



TESTIMONY OF BETSY MARCOTTE
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BEFORE
THE COMMISSION ON WARTIME CONTRACTING
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Thank you Chairman Shays, Chairman Thibault, and members of the commission for holding this hearing. My name is Betsy Marcotte, and I am here today in my capacity as DAI's Senior Vice President, Technical Programs. For the past five years, I have been responsible for DAI's significant portfolio in Afghanistan, where I travel often.

On April 11 this commission heard from several nonprofit development organizations. I appreciate the opportunity to appear before you today to share my observations about the critical partnership that has been forged between USAID, DAI, and other private sector implementing partners in achieving America's foreign policy objectives in Afghanistan.

ABOUT DAI

DAI is implementing 104 projects in 59 countries, for clients such as USAID, the U.K. Department of International Development, the European Commission, multilateral donors, major philanthropies, private sector clients, and host country governments—often under challenging circumstances, from war zones in Afghanistan to post-conflict settings in the eastern Congo and disaster relief areas in Haiti.

DAI delivers highly skilled technical assistance that builds local capacity to solve the complex problems facing developing countries. We were recently named one of the world's Top 40 Development Innovators, one of only 10 consulting firms so honored globally. In our U.S. Government Service business, we extend the reach of USAID by providing the diverse intellectual capital, extensive operational experience, and committed professional staff needed to help implement the agency's remarkable array of programs.

As a private sector firm, DAI competes primarily for contracts rather than grants or cooperative agreements. Each funding mechanism has a place in the development arena, depending on the client's objectives and the desired degree of oversight and control. Grants are designed to provide government funding for the implementing partner's activities in cases where those activities coincide with the government's interests. Contracts are used to purchase goods or services to execute an activity specified by the government and on behalf of the government. When DAI implements a USAID contract, we do so in USAID's name and at USAID's direction. We have no hesitation about branding that work under the U.S. Government banner as "aid from the American people."

We believe there are important roles for both grants and contracts in Afghanistan—and for both NGOs and private sector development firms. But we respectfully contend that efforts to limit the kinds of service providers available to the U.S. Government are misguided and ultimately detrimental to America's foreign policy and development objectives. Fundamentally, we believe that all development organizations—NGOs and private sector firms—should be judged not on their for-profit or nonprofit status, but on their ability to deliver development results on a cost-effective basis.

DEVELOPMENT FIRMS AND AFGHAN DEVELOPMENT

Before I turn to DAI's work in Afghanistan, I would like to address misconceptions about private sector firms that have been presented in testimony before this very commission.¹ These misconceptions are centered on the following attributes:

- Results
- Sustainability
- Cost-Effectiveness
- Security

Let us begin with what is for DAI the bottom line: **results**. There is no evidence that NGOs are more successful at delivering development results than development firms. There are good development firms and bad, just as there are good NGOs and bad—the key is to impose a rigorous system of competition that weeds out the good from the bad with a razor-sharp focus on development results.

Our results have been exemplary. In the east of Afghanistan, the DAI-led Alternative Development Program-Eastern Region (ADP/E) improved the lives of millions of Afghans. It reached 2,600 communities; brought 24,000 hectares of land into non-poppy production; generated 17,000 full-time, permanent jobs; trained 118,000 farmers, government officials, and small business owners; and helped more than a quarter of a million subsistence farmers raise their incomes anywhere from 60 to 125 percent.²

Regarding **sustainability**, DAI focuses on building sustainable *local* capacity by developing and nurturing institutions in the private sector, civil society, and government. Conscious that assistance programs too often create dependency where they hope to spur development, we aim to “work ourselves out of a job” by building sustainable change agents and in-country development capacity. Our small business program, for example—the Afghanistan Small and Medium-Sized Enterprise Development Activity, or ASMED—has supported the establishment of more than 1,000 small firms and assisted 10,000 more, creating 100,000 new jobs. This is the road to a healthy future for Afghanistan.

In Afghanistan, building local capacity is about nurturing and training local talent—people who contribute to our programs, learn from them, and go on to lead their own country's development. In all, DAI employs more than 1,000 Afghans, or 90 percent of our workforce in that country. And we partner with hundreds of Afghan organizations. ASMED alone has trained 20,000 people and sponsored 2,200 internships (25 percent of them women), of whom three-quarters have been hired by the host company after their internship.

With respect to **cost-effectiveness**, there is little difference in cost between NGOs and private sector development firms. There is no evidence that NGOs enjoy any cost advantage over their private sector counterparts.³ In testimony before this committee, Save the Children charged private sector firms with “following the money.” This statement masks the truth. DAI and other firms compete intensely for projects. Competition yields lower costs, better value, superior technical innovation, and more diverse

¹ Commission on Wartime Contracting in Iraq and Afghanistan. Hearing on: NGOs and PRTs: Contracting and the Future of Development in Contingency Operations, April 11, 2011.

² USAID's end-of-project Contractor Performance Report gave ADP/E the following accolade: “The contractor has performed in an outstanding manner. It has been a singular performance well in excess of requirements to achieve success. The manner of attainment of stated goals and objectives has been commendable and serves as an example to others. The contractor has demonstrated almost prescient problem solving skills that have contributed materially to strengthening working relationships with counterparts. Job well done.”

