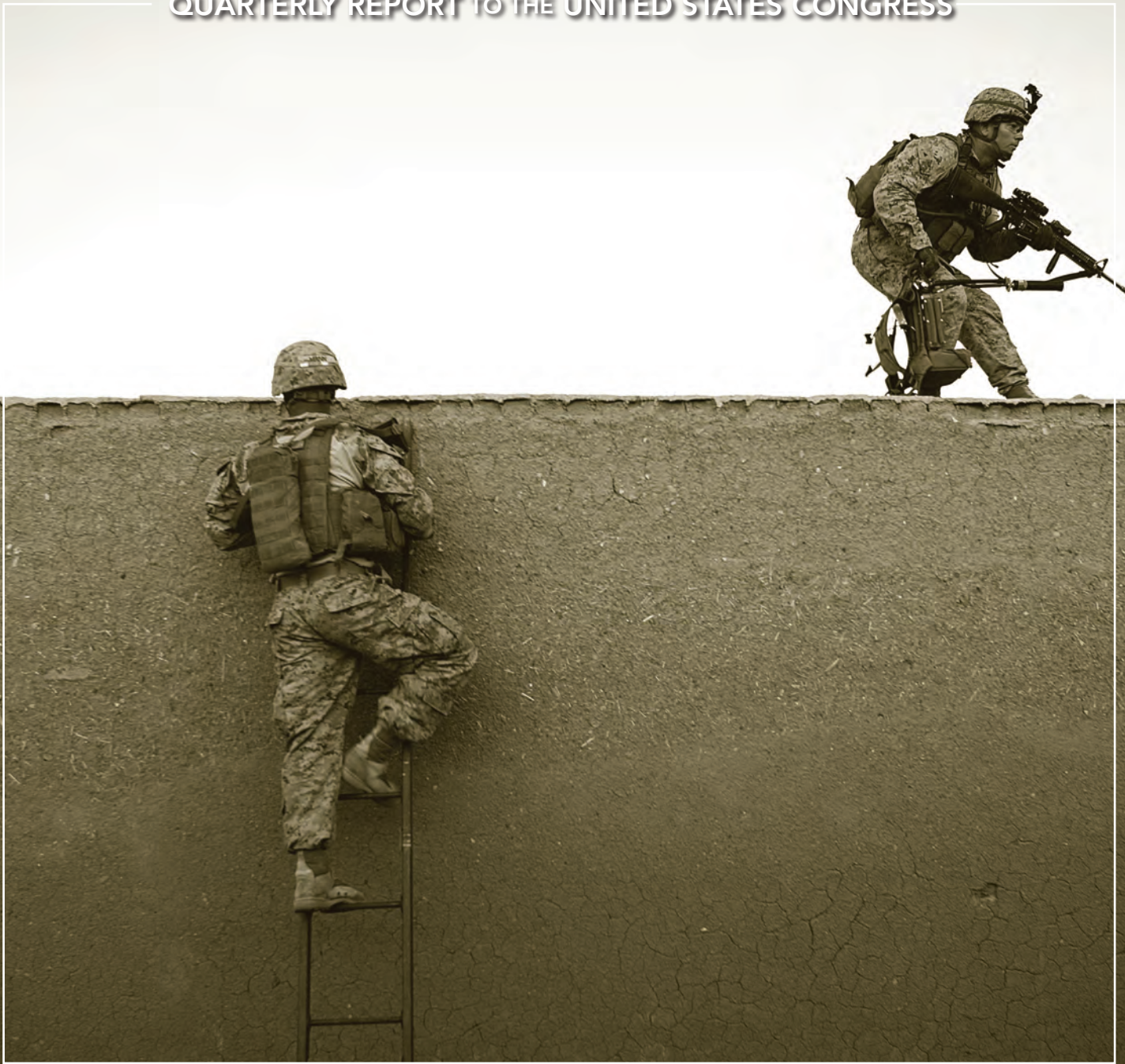


# SIGAR

Special Inspector General for  
Afghanistan Reconstruction

APR 30  
2013

QUARTERLY REPORT TO THE UNITED STATES CONGRESS





## **The National Defense Authorization Act for FY 2008 (P.L. 110-181) established the Special Inspector General for Afghanistan Reconstruction (SIGAR).**

SIGAR's oversight mission, as defined by the legislation, is to provide for the independent and objective

- conduct and supervision of audits and investigations relating to the programs and operations funded with amounts appropriated or otherwise made available for the reconstruction of Afghanistan.
- leadership and coordination of, and recommendations on, policies designed to promote economy, efficiency, and effectiveness in the administration of the programs and operations, and to prevent and detect waste, fraud, and abuse in such programs and operations.
- means of keeping the Secretary of State and the Secretary of Defense fully and currently informed about problems and deficiencies relating to the administration of such programs and operation and the necessity for and progress on corrective action.

Afghanistan reconstruction includes any major contract, grant, agreement, or other funding mechanism entered into by any department or agency of the U.S. government that involves the use of amounts appropriated or otherwise made available for the reconstruction of Afghanistan.

Source: P.L. 110-181, "National Defense Authorization Act for FY 2008," 1/28/2008.

(For a list of the congressionally mandated contents of this report, see Section 3.)

