

# SIGAR

Special Inspector General for  
Afghanistan Reconstruction

SIGAR 14-47 Audit Report

## Afghan Customs: U.S. Programs Have Had Some Successes, but Challenges Will Limit Customs Revenue as a Sustainable Source of Income for Afghanistan



APRIL  
2014

# SIGAR

## Special Inspector General for Afghanistan Reconstruction

### WHAT SIGAR REVIEWED

Since 2009, the United States has allocated at least \$198 million toward efforts to assist in developing the capacity of the Afghan government to assess and collect customs revenue. The U.S. Agency for International Development (USAID) administered the Trade Accession and Facilitation for Afghanistan (TAFAs) I and TAFAs II programs from November 2009 through August 2013. These programs were followed by the Afghanistan Trade and Revenue (ATAR) program as a follow-on activity beginning in November 2013. The Department of Homeland Security's Customs and Border Protection (CBP) has operated as the administrator for the Border Management Task Force (BMTF) since its inception in 2006. Through these programs, the government has worked to develop and reform Afghanistan's laws, policies, and procedures for customs processes operating at the Afghan Customs Department (ACD) headquarters and customs locations throughout Afghanistan.

This audit (1) assessed the extent to which these USAID and CBP programs achieved their intended outcomes, and (2) examined challenges to creating a stable and lasting source of customs revenue for Afghanistan.

To accomplish these objectives, SIGAR reviewed Afghan customs law, policies, and procedures; examined USAID and CBP contract documents and program files; interviewed ACD, USAID, CBP, BMTF, U.S. Embassy, and other officials; and visited customs locations in Afghanistan.

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APRIL 2014

## Afghan Customs: U.S. Programs Have Had Some Successes, but Challenges Will Limit Customs Revenue as a Sustainable Source of Income for Afghanistan

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### SIGAR 14-47 Audit Report

### WHAT SIGAR FOUND

A nation's ability to control its borders is essential in controlling the flow of licit and illicit goods and assessing appropriate tariffs and customs duties. Customs revenue is a major component of Afghanistan's national budget, which is currently funded through a combination of domestic revenue collections and aid from international donors. For Afghanistan's 3 most recent fiscal years, customs revenue collections produced \$698 million-\$1.1 billion annually, accounting for 44-48 percent of total domestic revenue collection. However, domestic revenues continue to fall short of expenditures, and international assistance is expected to decline in coming years. As a result, increasing the Afghan government's collection of domestic revenues is a main objective of both the U.S. and Afghan governments.

The U.S. government—through programs run by the U.S. Agency for International Development (USAID) and the Department of Homeland Security's Customs and Border Protection (CBP)—has provided funding and expertise to assist the Afghan government in developing and reforming its customs assessment and collection capabilities. USAID has administered multiple projects designed to improve the trade and customs environment, including two Trade Accession and Facilitation for Afghanistan (TAFAs) programs—called TAFAs I and TAFAs II—between November 2009 and August 2013, and their successor program—the Afghanistan Trade and Revenue (ATAR) program, which started in November 2013. CBP has administered the Border Management Task Force (BMTF), a program that mentors Afghan Customs Department (ACD), Afghan Border Police, and Afghan Customs Police agents at border control points and inland customs depots.

USAID's two TAFAs programs resulted in some successes. Among their accomplishments, the TAFAs programs assisted the Afghan government in trade negotiations and significantly reduced customs processing times and the number of steps required to trade across Afghanistan's border. Specifically, they reduced the number of customs process steps at nine inland customs depots and the Kabul International Airport—customs locations that account for 98 percent of Afghanistan's customs revenues—reportedly resulting in annual cost savings to importers and the Afghan government of \$39 million.

CBP's BMTF also had some successes. For example, the BMTF upgraded the Kabul Airport Customs Yard, which, according to CBP officials, reduced customs processing time from 10 to 2 days and created a 37 percent increase in customs revenue at that location. BMTF reports show that BMTF mentors held more than 7,000 training sessions between 2010 and 2013, and assisted the ACD in conducting more than 670 seizures during that same period.

Nevertheless, SIGAR found that BMTF mentors operate under contracts and subcontracts that do not contain performance metrics. Specifically, the

contract documents for BMTF activities do not include a single metric that defines specific, measurable goals for the BMTF mentors to achieve or performance metrics to measure the program's success.

According to USAID, CBP, and TAFE officials, corruption impacts all levels of the customs process and is the biggest problem affecting Afghan customs processes and revenues. The scale and impact of corruption in Afghanistan's customs process is difficult to quantify. Nevertheless, USAID and ACD officials hypothesize that eliminating or significantly reducing corruption in the customs process could potentially double the customs revenues remitted to the central government. The BMTF also noted that criminal networks use intimidation to smuggle commodities, resulting in the estimated loss of approximately \$25 million annually for wheat and rice imports at a single customs location. In a separate estimate, TAFE officials stated that approximately \$60 million is lost annually to commercial smuggling. Further complicating efforts to combat criminal and patronage networks are reports from BMTF advisers that Afghan employees are being kidnapped and intimidated because they are listening to the BMTF advisers and properly collecting customs duties.

To help reduce corruption, the Afghan and U.S. governments proposed streamlining and automating customs processes. Two major innovations in the automation of customs processes—a risk management system and an electronic payment system—were started under TAFE. The risk management system, created to facilitate the targeted inspection of imported cargo, is designed to optimize the use of limited security resources and decrease transit times. While the ACD accepted the risk management system in principle, it reportedly considered it too difficult to operate and chose to adopt a scaled down approach, with the successive implementation of specific parts of the risk management system over a period of years.

