue certain program activities that, as a result, have become prohibitively expensive or unsafe. To date, no implementing partner has left Afghanistan due to an inability of APPF to provide security services.

**4. Please describe the challenges to USAID's implementing partners as they transition to APPF security that have been raised to your attention. How is USAID addressing these challenges?**

Issues brought to the attention of USAID are being tracked as they are reported. It is important to note that the sub-contract relationship with USAID IPs and the APPF is a contractual matter between those two parties; however, given that the security of our IPs is of the utmost importance to USAID, we remain engaged and interested in the prompt resolution of any issues between implementing partners and the APPF and offering general assistance. In order to assist our partners in reporting issues, USAID has set up an email address for partners to send issues or to provide USAID copy of issues raised and directed to the APPF.

Issues have included guard payments, attempts to change contract terms after contracts have been signed, assignment of officer and noncommissioned officer management staff to projects, delivery of weapons and uniforms, and conduct of site surveys.

USAID has addressed each of these issues through the APPF Advisory Group (AAG), which has the responsibility for direct interface with APPF officials. USAID has a business advisor that contributes to the AAG, and USAID staff have worked closely with the AAG team. USAID staff attend all meetings of the AAG, where they have the opportunity to raise reported issues and seek assistance in resolution, both in relation to the individual concerns and also in the broader context of tracking issues and addressing patterns. USAID also attends and participates in all meetings of the Overseas Security Advisory Council, Industry Day events as participants, and has held a number of meetings with implementing partners, both in Kabul and Washington, to discuss APPF, listen to concerns, and provide guidance.

**5. What happens if the APPF is unable to provide the needed security after the current 30-90 extensions expire, and how is USAID planning for this contingency?**

The 30 day extension for development contracts has lapsed and APPF, though not yet perfect, is providing the necessary security for USAID's development projects. The 90 day extension does not apply to development contracts and was specific to ISAF convoy operations.

**6. At some point, higher security costs in Afghanistan could leave USAID with a problem. USAID would need to prioritize among other projects or scale back projects to fund needed increases in security spending.**

**How is USAID evaluating, measuring or determining the level of increased costs related to benefits of the programs? At what point, or what level of increase in costs would USAID have to change, reduce, or alter its programming? Please describe the cost analysis and results related to evaluating the modifications of contracts that may be done when increased security costs are incurred.**

**What measurements, assurances, or plans are in place to ensure security will not be reduced due to or in the face of increased costs?**

While initial estimates were that security costs had risen for IPs, the results of a more comprehensive data call issued on April 7, 2012 indicate costs have decreased. In the April 7 data call, we asked our implementing partners to submit cost data on all projects for which the IPs used private security contractors prior to the APPF transition and then continued to use either APPF services and/or RMC services after the transition. The results of this initial data call, from which USAID to date has received submissions from 34 out of the 40 projects that used a PSC subcontract prior to switching, showed a 3.23 percent decrease in security and related costs after the transition to the APPF/RMC model.

No specific increase would automatically necessitate USAID to change, reduce, or alter its programming. USAID already performs a cost-benefit analysis of the total cost of the program. Security is only one individual line item within the program, and it is the total cost of the program that is important when comparing costs to potential benefits in order to determine if U.S. funds should be spent on other projects. Beyond this, USAID ensures that proposed security costs are reasonable, allowable, and allocable.

If security costs were to escalate, USAID would review the total cost of the program and determine if the objectives of the program are still achievable in light of reduced programmatic funds to decide whether or not the project should continue. Another possibility is if high security costs prevented the IP from operating outside Kabul, this would also be taken into consideration in terms of being able to meet the objectives of the program. To date, we have not modified any awards to provide increased funding for additional security costs as a result of the transition to APPF.

**7. Given a finite funding pool, please describe the process by which USAID determines the priority of projects with a broad-based strategic vision.**

USAID prioritizes projects according to whether project goals are strategically aligned with U.S. government-defined country development objectives, as well as Afghan government National Priority Programs. For new projects, concept papers are prepared and reviewed to determine their alignment with a development objective; if the project does not align properly, a project concept can be rejected by the Mission's senior staff or sent back for revision. If a project is considered worthy, it moves forward with design completion and eventual implementation. For on-going projects, the Mission conducts project portfolio reviews at least once a year that formally assess the performance of all projects. If a project is deemed to be under performing or unsustainable, it can be modified to improve the performance or recommended for early completion/termination.



**APPF Monthly Cost per Guard (in US Dollars)**

*CSAIO  
Response*

| Line Item                         | Cost                                       | Notes   |
|-----------------------------------|--|---|
| Salary                            | To Be Determined by Customer               | Includes Civil Servant Base Salary (\$100/month) + Hazardous Duty / Incentive Pay |
| Bank Charges                      | \$2  |   |
| Medicine                          | \$8  |   |
| Martyr Contribution               | \$18                                       | Eliminate when Customer provides DBA Insurance                                    |
| Burial Contribution               | \$12.50                                    | Eliminate if provided by DBA Insurance  |
| Training Cost                     | \$10                                       |   |
| Food stipend                      | \$120                                      | Customer has option to provide food service                                       |
| AK-47                             | \$25                                       | N/A if weapon is provided by PSC/RMC  |
| 9mm                               | \$17                                       | N/A if weapon is provided by PSC/RMC  |
| Ammo 7.62 (120-round basic load)  | \$7  | N/A if ammo is provided by PSC/RMC  |
| Ammo 9mm (45-round basic load)    | \$2  | N/A if ammo is provided by PSC/RMC  |
| APPF Administrative Overhead Cost | \$65                                       |   |
| Profit                            | 20% of total of the above                  |   |
| <b>Total</b>                      | <b>Depends on each individual contract</b> |   |

**APPF Annual Cost per Guard (in US Dollars)**

**Exempt from Profit Margin**

| Line Item                       | Cost  | Notes   |
|---------------------------------|-------|---|
| Uniform/Personal Equipment Cost | \$600 | Paid up front by the customer                               |
| Pension                         | \$200 | Option to pay up front or monthly (\$16.67/month per guard) |

*\*These figures may adjust slightly, but for the most part they are an accurate depiction of costs associated with contracting for security services with the APPF. Based upon 12 month contract.*