### **Cover photo:**

**A U.S. Marine Corps** squad leader and a rifleman, both from 3rd Battalion, 4th Marine Regiment, scale a wall during counter-improvised explosive device training at Camp Leatherneck in Helmand province. (U.S. Marine Corps photo)



## SPECIAL INSPECTOR GENERAL FOR AFGHANISTAN RECONSTRUCTION

I am pleased to submit SIGAR's quarterly report on the status of the U.S. reconstruction effort in Afghanistan.

Now in its 11th year, that effort has entered its most critical phase, with U.S. combat troops departing and the Afghan government assuming greater responsibility for the country's future. The U.S. reconstruction program is intensely focused on the 2014 transition now under way in four key areas: security, governance, economic development, and the way the United States delivers foreign assistance.

To date, Congress has provided nearly \$93 billion to build Afghan security forces, improve governance, and foster economic development in Afghanistan. The success of this historic endeavor—the most costly rebuilding of a single country in U.S. history—depends on the degree to which U.S. assistance can:

- build Afghan security forces capable of preventing extremists from re-establishing strongholds in Afghanistan
- strengthen the capacity of the Afghan government to hold credible presidential elections in 2014, peacefully transfer political power, and provide essential services through the rule of law
- develop the foundation for a viable economy despite anticipated reductions in foreign aid
- improve Afghan institutions' ability to manage and account for U.S. and other donor funds delivered directly through the Afghan national budget

Success also depends on independent and effective oversight. Section 2 of this report describes SIGAR's ongoing work in the vital reconstruction areas of security, governance, and economic development. We have coordinated this work with the Government Accountability Office (GAO) and the Inspectors General for Defense, State, and the U.S. Agency for International Development (USAID). Through our audits, inspections, and investigations, we all intend to identify issues in these areas in time for implementing agencies and Congress to take action to protect funds and improve key reconstruction programs before it is too late.

As the transition unfolds, SIGAR has two major oversight concerns. One relates to the decision to provide more reconstruction dollars through the Afghan national budget as "direct assistance" and the other relates to security.

### **Direct Assistance**

The United States has committed to providing more of its aid to Afghanistan in the form of direct assistance, meaning government-to-government funding through multilateral trust funds and bilateral agreements. SIGAR does not oppose increasing direct assistance. There are many good reasons for using such aid. Direct assistance can build Afghan capacity and increase the effectiveness of foreign aid by ensuring that Afghans want and are interested



in sustaining investments. However, SIGAR believes Congress and the implementing agencies must be mindful of three issues that could undermine direct assistance as a means of pursuing reconstruction objectives:

- limited Afghan government capacity to manage and account for donor funds
- the effect of pervasive corruption
- the need to ensure adequate, long-term oversight

It is imperative for the United States to ensure that the Afghan government has the capacity to execute and account for U.S. funding. SIGAR is encouraged that USAID has completed assessments of the capability of 13 Afghan ministries to manage direct assistance. This is an important and necessary first step. Decisions to provide direct assistance to these ministries must adequately take into account the results of these assessments. Moreover, the United States must establish mechanisms to protect taxpayer-provided dollars from corruption and make certain there is rigorous oversight of these funds. Implementing agencies—the first line of defense against waste, fraud, and abuse—must have clear agreements with strong provisions for oversight. Afghan ministries must provide unfettered and timely access to their books and records as well as to sites, offices, and staff of U.S.-funded projects.

Because of the importance of this issue, SIGAR began a series of audits and special projects related to direct assistance this quarter. These include reviewing U.S. government plans to transfer reconstruction projects to the Afghan government, USAID-funded assessments of Afghan ministries, the Afghan Ministry of Public Health's use of direct assistance to fund one of its flagship programs, the Defense Department's assessment of the Afghan Defense and Interior Ministries, and USAID's direct assistance for the Kajaki Dam project.

## Security

Poor security threatens both the implementation and oversight of reconstruction programs, whether by U.S. agencies or the Afghan government. Contractors and nonprofit organizations must have security to execute projects. Afghan law requires them to hire the government-run Afghan Public Protection Force (APPF), rather than private security companies, to provide this essential service. SIGAR has an ongoing audit to identify the cost of the APPF for selected USAID projects and to determine the financial and operational impact of the APPF transition on reconstruction projects.

I am particularly concerned about the potential effect of the U.S. troop withdrawal on oversight by the implementing and oversight agencies. The current military drawdown and transition to Afghan security forces has already made it more difficult for implementing agencies to effectively manage projects and for oversight agencies such as SIGAR to visit and inspect projects. The U.S. military will only provide security in areas within an hour by air travel of a medical facility. This quarter, SIGAR was unable to visit \$72 million in infrastructure projects in northern Afghanistan because they are located outside this security "bubble." This constraint on oversight will only get worse as more bases close.

Effective oversight cannot rely solely on desk work and document reviews. We need to put people in the field to visit projects, "kick the tires," and conduct investigations. SIGAR is exploring ways it can provide aggressive oversight in a security environment that restricts travel by U.S. personnel. We will also examine how the implementing agencies will handle this challenge. Options may include expanding the use of satellite imagery and hiring Afghans or other third-country nationals to conduct site visits.

In any case, the Executive Branch and Congress must work together to ensure that the U.S. Embassy in Kabul has the resources to provide security for diplomats, project managers, and oversight agencies. That is essential for the decade ahead. Like Afghanistan's political development and economic growth, the conduct of effective oversight can only take place behind a stout shield.