Similarly, progress in implementing an electronic payment system for customs duties has been slow. Currently, customs fees in Afghanistan are processed in cash at the inland customs depots where the imported cargo is inspected and assessed customs duties. This system can lead to customs brokers traveling long distances with large quantities of cash to pay customs fees assessed on imported goods. The current cash-based payment system is inefficient, leaves customs brokers vulnerable to theft, and increases the opportunities for corruption. According to USAID and TAFE program officials, at the conclusion of the TAFE programs in August 2013, the ACD had the equipment and technical knowledge needed to launch a pilot system. However, USAID officials stated that the electronic payment system was delayed, due in part, to a proposal by an Afghan official to allow only one Afghan bank to process all of the electronic customs payments. This arrangement would have given the selected bank a significant and improper advantage over its competitors. Although the risk management and the electronic payment systems are highlighted in the TAFE and ATAR contract documents as important anti-corruption measures, SIGAR found that the ATAR contract does not require the implementing partner to meet annual targets for implementing these systems.

The future of customs revenues as a stable source of income for the Afghan government remains unclear. The TAFE and BMTF programs achieved some successes in reforming and developing Afghan customs law, policies, and procedures; but, larger issues concerning questionable customs data, the withdrawal of international forces, and corruption remain.

## WHAT SIGAR RECOMMENDS

SIGAR recommends that the CBP Commissioner instruct the CBP attaché in Afghanistan to develop clear performance metrics for BMTF mentor operations and submit such metrics to DOD/CENTCOM for incorporation into any future BMTF contracts or task orders. SIGAR also recommends that the USAID Administrator instruct the USAID Mission Director for Afghanistan to (1) direct the ATAR implementing partner to continue to work with Afghanistan's Tariffs Statistics Unit to reduce discrepancies in customs data and make the reduction in statistical discrepancies a requirement of the contract for the ATAR program, and (2) ensure that annual targets for implementation of anti-corruption measures, such as the electronic payment system, are included as performance requirements in the ATAR program contract. CBP concurred with the single recommendation directed toward it, and USAID partially concurred with both recommendations directed toward it.



**SIGAR** | Office of the Special Inspector General  
for Afghanistan Reconstruction

April 15, 2014

The Honorable John F. Kerry  
Secretary of State

The Honorable James B. Cunningham  
U.S. Ambassador to Afghanistan

Dr. Rajiv Shah  
Administrator, U.S. Agency for International Development

Mr. William Hammink  
Mission Director for Afghanistan, U.S. Agency for International Development

Mr. R. Gill Kerlikowske  
Commissioner, U.S. Customs and Border Protection

This report discusses the results of SIGAR's audit of the U.S. Agency for International Development's (USAID) and the Department of Homeland Security Customs and Border Protection's (CBP) programs designed to assist in the development and reform of Afghanistan's customs laws, policies, and procedures. The report recommends that the CBP Commissioner instruct the CBP attaché in Afghanistan to develop clear performance metrics for BMTF mentor operations and submit such metrics to DOD/CENTCOM for incorporation into any future BMTF contracts or task orders. The report also recommends that the USAID Administrator instruct the USAID Mission Director for Afghanistan to (1) direct the Afghanistan Trade and Revenue (ATAR) implementing partner to continue to work with Afghanistan's Tariffs Statistics Unit to reduce discrepancies in customs data and make the reduction in statistical discrepancies a requirement of the contract for the ATAR program, and (2) ensure that annual targets for implementation of anti-corruption measures, such as the electronic payment system, are included as performance requirements in the ATAR program contract.

We received written comments on a draft of this report from CBP and USAID. With regard to our recommendations, CBP concurred with the single recommendation directed toward it, and USAID partially concurred with both recommendations for the agency. CBP's and USAID's comments are presented in appendices VI and VII, respectively.

SIGAR conducted this audit under the authority of Public Law No. 110-181, as amended; the Inspector General Act of 1978, as amended; and in accordance with generally accepted government auditing standards.

A handwritten signature in black ink, appearing to read "John F. Sopko".

John F. Sopko  
Special Inspector General  
for Afghanistan Reconstruction

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## ABBREVIATIONS

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|         |  |
|---------|--|
| ACD     | Afghan Customs Department                        |
| ASYCUDA | Automated System for Customs Data                |
| ATAR    | Afghanistan Trade and Revenue                    |
| BCP     | border crossing point                            |
| BMM     | Border Management Model                          |
| BMTF    | Border Management Task Force                     |
| CBP     | Customs and Border Protection                    |
| CENTCOM | U.S. Central Command                             |
| DHS     | Department of Homeland Security                  |
| DOD     | Department of Defense                            |
| ISAF    | International Security Assistance Force          |
| TAFA    | Trade Accession and Facilitation for Afghanistan |
| USAID   | U.S. Agency for International Development        |
| WTO     | World Trade Organization                         |

A nation's ability to control its borders is essential in controlling the flow of licit and illicit goods and assessing appropriate tariffs and customs duties. Customs revenue is a major component of Afghanistan's national budget, a budget funded through a combination of domestic revenue collections and aid from international donors. Domestic revenues continue to fall short of expenditures, and international assistance is expected to decline in coming years. As a result, increasing the Afghan government's collection of domestic revenues is a main objective of both the U.S. and Afghan governments. For Afghanistan's 3 most recent fiscal years,<sup>1</sup> customs revenue collections produced \$698 million to \$1.1 billion annually,<sup>2</sup> accounting for 44-48 percent of total domestic revenue collection.<sup>3</sup> Further, according to the U.S. Department of Defense (DOD), revenue generation at the borders will increase if border management improves and the various Afghan government entities responsible for implementing reforms to customs legislation, regulation, and procedures improve their organizational operations and reduce corruption.<sup>4</sup>

The U.S. government—through programs run by the U.S. Agency for International Development (USAID) and the Department of Homeland Security's (DHS) Customs and Border Protection (CBP)—has provided funding and expertise to assist the Afghan government in developing and reforming its customs assessment and collection capabilities.

- USAID has administered multiple projects designed to improve the trade and customs environment, including two Trade Accession and Facilitation for Afghanistan (TAFAs) programs—called TAFAs I and TAFAs II—between November 2009 and August 2013, and their successor program—the Afghanistan Trade and Revenue (ATAR) program, which started in November 2013.
- The CBP has administered the Border Management Task Force (BMTF), a program that mentors Afghan Customs Department (ACD), Afghan Border Police, and Afghan Customs Police agents at border control points and inland

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**Photo 1 - Cargo Truck Passes through Border Crossing at Weesh-Chaman Border Crossing Point**



Source: SIGAR, August 26, 2013

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<sup>1</sup> Afghanistan follows the solar Hijri calendar, which began in 622 A.D. in the Gregorian calendar. SIGAR converts Hijri solar years to Gregorian equivalents.