³ Empirical evidence on this subject is sparse, but a July 2006 study by USAID's Microenterprise Development Office specific to microfinance programs found that “No significant conclusions were possible regarding whether FPs [for-profits] or NFPs [not-for-profits] were more cost effective.” *Microfinance Umbrella Programs Study: An Analysis Of USAID Experience Using Umbrella Programs To Support Microfinance Markets And Institutions*: http://pdf.usaid.gov/pdf_docs/PNADG711.pdf

technical choices. We welcome competition from nonprofits and for-profits, and we think the Commission should view with skepticism any effort to bar the for-profit sector from the marketplace.

With respect to salaries, Save the Children stated that NGO salaries are lower than those of the private sector. The truth is that USAID does not permit most development project employees to receive higher salaries than government employees; all salaries must be approved by USAID. This restriction does not apply to NGOs. In Afghanistan and other locations, DAI has seen valued project professionals leave because we could not match the higher salaries paid by competitor NGOs.

Once a competitively bid project has been awarded, rigorous oversight is essential. Contracts provide the greatest level of accountability and transparency because they are carefully controlled and routinely audited. USAID contracts involve client approval of costs and actions every step of the way. And by law, contractors are subject to close public scrutiny—of every taxpayer dollar spent—through independent government audits. The same strict USAID management oversight and standards of accountability and transparency do not apply to grants and cooperative agreements. Recognizing the importance of project oversight, DAI was one of the first USAID implementers to establish its own Fraud Prevention and Investigation Unit in Afghanistan.

Finally, a word on **security**. Despite earlier testimony to the contrary, the need for security in Afghanistan has more to do with the nature of the work being done than the kind of organization doing it. And there is no clear distinction between nonprofit NGOs and for-profit firms on this score. Some NGOs that perform purely humanitarian assistance view security as compromising their neutrality, and we respect that perspective just as we deeply respect the committed individuals who do this kind of work. But other nonprofit NGOs use armed private security contractors.

DAI's work in Afghanistan spans the gamut, from stabilization work in counterinsurgency contexts to institutional support in the agricultural finance sector. And the need for security varies accordingly. But almost all of DAI's development work involves close coordination with Afghan and U.S. authorities, civilian and military, and centers on building Afghan government capacity to counter the insurgents. Such work requires armed security because it threatens the base of support for anti-government elements, and therefore invites attack.

DAI IN AFGHANISTAN

DAI has been executing projects in Afghanistan since 1976. Building on our legacy of delivering tangible results and measurable value to USAID, DAI is currently entrusted with eight major USAID projects operating in all 34 Afghan provinces.

The largest of these is the soon-to-be completed Local Governance and Community Development project (LGCD), a five-year undertaking to build the legitimacy and credibility of the Afghan government. Overall success in Afghanistan depends on the support of the Afghan people for their government, at both the national and local level. Afghans must have confidence that their government—rather than anti-government elements—can provide leadership, essential services, and basic stability.

DAI has been helping the government deliver these projects country-wide, while building real Afghan ownership into each activity. Ninety-five percent of LGCD's subcontracts and procured goods were awarded to Afghan firms, and 93 percent of its grants went to Afghan NGOs. Through LGCD, Afghan government-led activities have rehabilitated 1,275 different pieces of infrastructure, including 37 buildings, 245 kilometers of road, and 400 kilometers of irrigation. From 2010 to 2011 alone, the project equipped 728 institutions, including more than 500 government offices and 200 community organizations. In that same period, the program generated 391,000 days of productive employment, particularly among young fighting-aged males. And it delivered 193,000 training days to government officials and others—all to help strengthen the credibility of Afghan governments with their constituents.

IDEA-NEW is another exemplary project. Indeed, a *Philadelphia Inquirer* journalist who spent a week with IDEA-NEW called it a “model of success.” “If someone is looking for a new model of aid operations,” she wrote, “Jonathan Greenham [DAI’s Chief of Party] and IDEA-NEW are showing the way.”⁴ Implemented with our partners, Mercy Corps. and ACIDI-VOCA, USAID’s IDEA-NEW is the successor to the Alternative Development Program I cited earlier. It is designed to dissuade Afghans from growing opium poppy by increasing access to lawful and commercially viable alternative sources of income. The program has created more than 25,000 full-time jobs and employed a further 27,000 local community members on more than 100 infrastructure projects.

And let’s not forget ASMED, our small business program. ASMED has leveraged \$91 million of partner investments through 52 of USAID’s Global Development Alliances, for an ASMED investment of \$13 million. This is a powerful market endorsement of the program and a powerful statement of faith in the Afghan people. It is no coincidence that it is a private sector firm—attuned to the demands of the competitive marketplace—that is so effectively engaging Afghanistan’s entrepreneurs and investors to build their country’s private sector capacity.

I thank the commission for this opportunity to testify and look forward to answering any questions you may have.

⁴ “Successful model for foreign aid is IDEA-NEW,” Trudy Rubin, *Philadelphia Inquirer*, May. 2, 2010: http://www.philly.com/philly/columnists/trudy_rubin/Trudy_Rubin_Successful_model_for_foreign_aid_is_IDEA-NEW_.html