Whatever security arrangements are devised, and whether reconstruction work relies on on-budget or off-budget aid, I can assure you that SIGAR auditors and investigators will continue to protect American taxpayers' interests by providing relevant, timely, and actionable information to Congress, thereby supporting our nation's critical mission and objectives in this area of the world.

Respectfully,

A handwritten signature in black ink, appearing to read 'John F. Sopko', with a long horizontal flourish extending to the right.

John F. Sopko  
Special Inspector General for Afghanistan Reconstruction

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“Afghanistan is managing three very significant transitions: a security transition, a political transition, and an economic transition. And America will continue to support the Afghan people through all three of these transitions.”

—*U.S. Secretary of State John Kerry*



# 1 AID AND THE TRANSITION



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Secretary of State John Kerry and Afghan President Hamid Karzai address a meeting during the new Secretary's visit to Kabul in March 2013. (State Department photo)

## SIGAR OVERVIEW: AID AND THE AFGHAN TRANSITION

The U.S.-funded reconstruction effort in Afghanistan, now in its 11th year, is committed to supporting Afghanistan as it takes responsibility in 2014 for four critical functions: security, governance, economic development, and progress toward directly managing at least half of the foreign assistance the country receives. The success of this historic endeavor hinges on:

- the ability of the Afghan National Security Forces (ANSF) to protect the population and prevent extremists from re-establishing strongholds in Afghanistan
- the capacity and the political will of the Afghan government to hold credible presidential elections in 2014, peacefully transfer political power, provide essential services, and institute rule of law
- the degree to which the Afghan economy can survive future reductions in foreign aid
- the extent to which the Afghan government can manage and account for international funds delivered directly through the Afghan national budget

Reconstruction success also depends on systematic, diligent, and aggressive oversight. SIGAR is conducting audit, inspection, and investigative work in each of these four transition areas to identify issues before it is too late for implementing agencies and Congress to address them. This quarter, SIGAR initiated an audit of U.S. government plans to transfer completed projects to the Afghan government. The audit is assessing the project-transfer process and evaluating the Afghan government's ability to maintain these assets. It will also determine the extent to which implementing agencies have compiled and documented a comprehensive inventory of all U.S.-funded projects and assets. At the same time, through its Office of Special Projects, SIGAR has requested implementing agencies to provide a complete list of all their reconstruction projects and programs since 2002. As part of this inquiry, SIGAR has also asked the implementing agencies to identify how remaining or planned-for funds for Afghanistan's reconstruction will be used.

Since 2002, Congress has provided nearly \$93 billion to rebuild Afghanistan, making it the most costly effort to reconstruct a single country

in U.S. history.<sup>1</sup> This number does not yet include all Afghanistan reconstruction funding for FY 2013 because final appropriation amounts have not been determined for many accounts, including State and USAID accounts.

## THE SECURITY TRANSITION

A stable security environment is vital for the survival and growth of a democratic, non-extremist Afghanistan. Thus, more than half of all reconstruction dollars—more than \$54 billion—have gone to build the Afghan National Army (ANA) and the Afghan National Police (ANP). The Combined Security Transition Command-Afghanistan (CSTC-A) has used these funds to provide training, purchase equipment, build army and police facilities, and pay for salaries as well as operation and maintenance costs. (See Section 3, pages 81–107, for a full description of U.S. programs to build the security forces.)

Since 2009, SIGAR has issued 23 audits that looked at aspects of ANSF development. These audits have identified numerous problems related to infrastructure projects, logistics support, and accountability for equipment, personnel systems, and operation-and-maintenance (O&M) contracts. As a result of SIGAR's work, CSTC-A has taken a number of steps to protect taxpayer dollars and make programs more effective. For example, SIGAR has repeatedly highlighted lack of planning for the sustainability of ANSF infrastructure. As a result, CSTC-A awarded a contract that not only provided O&M, but also included training for Afghans so that they could take over O&M after the transition.

Earlier this year, SIGAR found accountability weaknesses in CSTC-A's process for ordering, delivering, and paying for fuel for the Afghan army. SIGAR made six recommendations to address the problems and CSTC-A generally concurred with all of them. CSTC-A particularly noted that it would initiate new procedures with the Afghan Ministry of Defense (MOD)—including incremental funding and monthly auditing—to minimize corruption and provide more oversight as it shifts responsibility for fuel purchases to the MOD.

SIGAR has seven ongoing audits, inspections, and special projects that address the ANSF's ability to provide vital security for the Afghan government and people. This quarter, SIGAR began an audit to assess the overall capability of the ANSF and the reliability of its personnel data. The Afghan government and the international community have agreed the ANSF should achieve an end strength of 352,000 by December 2014 and that it will be necessary to sustain this force for several years to prevent al-Qaeda and other extremists from re-establishing a stronghold in Afghanistan. The World Bank estimates it will cost about \$5 billion a year to sustain this force.<sup>2</sup> However, SIGAR and others have reported that determining ANSF strength is fraught with challenges. SIGAR's audit will determine the reliability and





**Wilbur, a U.S. Marine Corps** special-ops dog, keeps watch in a field in Helmand Province as Marines and Afghan soldiers and police work on a checkpoint nearby. (DOD photo)

usefulness of ANA and ANP force strength data as well as the methodology used to assess the capability ratings for a unit's effectiveness. Other topics under review include:

- **Air-mobility Support for the ANSF's Counternarcotics Program:** Despite efforts by the international community and the Afghan government to reduce poppy cultivation and illicit drug trafficking, Afghanistan still produces about 90% of the world's opium. The opium crop has become a key source of funds for the Taliban and other insurgents. The U.S. counternarcotics strategy seeks to stop the flow of funds through interdiction operations that depend on U.S.-funded air-mobility support to U.S. and Afghan law enforcement officials. SIGAR is evaluating, among other things, the extent to which U.S. assistance has helped develop a sustainable capability to provide air-mobility support for counternarcotics efforts.
- **Missing Repair Parts:** In September 2012, an International Security Assistance Force (ISAF) advisory team reported that CSTC-A could not account for \$230 million worth of repair parts for ANSF equipment and recommended that SIGAR assess CSTC-A's process for ordering and managing these repair parts. SIGAR is examining how CSTC-A determines requirements and procures, stores, and distributes repair parts. The audit will also evaluate CSTC-A's internal controls over the process.
- **Petroleum, Oil, and Lubricants for the ANP:** This audit will examine two issues identified in an earlier audit of the ANA's ability to manage and account for its fuel supply: accuracy in determining fuel requirements and accountability for fuel purchases.
- **Literacy in the ANSF:** High rates of illiteracy undercut the quality and effectiveness of many Afghan military and police functions. SIGAR



is evaluating the implementation and oversight of three U.S.-funded literacy training contracts, valued at \$200 million.

- **MOD/MOI Management of Direct Assistance:** The United States has provided more than \$3 billion in direct assistance to the Afghan Ministries of Defense and Interior for army and police support. With this amount expected to increase substantially in the coming years, SIGAR's Office of Special Projects is examining DOD's procedures for evaluating the management of and accountability for direct-assistance funds.
- **Construction Requirements for the ANSF:** The United States has hundreds of ongoing and planned construction projects for the ANSF. SIGAR will examine the justifications and requirements for these projects, valued at several billion dollars, to determine whether they are necessary, achievable, and sustainable.
- **ANSF Facility Inspections:** SIGAR is continuing its on-site examinations of site preparation, construction, outfitting, and staffing of Afghan army and police facilities.

## THE POLITICAL AND ECONOMIC TRANSITION

The United States has provided nearly \$23 billion to improve governance and foster economic development in Afghanistan. Most of the assistance for governance and rule of law programs comes through USAID's Economic Support Fund (ESF) and the State Department's International Narcotics Control and Law Enforcement (INCLE) account. The total figure does not include either the FY 2013 appropriations (final breakdowns by country were not available at the time this report went to press) or FY 2014 budget requests. In FY 2013, the President requested \$1.85 billion for ESF and \$600 million for INCLE. The final appropriation for these funds is still being negotiated. The President has asked for less in his FY 2014 budget proposal—\$1.69 billion for ESF and \$475 million for INCLE.<sup>3</sup>

In its budget justification, the Department of State (State) emphasized that “continued, sustained support” through the transition was “essential to solidifying the progress made over the last decade and helping establish Afghanistan as a stable, prosperous, and secure nation in a stable, prosperous, and secure region.”<sup>4</sup> State also said that it was shifting its programming during the transition period from stability operations to longer-term efforts in “key areas in economic growth, agriculture, health, education, rule of law, and good governance.”<sup>5</sup>

### Governance

Helping Afghans build a stable, representative government capable of providing basic services, including rule of law, remains an important goal of the U.S. reconstruction effort. The United States is funding a number of programs to build judicial capacity and improve the administration

of the Afghan Parliament, ministries, and provincial offices. The United States is also supporting programs to encourage peace and reconciliation as well as to help the Afghans conduct elections and combat corruption. (See Section 3, pages 109–135 for a full description of programs to improve governance.)

The biggest landmarks in Afghanistan's political transition are the presidential election set for 2014 and the parliamentary elections of 2015. If these elections go badly, their impacts could damage the government's perceived legitimacy, erode popular support, incite ethnic and tribal rivalries, decrease administrative effectiveness, and significantly harm the outlook for a political settlement of the war.

Afghanistan faces many obstacles to becoming a more high-performing state, including a huge fiscal gap between revenues and the cost of operations, difficulty in attracting and retaining qualified ministerial staff, flight of human and financial capital, low rates of budget execution, targeted assassinations of judges and other officials, inadequate procedures and internal controls, high levels of patronage and corruption, and official reluctance to prosecute or punish highly placed or well-connected criminals. Such problems are not unique to Afghanistan, but their aggregate effect in a poor, isolated, aid-dependent country afflicted by decades of fighting amounts to a huge burden on aspirations for more efficient and effective governance.

Afghanistan will not be able to achieve security and stability if its people generally distrust and dismiss the government as ineffectual and corrupt. SIGAR has published 13 audits that looked at critical U.S. programs related to rule of law, civil service development, provincial capacity, election support, and corruption. This work revealed serious problems, including the lack of an integrated U.S. anticorruption strategy. It has led SIGAR to conduct a new audit of the State Department's primary program to train justice sector personnel and build the overall capacity of the Afghan judicial system. SIGAR's Office of Special Projects is also now reviewing the current U.S. anticorruption strategy.