<sup>2</sup> Total domestic revenue: Afghanistan collected 100 billion Afghanis in its fiscal year 1390 (March 21, 2011 through March 20, 2012), 81.4 billion Afghanis in the 9-month fiscal year 1391 (March 21, 2012 through December 20, 2012), and plans to collect 128 billion Afghanis in fiscal year 1392 (December 21, 2012 through December 20, 2013). Customs revenues: Afghanistan collected 48.1 billion Afghanis in fiscal year 1390, 35.8 billion Afghanis in the 9-month fiscal year 1391, and plans to collect about 61.2 billion Afghanis in fiscal year 1392.

<sup>3</sup> The following Afghani to U.S. Dollar exchange rates were utilized. Fiscal year 1390: 48.28 Afghanis per U.S. Dollar as of March 20, 2012; Fiscal year 1391: 51.22 Afghanis per U.S. Dollar as of December 20, 2012; Fiscal Year 1392: 56.12 Afghanis per U.S. Dollar as of December 20, 2013.

<sup>4</sup> U.S. Department of Defense, *Progress Toward Security and Stability in Afghanistan*, July 2013.

customs depots. (See photo 1 of a commercial vehicle passing through the Weesh-Chaman Border Crossing Point between Afghanistan and Pakistan.)

This audit (1) assessed the extent to which these USAID and CBP programs achieved their intended outcomes, and (2) examined challenges to creating a stable and lasting source of customs revenue for Afghanistan.

To accomplish these objectives, we reviewed relevant Afghan laws, policies, and procedures related to the assessment and collection of customs revenues, as well as contract and performance documents from USAID, DOD, and CBP contract files. To assess the extent to which TAFSA and BMTF programs, operating between January 1, 2010, and November 07, 2013, achieved their stated objectives, we conducted program file reviews and interviews with Department of State, USAID, CBP, International Security Assistance Force (ISAF), an implementing partner,<sup>5</sup> a contractor, and ACD officials familiar with the U.S. programs and visited customs locations throughout Afghanistan. Additionally, we reviewed Afghanistan's customs laws, processes, and procedures to identify reforms and developments attributable to the efforts of the U.S. funded programs. To examine challenges to creating a stable and lasting source of customs revenue for Afghanistan, we reviewed Afghanistan's customs data from January 2010 through November 2013, as provided by the ACD through the BMTF, and conducted interviews with Department of State, USAID, CBP, ISAF, an implementing partner, a contractor, and ACD officials familiar with Afghanistan's customs capabilities. Additionally, we reviewed the ACD customs data for statistical anomalies and data reliability. We conducted our audit work in Washington, D.C., and Kabul, Mazar-e-Sharif, Hairatan, Spin Boldak, and Weesh, Afghanistan, from July through February 2014, in accordance with generally accepted government auditing standards. Appendix I contains more information on our scope and methodology.

## BACKGROUND

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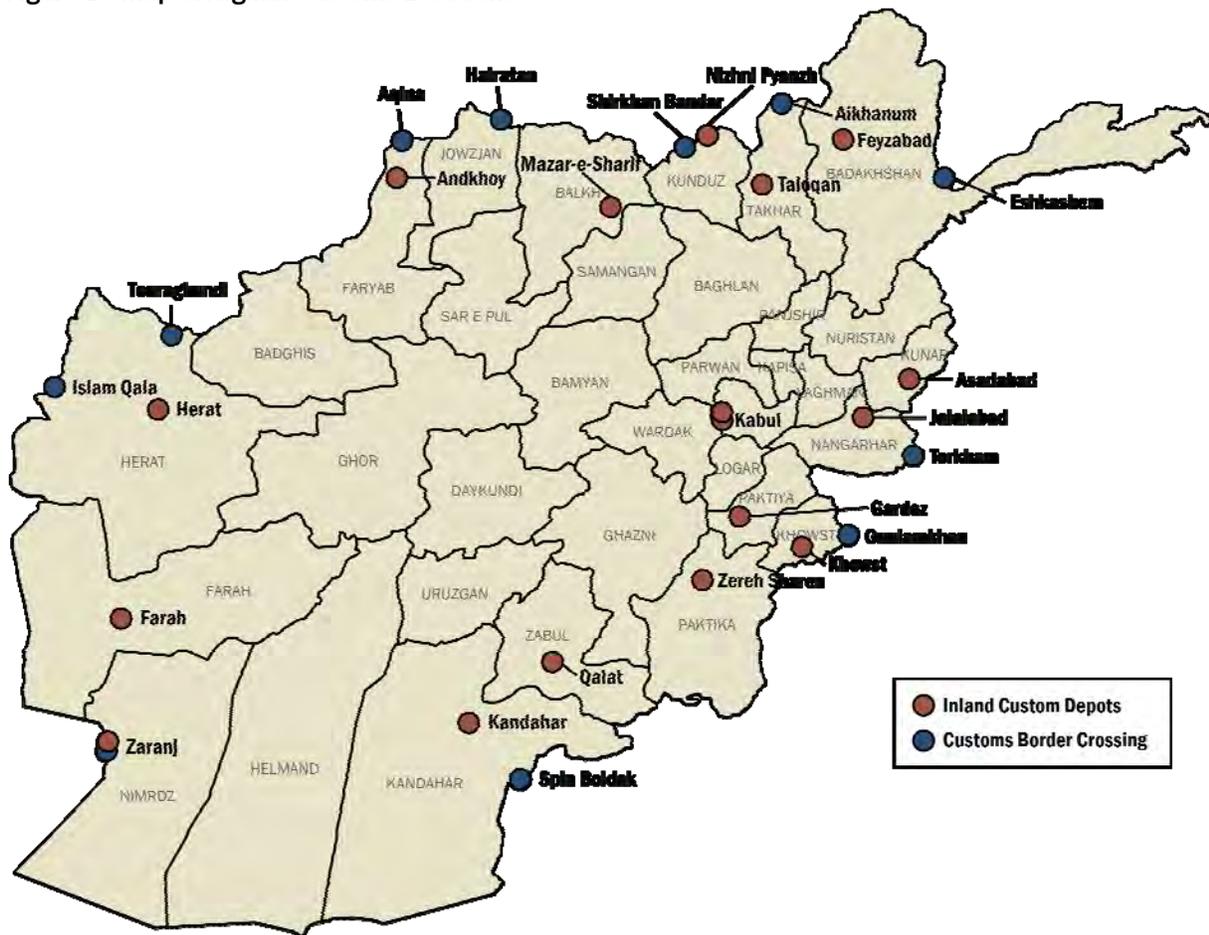
The ACD is responsible for assessing and collecting customs duties in Afghanistan and for operating a network of border crossing points and inland customs depots. Under the current system, vehicles crossing into Afghanistan must pass through a border crossing point before being allowed to travel farther into Afghanistan. Once in the country, commercial vehicles must proceed to the nearest inland customs depot to undergo a customs inspection, during which the value of the transported goods is determined and the customs duty is assessed and paid.

See figure 1 below for a map of the locations of Afghanistan's 11 border crossing points and 17 inland customs depots.

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<sup>5</sup> "Implementing partner" is a term USAID uses to mean contractors and recipients of cooperative agreements and grants.

Figure 1 - Map of Afghan Customs Locations



Source: Afghan Customs Department

## Afghan Efforts to Develop and Reform Customs Capabilities

Recognizing the importance of customs revenues for its sustainability, the Afghan government has made a number of commitments to reform and enhance its customs collection capabilities. These commitments include reforming processes to align with the World Customs Organization's Revised Kyoto Convention<sup>6</sup> concerning customs processes and procedures; an attempt to gain admittance to the World Trade Organization (WTO); and promises made during the conclusion of the Tokyo Mutual Accountability Framework<sup>7</sup> to create a more efficient, transparent, and accountable customs and tax system. Further, the Afghan government has demonstrated the importance of customs collection by developing formal plans to bolster the capability and capacity of the ACD and giving customs collection a prominent place within the Afghanistan National

<sup>6</sup> The Revised Kyoto Convention is a blueprint for international modern customs procedures providing international commerce predictability and efficiency in customs operations.

<sup>7</sup> The Tokyo Mutual Accountability Framework establishes mutual commitments of the Afghan government and the international community to help Afghanistan achieve its development and governance goals.

Development Strategy.<sup>8</sup> The ACD's plans for developing its customs capabilities focus on collecting revenue with maximum efficiency and facilitating trade through faster clearance of goods while preventing smuggling. The Afghan government has made some achievements in these areas, including passing more modern customs legislation, simplifying customs procedures, and constructing new customs facilities.

## USAID and CBP Programs to Develop and Reform Afghanistan's Customs Capabilities

Given the importance of customs revenue to the stability and sustainability of the Afghan government, the U.S. government has implemented several programs designed to assist the Afghan government in developing and reforming its customs collection capabilities.

### USAID's TAFE Programs

Since 2002, USAID has administered programs to enhance the Afghan government's ability to generate domestic revenues by focusing efforts on improving conditions for international trade and transit. To achieve those goals, USAID most recently administered two TAFE programs. The TAFE I program ran from November 2009 through November 2012, and the TAFE II program ran from November 2012 through August 2013. Major initiatives of the TAFE programs included efforts to facilitate international trade, reform customs laws, procedures, and revenue collection capabilities at the ACD, and to reduce the time and expense of customs clearance and transport for imports and exports.

Together, the TAFE I and TAFE II projects, both awarded to Chemonics, Inc., were carried out from November 2009 through August 2013, at a cost of \$83.8 million.<sup>9</sup> USAID awarded TAFE I in November 2009,<sup>10</sup> as a cost-plus-fixed-fee contract<sup>11</sup> that included three broad components: (1) trade policy liberalization, (2) trade facilitation, and (3) public outreach on trade-related issues. TAFE I sought to reform Afghanistan's customs capabilities by improving processes and minimizing roadblocks to Afghanistan's institutional capacities related to trade policy and execution, customs processes and procedures, and public outreach on customs related issues. In August 2012, USAID awarded TAFE II as a time and materials contract, with a start date in October 2012.<sup>12</sup> TAFE II focused on improving the same processes specified in TAFE I, with the addition of improving revenue collection and strengthening links between field offices and the ACD headquarters.

Both the TAFE I and TAFE II contract documents state that the projects

“will result in the Afghan Government's improved capacity to negotiate and implement regional and international trade agreements and progress toward World Trade Organization (WTO) accession; . . . increased cooperation on trade and customs issues within the region; increased transparency and reduced obstacles to trade, including areas such as customs, transport/transit, and border crossing operations; increased Customs revenue collection

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<sup>8</sup> The Afghanistan National Development Strategy serves as a framework for poverty reduction and economic growth efforts in Afghanistan. The Strategy is divided into three pillars of security, governance, and development and provides metrics to measure progress in each area.

<sup>9</sup> The TAFE I project was obligated \$63,962,156 and the TAFE II project was obligated \$19,791,053.

<sup>10</sup> USAID contract number 306-C-00-09-00529-00, signed November 18, 2009.

<sup>11</sup> FAR 16.306(a) describes a cost-plus-fixed-fee contract as “a cost-reimbursement contract that provides for payment to the contractor of a negotiated fee that is fixed at the inception of the contract.”