## Economic Development

Although Afghanistan's economy has improved markedly since 2002, the country remains very poor. At the equivalent of about \$543 annually, the country's GDP per capita has more than tripled, but remains one of the world's lowest.<sup>6</sup> These modest gains are threatened by the twin impact of foreign forces withdrawing, along with much of their related spending, and expected declines in donor assistance.

During the transition, State and USAID have said they will concentrate their resources on improving the regulatory environment for private investment, fostering links to regional economies, supporting agriculture, finalizing investments in the energy sector, and sustaining gains in health and education.<sup>7</sup> State said it also intends to expand assistance for women

# AID AND THE TRANSITION



**An Afghan farmer** gives his tractor a tough workout in Helmand Province. Improved roads and farm productivity are key goals for promoting economic growth. (U.S. Marine Corps photo)

and girls through 2014 and beyond. (See Section 3, pages 137–171 for a full description of programs to promote economic and social development.)

SIGAR has published 21 audit and inspection reports related to economic development projects. These reports highlighted numerous problems—inadequate planning, poor quality assurance, lack of Afghan capacity, and questionable sustainability—with U.S.-funded reconstruction programs in the energy, banking, and agriculture sectors. For example, during this reporting period, SIGAR issued an audit assessing the U.S. effort to help the Afghan national power utility to increase revenues and reduce losses from power generation. The audit found that, despite some successes, the Afghan utility still is not able to pay its bills without subsidy.

SIGAR has two ongoing audits assessing major economic development programs as well as several inspections of U.S.-funded infrastructure projects. This quarter, SIGAR began a comprehensive audit of the U.S. effort to improve Afghanistan’s water sector, which is a key goal of the U.S. reconstruction strategy. The United States plans to accelerate water sector development during the transition. This audit will determine if U.S.-funded projects are aligned with the inter-agency water strategy for Afghanistan, and whether they have incorporated plans for sustainability. Other audits and inspections include:

- **Agricultural development:** A USAID-funded project in southern Afghanistan aims to reduce regional instability by increasing agricultural employment and income. SIGAR is assessing allegations that USAID’s implementing partner has failed to sufficiently coordinate

with local government officials and has purchased and distributed equipment without proper justification.

- **Hydroelectric supply:** Tapping the full hydroelectric potential of the Kajaki Dam would greatly expand Afghanistan's supply of economic, reliable, and sustainable energy. But a large, modern turbine hauled up to the mountainous site in 2008 remains uninstalled. SIGAR is conducting an inspection of the Kajaki Dam to determine the quality of the work that has been done to date on this project that is seen as vital to providing electricity for the southern region.

## Social Development

USAID points to improvements in health as one of the great success stories of the Afghan reconstruction, with life spans increasing by as much as 20 years on average since 2002. SIGAR's inspection this quarter of a \$160,000 clinic in Kabul Province reinforced this message. It found that the facility was being used as intended and sustained appropriately by the Afghan government. However, an audit found that USAID approved plans for two new hospitals—worth \$18.5 million—before coordinating with the Afghan Ministry of Public Health to ensure the facilities could be operated and maintained. The hospitals' operation-and-maintenance costs will be significantly higher than the facilities they are replacing, but neither USAID nor the Afghan government has committed to fund the new operating costs. SIGAR also identified serious staffing shortages. The audit underscores SIGAR's continuing concern that the United States is building unsustainable infrastructure projects.

## THE TRANSITION TO INCREASED DIRECT ASSISTANCE

Before 2010, the United States provided most of its assistance to Afghanistan through contracts, grants, and cooperative agreements that were executed outside the Afghan budget and beyond the reach of Afghan officials. Since 2010, the United States and other donors have agreed in principle to provide more government-to-government funding—or direct assistance—to help Afghan government institutions build capacity to manage funds and deliver services. However, the international donor community has also made this aid conditional on the Afghan government tackling endemic corruption, demonstrating that it has the capacity to manage these funds in a transparent manner, and providing detailed action plans showing how it intends to use development assistance.<sup>8</sup> For more information, see the Quarterly Highlight on the following page.

In July 2012, at the donor conference in Tokyo, the Afghan government and the international community created the Tokyo Mutual Accountability Framework that set development priorities. The international community pledged to provide more than \$16 billion in development assistance

## DIRECT ASSISTANCE

Direct assistance, strictly defined, is aid provided through a host nation's national budget, either by multinational trust funds or by individual governments through bilateral agreements. The United States provides aid in both ways.

### Multinational Trust Funds

The United States is currently providing most of its direct assistance to Afghanistan through two major multinational trust funds: the Afghanistan Reconstruction Trust Fund (ARTF), which is managed by the World Bank, and the Law and Order Trust Fund for Afghanistan (LOTFA), which is managed by the United Nations Development Programme (UNDP). SIGAR audits of the ARTF and LOTFA raised questions about the Afghan government's ability to account for funds and monitor projects.