<sup>12</sup> A time-and-materials contract provides for acquiring supplies or services on the basis of (1) direct labor hours at specified fixed hourly rates that include wages, overhead, general and administrative expenses, and profit; and, (2) actual cost for materials. See FAR 16.601.

returning to the Central Treasury; increased investment, exports, and market-based opportunities; improved ranking on the World Bank's *trading across borders* indicator as part of the annual Doing Business survey."<sup>13</sup>

### CBP's BMTF Program

CBP oversees the BMTF, a U.S. Central Command (CENTCOM)-funded<sup>14</sup> task force started in 2006.<sup>15</sup> The BMTF's primary goal is to assist the Afghan government in securing its borders by providing expertise related to customs and border operations—primarily in counternarcotics. While the BMTF's mission is not specifically to reform Afghanistan's customs laws, policies, and procedures, many of the techniques and much of the equipment provided by the BMTF can be used not only for counternarcotics activities, but also for efforts to reduce commercial smuggling, which may result in increased efficiency in customs processes and higher domestic revenue collections. Further, the BMTF provides advisers at border crossing points and at inland customs depots, allowing for mentoring that can positively affect the execution of customs procedures and reduce opportunities for corruption.

CBP submits personnel and operational requirements for the BMTF to CENTCOM, which then submits requests for funding to DOD. BMTF advisers are currently funded through a contract executed by the Army Acquisition Center.<sup>16</sup> This contract, awarded to CACI, Inc., provides for a wide range of counternarcotics activities in a variety of countries, including the activities of the BMTF in Afghanistan.<sup>17</sup> CACI, Inc., in turn, has subcontracted responsibility of providing advisers for the BMTF to Fedsys, Inc., at a cost of approximately \$36.5 million.<sup>18</sup> While the BMTF is funded by DOD through CENTCOM, its operations are supervised by CBP personnel under U.S. Embassy Chief of Mission authority. Additionally, U.S. Forces-Afghanistan previously had military members embedded in the BMTF to ensure the strategic integration of BMTF activities into the military campaign plan.

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<sup>13</sup> USAID contract number 306-C-00-09-00529-00, signed November 18, 2009, and USAID contract number AID-EEM-I-00-07-00008, signed August 15, 2012.

<sup>14</sup> In 2007, the CBP and Department of State requested DOD counterdrug support to fund the creation and activities of the BMTF. The DOD responded to this request by providing counterdrug funding managed by CENTCOM under section 1004 of the National Defense Authorization Act for Fiscal Year 1991, 104 Stat. 1629 (1990) (codified as amended at 10 U.S.C. § 374 note), and section 1033 of the National Defense Authorization Act for Fiscal Year 1998, Pub. L. No. 105-85, 111 Stat 1629, 1881-84 (1997), as amended.

<sup>15</sup> The BMTF evolved from the U.S. Embassy in Kabul's Border Management Initiative. The Border Management Initiative was created from a joint request from the U.S. Ambassador to Afghanistan and the U.S. Forces-Afghanistan Commander in 2006. The purpose of the Border Management Initiative was to assist the Afghan government to develop a comprehensive border security strategy that would promote stability by combating the flow of illicit narcotics and contraband across Afghanistan's borders.

<sup>16</sup> BMTF mentors operate under contract number W15P7T-06-D-E402, task order 0127 and task order 0096.

<sup>17</sup> Other support activities for the BMTF, such as the provision of armored vehicles for the use of the advisers, are funded through contracts executed by the DOD's Counter-Narco Terrorism Program Office/Acquisitions Management Integrations Center.

<sup>18</sup> At the conclusion of task order 0096 in June 2013, Fedsys Inc. had been paid \$17,689,597. As of June 2013, Fedsys Inc. had been paid \$18,850,894 under task order 0127.

## TAFa AND BMTF PROGRAMS ACHIEVED SOME POSITIVE RESULTS, BUT USAID'S IMPLEMENTING PARTNER DID NOT FULFILL ALL CONTRACTUAL REQUIREMENTS AND BMTF CONTRACT DOCUMENTS LACK PERFORMANCE METRICS

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USAID's two TAFa programs implemented between November 2009 and August 2013 resulted in some successes. For example, documentation from USAID and its implementing partner show that the programs successfully persuaded 10 customs facilities to reduce the number of steps in the customs process. According to USAID officials, the global standard of customs processes for importing goods into nation states is 13 steps, but, prior to the TAFa programs, ports in Afghanistan followed more than 30 steps to accomplish the same tasks. TAFa was able to reduce the number of customs steps at these 10 facilities with varying degrees of success, for example, TAFa recommended removing 18 of 33 steps at the Jalalabad inland customs depot, but was only able to secure the elimination of 13 steps. According to TAFa implementing partner officials, reducing the number of customs process steps is often met with resistance because each step allows for the associated official to demand payment from an importer. Further, a BMTF official told us that the inclusion of so many steps in the customs process is used as a tool to create more jobs at customs locations, which provides an additional avenue for corruption. Although TAFa was unable to reduce the number of steps at all Afghan customs locations to 13, the programs assisted the Afghan government in reducing the number of customs process steps at nine inland customs depots and the Kabul International Airport—customs locations that account for 98 percent of Afghanistan's customs revenues—resulting in a reported annual cost savings to importers and the Afghan government of \$39 million.<sup>19</sup>

TAFa also helped the Afghan government implement the Border Management Model (BMM), which provides guidelines for the roles and responsibilities of Afghan agencies operating at customs and border locations, at five border crossing points across Afghanistan. For example, according to the TAFa final report, the TAFa programs designed and developed the concept for the BMM, including drafting the relevant processes and procedures to support the BMM, thereby creating a formal partnership between Afghanistan's two leading border agencies, the ACD and the Afghan Border Police. The BMM establishes the ACD as responsible for cross-border trade and the Afghan Border Police as responsible for immigration and national security at the borders, while encouraging information sharing between the two agencies to stem corruption, smuggling, and other illegal activities. The implementation of the BMM should allow for more efficient operations at border facilities because the precise duties of each Afghan agency are more clearly defined.

However, while we found that the TAFa programs made some achievements, we also determined that USAID's implementing partner only met two of the contractual performance requirements. The TAFa contracts included six performance requirements—what USAID termed “progress indicators”—to gauge the implementing partner's progress towards achieving the programs' goals of trade policy liberalization, customs reform, and trade facilitation. These progress indicators, detailed in Table I, include, among others, reducing customs processing times, holding a certain number of public events to discuss trade and business policy matters, and reducing the number of documents/procedures required to import and export goods. According to the TAFa II contract, “USAID will judge the implementer's success or lack thereof under the contract based on whether or not the tangible results...are achieved.”<sup>20</sup>

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<sup>19</sup> To monetize cost savings, USAID calculated the time and expense related to each step of the customs process, then summed the total cost of the eliminated steps. Examples of time costs include wages of customs inspectors and brokers, examples of fees include processing fees paid to complete a customs process step.

<sup>20</sup> USAID contract number AID-EEM-I-00-07-0008, signed August 15, 2012.

**Table 1 - TAFE Contract Indicators and Results**

| Indicator   | Baseline   |           | 2010             |           | 2011      |           | 2012     |                      | 2013             |                    |
|---|--|-----------|------------------|-----------|-----------|-----------|----------|----------------------|------------------|--------------------|
|   | Year   | Data      | Target           | Result    | Target    | Result    | Target   | Result               | Target           | Result             |
| Customs processing time (overall and per border crossing)   | 2009   | 8 days    | 6 days           | 5 days    | 3 days    | 3 days    | 6 hours  | 3 hours and 49 mins. | 6 hours          | 3 hour and 27 mins |
| Number of public events held to discuss trade and business policy matters with stakeholders and the public (measured by province, participants by gender) | 2009   | 0         | 50               | 52        | 80        | 84        | 60       | 65                   | 30               | 41                 |
| Number of documents required to import and export goods   | 2009   | Import 11 | N/A <sup>1</sup> | Import 11 | Import 10 | Import 10 | Import 9 | Import 10            | N/A <sup>1</sup> | N/A <sup>2</sup>   |
|   |  | Export 12 | N/A <sup>1</sup> | Export 12 | Export 10 | Export 10 | Export 9 | Export 10            | N/A <sup>1</sup> | N/A <sup>2</sup>   |
| Change in World Bank Doing Business <i>Trading Across Borders</i> ranking   | 2009   | 183       |                  | 183       | 179       | 179       | 177      | 178                  | 177              | 178                |
| Change in public perception toward trade  | The TAFE implementing partner did not conduct required annual assessments to measure changes in public perception. |           |                  |           |           |           |          |                      |                  |                    |
| Number of tariff bands and average tariff level   | No data given in either TAFE Final Report or in response to SIGAR inquiry.   |           |                  |           |           |           |          |                      |                  |                    |

Notes:

<sup>1</sup> N/A indicates the absence of any performance targets.

<sup>2</sup> N/A indicates the absence of reported results.

■ No data provided   ■ Targets partially met   ■ Targets met

Source: SIGAR analysis of TAFE Final Report, USAID contract documents, and supporting documentation

Of the six progress indicators, USAID and the implementing partner reported that the TAFE programs successfully met or exceeded two targets in each of the program years. Targets were met or exceeded in customs processing time and the number of public events held to discuss trade and business policy matters. In the case of customs processing time, the implementing partner reported that it successfully reduced processing time from an average of 8 days in 2009 to 3 hours and 27 minutes in 2013. However, USAID, BMTF, ACD, and U.S. Forces-Afghanistan officials with responsibilities at several of these border crossing points stated that the TAFE-reported reductions in processing times may be overstated and the actual time required varied widely depending on location. USAID’s own documents on improved processing times are also inconsistent. Where the final report on the TAFE program claims a reduction from 8 days to 3 hours and 27 minutes, the contract for TAFE’s follow-on ATAR program cites a reduction in customs processing times from 7 days to 1 day. We were unable to independently verify the actual average time required to process through customs locations because the inaccessibility of many locations prevented us from visiting them in person and security restrictions prevented us from performing the necessary observations at other sites.

For the remaining four progress indicators, the implementing partner either failed to meet its targets for at least 1 year or failed to track the data necessary to determine whether targets were met. For example, although the implementing partner met its targets in 2011 for reducing the number of documents required for a trader to present to complete the customs process to import or export goods, it failed to meet its reduction targets in 2012. For two requirements—change in public perception toward trade and the number of tariff bands<sup>21</sup> and average tariff level—USAID was unable to provide us with data to show whether targets had been

<sup>21</sup> Tariff bands are tariff rates for specific categories of goods.

set and whether the implementing partner had achieved those targets. In the case of public perception toward trade, the implementing partner did not conduct required annual assessments to measure the Afghan public's view of international trade. USAID officials told us that the requirement may have been determined to be unnecessary because a negative perception of international trade was not a problem that the TAFE programs needed to address. Regarding the number of tariff bands and average tariff levels, USAID was also unable to provide us with data to show whether targets were established and whether the implementing partner achieved the required results. In December 2013, USAID officials told us this requirement had been removed as a performance indicator because it was not a valuable indicator of trade facilitation and that Afghanistan already had a "reasonable" number of tariff bands. However, USAID did not provide us with evidence that either of these requirements had been formally removed from the contract with the implementing partner.

In addition to the six progress indicators specifically cited in the TAFE contract documents, USAID had eight overall goals—what it terms "expected results"—of the TAFE programs. These eight overall goals were to:

- strengthen the institutional capacity of the Afghan government to conclude international trade agreements,
- work with the Afghan government to implement a master plan to gain ascension to the World Trade Organization (WTO),
- streamline customs processes and procedures leading to a rise in Afghanistan's ranking in the World Bank's "Doing Business, Across Borders" index,
- improve transit of goods through key ports into Pakistan and neighboring countries,
- increase institutional capacity of the ACD to collect customs revenues and strengthen linkages between Kabul, Afghanistan's provinces, and border crossings,
- improve transit of goods through Pakistan to reach market destinations,
- increase involvement and awareness of Afghanistan's customs process by private sector individuals leading to increased Afghan exports, and
- increase understanding of the benefits of regional and bilateral trade agreements and WTO accession.