### Afghanistan Reconstruction Trust Fund

The ARTF is the primary funding mechanism for direct international assistance to the Afghan operational and development budgets. The Afghan government uses these funds to pay recurrent costs such as salaries and operation and maintenance, as well as for national development programs. From 2002 through March 20, 2013, the World Bank reported 33 donors had pledged more than \$6.94 billion, of which nearly \$6.18 billion had been paid

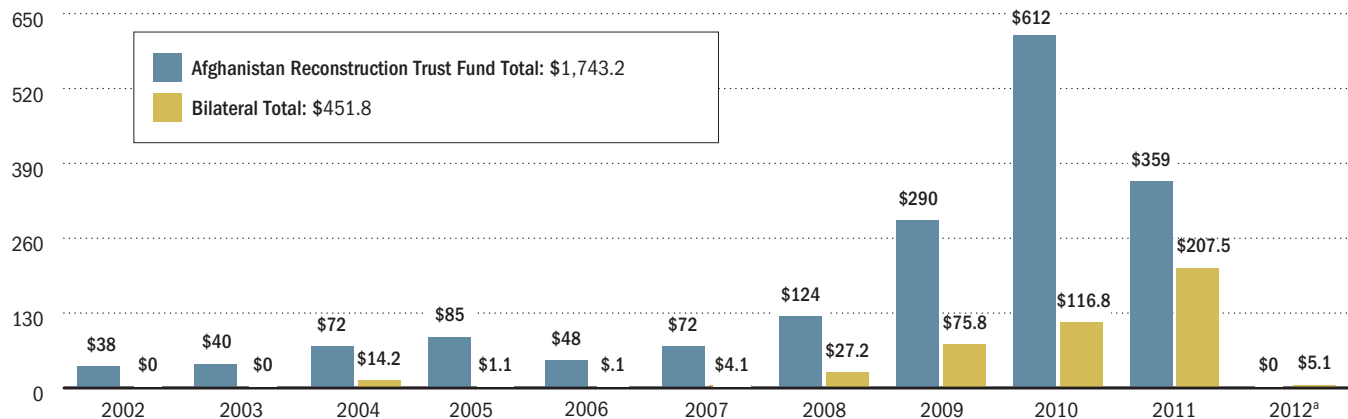
in to the ARTF. The United States, the single largest donor to the ARTF, has provided more than \$1.74 billion—or 28%—of the total that has been paid into the trust fund.<sup>9</sup> USAID draws from the Economic Support Fund (ESF) to contribute to the ARTF. In its July 2011 assessment of the ARTF, SIGAR found that although Afghan ministries had increased their capacity to manage government finances, the Afghan government continued to face challenges in training and retaining civil servants able to administer and account for ARTF funds.<sup>10</sup>

### Law and Order Trust Fund

LOTFA supports the Afghan National Police, primarily by funding salaries. Since 2002, donors have pledged more than \$2.65 billion to the LOTFA of which nearly \$2.57 billion has been paid in. The United States has contributed nearly \$970 million—or 38%—of the total funding for LOTFA since the Fund's inception. Over the next two years, DOD expects to contribute an additional \$567 million which will bring the total U.S. LOTFA contributions to \$1.25 billion in 2014.<sup>11</sup> DOD supports the LOTFA from the Afghan Security Forces Fund (ASFF), which Congress established in 2005 to pay for programs to train, equip, and sustain the Afghan army and police forces. SIGAR's audit of the Ministry of Interior's (MOI) personnel systems concluded that the MOI's payroll system provided little assurance that only those ANP

FIGURE 1.1

USAID ON-BUDGET ASSISTANCE, 2002-2011 (\$ MILLIONS)



Notes: Numbers have been rounded.

<sup>a</sup> Most FY 2012 USAID funding for On-Budget Assistance had not been obligated as of March 31, 2013.

Sources: USAID, responses to SIGAR data call, 4/18/2013 and 4/11/2013.



# QUARTERLY HIGHLIGHT

personnel who are actually working are paid and that LOTFA funds are used to reimburse only eligible ANP costs. Furthermore, SIGAR’s auditors found that the UNDP could not confirm that LOTFA funds were used to reimburse only eligible ANP costs.<sup>12</sup>

## Bilateral Assistance

USAID and DOD also provide direct government-to-government assistance to specific ministries. From 2004–2012, USAID obligated more than \$452 million from the ESF to 13 Afghan ministries and government agencies.

Figure 1.1 shows USAID contributions to the ARTF compared to USAID bilateral assistance. From 2009 through 2012, DOD has provided \$3.38 billion, including LOTFA contributions, from the ASFF in direct assistance to the Afghan government. Figure 1.2 shows the increase in DOD-provided direct assistance.

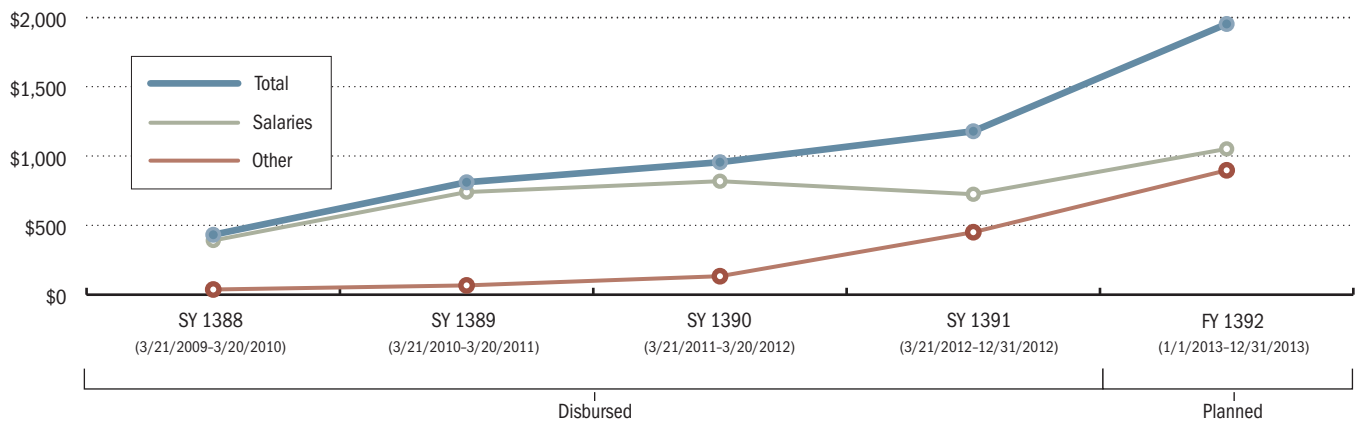
Between 2011 and 2013, USAID contracted with two accounting firms to assess the capacity of Afghan ministries to manage and account for direct assistance. The firms have completed assessments of 13 Afghan ministries. Because of SIGAR’s concerns about the Afghan government’s capacity to administer and account for U.S. funding, a SIGAR audit is examining USAID’s contracts with the accounting firms, summarizing the firm’s findings, and evaluating how USAID plans to use the assessments in provid-