USAID officials told us that although there have been successes achieving some of these overall goals, progress on others has been limited. For example, the conclusion of the Afghanistan Pakistan Transit Trade Agreement and Afghanistan's joining of the South Asian Free Trade Area demonstrated progress toward strengthening the Afghan government's ability to conclude international trade agreements. However, the Afghan government still requires external assistance to independently negotiate these agreements, as demonstrated by the assistance the TAFE programs have provided the Afghans in their efforts to join the WTO. Moreover, the programs' goals to improve transit through key ports into Pakistan and to improve the transit of goods through Pakistan to reach market destinations has been difficult to achieve due to security concerns and other impediments imposed by the Pakistani government. For example, trade with India is more expensive than necessary because trucks delivering Afghan goods are not allowed to bring back Indian goods through Pakistan. USAID informed us that the Afghan government, the TAFE implementing partner, and the U.S. Embassy in Kabul continue to engage Pakistan concerning trade issues. Nevertheless, Pakistan continues to shut down the border to Afghanistan at certain times and impose restrictions on trucks passing through border crossings. Appendices II and III present additional information on the TAFE programs' overall goals and the results the programs have achieved.

TAFE was unable to achieve the overarching goals of increased customs revenue collection and a reduction in Afghanistan's ranking in the World Bank's *Trade Across Borders* index due to a combination of factors. While customs revenue collection did remain relatively stable from 2010 through 2012, customs collections declined steeply in 2013. This decline may be due to a variety of factors, including changes to Afghan tariff law, the regional macroeconomic environment, and the withdrawal of international forces. Similarly, the failure to improve Afghanistan's ranking in the World Bank's *Trade Across Borders* index may have been due to macroeconomic factors and regulatory factors beyond the TAFE program's influence. With the end of the TAFE

II program in August 2013, USAID created a follow-on program to continue the work of a number of trade activities begun under the TAFAs programs. According to contract documents, the ATAR<sup>22</sup> program “will continue work on improving the environment for trade, thereby fostering increased investment, exports, cross-border trade and transit, and market-based opportunities” for Afghanistan. For additional information on ATAR, see appendix IV.

## Measuring Success of BMTF Is Difficult Due to A Lack of Performance Metrics

CBP’s BMTF also appears to have had some successes. For example, the BMTF cleaned and upgraded the Kabul Airport Customs Yard, which, according to CBP officials, resulted in increased efficiency at the Customs Yard that reduced customs processing time from 10 to 2 days, which created a 37 percent increase in customs revenue at that location. Afghan officials we spoke with at inland customs depots and at ACD headquarters praised the BMTF for its efficiency, mentoring capabilities, and the equipment it provides. BMTF reports show that BMTF mentors held more than 7,000 training sessions between 2010 and 2013, and assisted the ACD in conducting more than 670 seizures during that same period. A DOD report states that BMTF mentors at Kabul International Airport taught classes to improve airport security in customs authorities, search techniques, targeting, money laundering, fraud, narcotics enforcement equipment, ethics, and intelligence, among other topics.<sup>23</sup> In addition to providing training and assisting in seizures of smuggled goods, in 2010 and 2011, the BMTF completed a border needs assessment at 30 customs-related locations. In conjunction with these assessments, BMTF provided a variety of equipment for the ACD, including non-intrusive inspection devices for use in detecting smuggled materials, upgraded living facilities, and other border facility infrastructure improvements. A DOD official told us that the BMTF operations at border crossing points (BCP) have caused a positive impact on ACD operations at those BCPs. The DOD official specifically cited improvements in operations at the BCP in Torkham due to the BMTF’s provision and operation of a non-intrusive inspection scanner, which gave the BCP the ability to electronically scan cargo for illicit materials at that location for the first time. This official also stated that the BMTF assisted in negotiating a settlement between the ACD and the DOD of issues surrounding outstanding import documents for goods imported for the use of the U.S. military.<sup>24</sup>

Nevertheless, we found that BMTF mentors operate under contracts and subcontracts that do not contain performance metrics. Specifically, the contract documents for BMTF activities do not include a single metric that defines specific, measurable goals for the BMTF mentors to achieve. The prime contract, issued by Army Contracting Command to CACI, Inc. does not contain performance indicators—only standardized contractual language without specific direction for the operation or expected outcomes of BMTF mentors or performance metrics to measure the program’s success.

While the subcontracts between CACI, Inc., and Fedsys Inc., outline a number of qualifications to be met and tasks to be performed by the BMTF mentors, they do not provide for any performance metrics to assess mentor activity, leaving performance of these duties up to the mentor, with minimal contractual oversight. Without concrete performance metrics, oversight of the day-to-day and long term activities of an individual mentor is

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<sup>22</sup> The ATAR implementing contract was awarded to Chemonics Inc. on November 7, 2013, as a time and materials contract with a maximum value of \$78 million and a 4 year period of performance.

<sup>23</sup> U.S. Department of Defense, *Progress Toward Security and Stability in Afghanistan*, November 2013.

<sup>24</sup> SIGAR Alert 13-3, *Afghan Government Levying Additional Fines, Fees, and Penalties that May Cost U.S. Government Millions of Dollars*, June 28, 2013, details the issues surrounding outstanding import documents for goods imported for the use of the U.S. military.

difficult to achieve or measure in a meaningful way. See appendix V for a discussion of the mentor duties described in the subcontract documents.

## QUESTIONABLE CUSTOMS DATA, DRAWDOWN OF COALITION FORCES, AND SYSTEMIC CORRUPTION WILL LIKELY HINDER DEVELOPMENT OF CUSTOMS REVENUE AS A SUSTAINABLE SOURCE OF FUNDS

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### Questionable ACD Customs Data Make Accurate Determination of Revenues and Other Trade Information Difficult

Our audit identified a number of potential issues that raise questions about the accuracy of the ACD customs revenue data. While analyzing the customs data, we noted missing figures for various months at multiple customs locations, as well as unusual trend lines and a number of questionable monthly figures. Regarding trend lines at certain major border points, including Kabul and Kandahar, the data shows a peak-and-valley trend, with customs revenue peaking every other month and dropping significantly during the off months. We were unable to obtain explanations from ACD officials for this abruptness and lack of consistency. Some border point data also show anomalous spikes—for example, an October 2011 jump in Kandahar customs revenues 200 percent over previous figures—that are not explained by external factors or expected seasonal fluctuation. BMTF and USAID officials suggested to us that the spikes in customs revenues could be partially due to holidays or weather events. However, while some of the monthly data seem to be consistent with contextual events like attacks and sanctions, other data shed doubt on the overall reliability of the numbers. For example, the data show normal customs revenues for Kandahar province and increasing revenues for Paktya province—two provinces that inspect and collect customs duties on goods entering Afghanistan primarily from Pakistan—during a period when the Pakistan border to Afghanistan was reportedly closed.