ing direct assistance. SIGAR is also evaluating the Afghan Ministry of Public Health’s U.S.-funded program to deliver basic health care and USAID’s plans to fund the Kajaki Dam energy project in partnership with Da Afghanistan Breshna Sherkat (DABS) using direct assistance.

DOD provides direct assistance to Afghanistan’s Ministry of Defense (MOD) and MOI from the ASFF. The Combined Security Transition Command-Afghanistan (CSTC-A), which is responsible for developing the Afghan security forces, oversees the direct contributions to the MOD and MOI. DOD guidance stipulates that direct assistance may be used to pay salaries; procure food, goods, and services; and fund minor construction in support of the Afghan army and police. In 2009, DOD began providing substantial direct assistance to the budgets of the defense ministries. Since 2009, DOD contributed more than \$2.32 billion to the MOD and nearly \$1.05 billion to the MOI.<sup>13</sup> An additional, \$1.95 billion in ASFF direct assistance to the MOD and MOI is planned for 2013. Earlier this year, CSTC-A revised plans to provide direct contributions to MOD and MOI for fuel purchases as a result of a SIGAR audit. This quarter, SIGAR launched a special project to examine the MOD’s and MOI’s ability to manage and account for funds provided through direct assistance.

FIGURE 1.2

DOD DIRECT CONTRIBUTIONS TO THE AFGHAN GOVERNMENT (\$ MILLIONS)



Note: Numbers have been rounded; SY = Afghan Solar Year; FY = Afghan Fiscal Year; increases in the “other” category reflect an ongoing shift from off-budget to on-budget assistance. Source: CSTC-A, responses to SIGAR data call, 4/16/2013.

# AID AND THE TRANSITION



**An exemplar of Afghanistan**, the Panjshir Valley is rugged, rural, and heavily agricultural. (UN photo)

through 2015. The donors also committed to improve aid effectiveness by providing more assistance directly to the Afghan government. Under the Tokyo Framework, the Afghan government agreed to develop action plans in five development areas and establish benchmarks for meeting goals in five major governance and development areas. During this reporting period, a SIGAR inquiry into the status of the Tokyo Mutual Accountability Framework found that the Afghan government and the international community have made some progress on developing action plans but have not come to agreement on specific benchmarks. (See the Quarterly Highlight on page 143 for an update on the implementation of the Framework.)

The United States has signaled to the Afghan government and to its Coalition allies that it intends to continue to request substantial reconstruction assistance for Afghanistan through what the Afghan government is calling the “Transformation Decade” ending in 2025. The international community as a whole recognizes that the Afghan government will remain aid-dependent throughout that period. The World Bank, for example, estimates that Afghanistan will need more than \$7 billion of direct, on-budget assistance in every year of the Transformation Decade to sustain reconstruction projects, fund Afghan security forces, and cover the large financial gap between its domestic revenues and the costs of its routine operations.<sup>14</sup> Congress and the Administration will determine how much the United States contributes to fill the gap. Whatever the amount, the U.S.

government plans to provide more on-budget assistance for a number of reasons, including:

- making aid more effective by reducing contractor costs and increasing coordination with the Afghan government
- enhancing Afghanistan's ability to pursue its own priorities, build public confidence in the government, and improve government agencies' capacity to carry out their functions

In its FY 2014 budget justification, State wrote, "We are aggressively working to drive down costs of programs by moving from commercial contractor implements to international organizations and grantees, and by increasing reliance on Afghan professionals."<sup>15</sup> Afghanistan's internationally staffed Independent Joint Anti-Corruption Monitoring and Evaluation Committee (MEC) reported that "Statistics from the [Afghan government] reveal that at least 80% of international aid [since 2002] has been spent by donor agencies and their implementing partners with little consultation with the Afghan government."<sup>16</sup> According to the MEC, the result is that the Afghan government has little incentive to sustain these donor-funded projects. The MEC was created by Presidential Decree in March 2010 to develop anticorruption recommendations and benchmarks and to monitor and evaluate efforts to fight corruption.

SIGAR recognizes the advantages of direct assistance. But this quarter, in two testimonies before Congress, the Special Inspector General outlined three serious concerns about direct assistance. These are:

- a lack of Afghan government capacity to manage and account for donor funds
- the effect of pervasive corruption
- a need to ensure adequate, long-term oversight

## Lack of Afghan Capacity

The World Bank has urged international donors to increase on-budget aid to improve aid effectiveness, but it has also cautioned that the Afghan government "will need to overcome serious absorptive capacity constraints to be able to receive and effectively use additional donor money on budget."<sup>17</sup> The MEC reported in March 2013 that "Afghanistan's government institutions, particularly those involved in infrastructure projects such as MOPW [Ministry of Public Works], lack technical and managerial capacity to monitor projects, resulting in deficient work."<sup>18</sup>

Budget execution also remains a problem. According to the World Bank, Afghanistan has only been able to execute around \$1 billion of its core development budget annually since 2007–2008. The Bank attributes the execution rate to structural and capacity issues. "Over the next few years," the Bank says, "a concerted push by donors and government alike is needed to improve government capacity to spend its development budget."<sup>19</sup>

SIGAR audits of the Afghanistan Reconstruction Trust Fund (ARTF) and Law and Order Trust Fund for Afghanistan (LOTFA) have also raised questions about the Afghan government's ability to account for funds. In its July 2011 assessment of the ARTF, SIGAR found that although Afghan ministries had improved their capacity to manage government finances, the Afghan government continued to have difficulty training and retaining civil servants able to administer and account for ARTF funds. SIGAR's audit of MOI personnel systems found its payroll system provided little assurance that only ANP personnel who are actually working are paid, and that LOTFA funds are reimbursing only eligible ANP costs.

As the United States increases its direct assistance to Afghanistan, the Afghan government's capacity to execute and account for this money becomes a critical issue.

## Corruption

Although the Afghan government has said it is committed to tackling endemic corruption, Afghan officials remain reluctant to take serious action to prosecute corrupt officials, especially if they are well-connected. In its latest report, the MEC said that some government ministries—such as the Ministry of Mines and Petroleum and the Ministry of Finance—had made progress in implementing the Committee's recommendations and meeting benchmarks to deter corruption. However, the MEC said the justice sector has not made similar strides and noted that the Attorney General's Office has not taken the steps needed to combat corruption.<sup>20</sup>

## Oversight

The United States and other international donors must establish mechanisms to protect direct assistance from corruption and ensure that there is vigorous oversight of these funds. Implementing agencies are the first line of defense against waste, fraud, and abuse. They must have clear bilateral agreements with strong provisions for oversight. Accordingly, direct assistance should be conditioned on the Afghan ministries not only meeting measurable outcomes, but also providing unfettered and timely access to their books and records as well as to sites, offices, and staff of projects funded by U.S. assistance. Federal agencies already have some policies calling for pre-award risk assessments, recipient monitoring and reporting, and U.S. access to records, but the GAO has noted that such precautions are not always taken or, if they are taken, are not consistently followed up.<sup>21</sup>

SIGAR has several ongoing audits and special projects examining aspects of direct assistance to the Afghan government. SIGAR initiated three audits this quarter:

- **Transition planning:** SIGAR is examining U.S. government plans to transfer completed projects to the Afghan government. This audit will evaluate the project-transfer process and assess the Afghan

government's ability to maintain these assets. It will also determine the extent to which implementing agencies have compiled and documented a comprehensive inventory of all U.S.-funded projects and assets.

- **Ministerial assessments:** In 2011, USAID contracted with accounting firms to assess the capacity of Afghan government ministries to manage and account for direct assistance. USAID's own requirements stipulate that it cannot provide government-to-government assistance without reasonable assurance that the recipient ministries can adequately account for U.S. funds. SIGAR views these assessments as a good first step to protecting taxpayer dollars. SIGAR is conducting an audit to assess USAID's contract with the accounting firms, summarize the firms' findings, and evaluate how USAID intends to use the assessments.
- **Ministry of Public Health:** This quarter, SIGAR published a first report on USAID-funded health services in Afghanistan. It will issue a second report later this year that addresses direct assistance for one of the Afghan Ministry of Public Health's flagship programs.

SIGAR's Office of Special Projects is conducting two reviews related to direct assistance. The first will examine the ability of the Afghan Ministries of Defense and Interior to account for funds they have already received in direct assistance for ANSF salaries, uniforms, and fuel. The second will evaluate USAID plans to provide \$60–\$80 million in direct assistance to the Afghan national utility to install a turbine at Kajaki Dam.

## THE MOST CRITICAL PHASE

In its FY 2014 budget justification, State described the coming year as “perhaps the most critical phase of our engagement in Afghanistan.”<sup>22</sup> During his trip to Afghanistan in March, Secretary of State John Kerry highlighted this point, saying, “This next year could well be one of the most important in the modern history of Afghanistan.”<sup>23</sup> Secretary Kerry reiterated the U.S. commitment to support the Afghan government through the security, political, and economic transitions that are under way.

The success of the entire reconstruction effort depends in large measure on how this transition unfolds. SIGAR intends to make sure that Congress and the implementing agencies are fully informed about the progress of the reconstruction effort and have the information they need to safeguard U.S. funds and ensure that taxpayer dollars are spent wisely.



“U.S. government officials must address the systemic problems inherent in every aspect of the reconstruction effort—inadequate planning, poor quality assurance, poor security, questionable sustainability, and pervasive corruption.”

—*Special Inspector General John F. Sopko*