The ACD relies on the Automated System for Customs Data (ASYCUDA) to track customs data. Developed with the assistance of the United Nations, ASYCUDA is an electronic system designed to reduce transit times, encourage trade, and aid in tracking customs collection through the electronic collection of customs data. According to the ACD, ASYCUDA expedites the processing of customs documents and reduces physical interaction between customs officers and traders, reducing opportunities for corruption. Additionally, according to the ACD, all customs declarations are automatically consolidated into the ACD central ASYCUDA system database and subsequently used to produce accurate and timely trade statistics.

However, according to U.S. officials, there have been electrical and connectivity problems with the ASYCUDA system at some of the border crossings, and the database is not a reliable source of information on goods moving in and out of Afghanistan. Further, according to BMTF representatives, there is limited oversight of the ASYCUDA system and customs officials may not be entering accurate information. USAID officials also stated that issues with ASYCUDA are likely to increase because the ACD possesses limited institutional capacity to operate the system and lacks the training capabilities to sustain the ASYCUDA system as the transition continues.

In an effort to increase customs data reliability, the TAFE programs worked with Afghanistan's Tariff Statistics Research Unit to establish a sound method for the collection, validation, analysis, and reporting of national trade statistics related to import, export, and transit. According to the TAFE final report, as a result of this work, statistical discrepancies in trade data produced by the Afghan government dropped from more than 75 percent to less than 30 percent over the life of the TAFE programs. While a 30 percent discrepancy in trade statistics is a significant improvement from 75 percent, the data remain unreliable.

Without reliable data, it is difficult to assess the true quantity of goods transiting Afghanistan, observe patterns within international trade, and determine the correct level of customs revenue to be collected. However, the

contract document for USAID's new ATAR program does not hold the contractor accountable for addressing this problem. Specifically, while the ATAR contract includes "aid in developing and managing sustainable information technology systems that meet international standards, including automation of business processes through the Automated System for Customs Data (ASYCUDA) system, tracking of customs revenue collection, and statistical data collection and reporting" as an "illustrative implementation activity," it does not require continued work with the Tariff Statistics Research Unit or include a reduction in statistical errors as a performance indicator.

## Drawdown of Coalition Forces Will Restrict Future BMTF and ATAR Operations and May Limit Program Effectiveness

According to an official with the BMTF, the drawdown of coalition forces and the closure of forward operating bases throughout Afghanistan have already begun to restrict U.S. government activities—such as BMTF mentoring activities—in those areas.<sup>25</sup> According to U.S. Embassy officials, to address the challenges associated with Afghanistan's borders, the U.S. Embassy in Kabul created the Borders Working Group—a permanent working group within the Embassy's Coordination Directorate to coordinate interagency civilian and military efforts involving customs and border issues in Afghanistan.

A July 2013 memo from the U.S. Embassy in Kabul to the State Department headquarters outlined a plan for BMTF operations for the end of 2013, and continuing into 2014. This plan called for the gradual reduction in BMTF mentors beginning in 2013, and for positions to be eliminated as the military withdrew or BMTF projects were completed. According to CBP personnel, this plan also called for the reduction of DHS personnel at the Embassy from 26 to 8 and would have hindered CBP's oversight capabilities of BMTF operations.

Following resistance from key stakeholders, including the CBP, in December 2013, the Borders Working Group and CBP, in close coordination with interagency partners, revised the plan for BMTF operations in fiscal years 2014 and 2015. The revised drawdown plan calls for the continuation of BMTF mentor operations at key BCPs for as long as military operations are able to support mentor activities. Further, the revised plan allows for continued BMTF operations at Afghanistan's major airports, as well as the ISAF Regional Commands, and provides for a focus on high level advising by BMTF mentors, allowing operations at Afghan border agency headquarters. While the revised drawdown plan keeps the number of DHS personnel stationed at the Embassy at eight, a CBP official stated that it was an acceptable option that had been developed jointly with other border stakeholders.<sup>26</sup>

As acknowledged in the plan, the future of BMTF operations, as well as their efficacy, will depend on the final U.S. troop numbers and enduring locations in Afghanistan following the drawdown, which is already underway. As the coalition military forces continue to withdraw, the BMTF's access to border crossings and inland customs depots, and its apparent positive effect on process and procedural enforcement, will likely be in jeopardy.

In addition to complications arising from the decrease in personnel at the embassy, recent security concerns at key locations expected to have an enduring BMTF presence have complicated the BMTF's ability to mentor at customs locations outside of Kabul. Numerous security incidents and concerns over the course of this audit caused BMTF mentors to withdraw from key customs locations. In November 2013, BMTF was not providing

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<sup>25</sup> SIGAR 14-4-SP, *Oversight Access Inquiry Letter to Department of Defense, Department of State and U.S. Agency for International Development*, October 10, 2013.

<sup>26</sup> Because of the sensitive nature of CBP and BMTF personnel locations and other information that may impact security, this report only discusses the general themes, rather than the specifics, of the 2014-2015 plan.

mentoring at any border crossings and was only conducting mentoring missions at the Kabul and Kandahar airports.<sup>27</sup> According to Borders Working Group officials, border crossings needed for the retrograde of U.S. military equipment from Afghanistan are the most important crossings; however, as a result of security concerns, the BMTF has had its access interrupted at these pivotal border crossings.

ATAR will likely face security-related challenges similar to those of the BMTF over the planned 4-year life of the program. ATAR contract documents note that the program “will occur during the transition of Afghanistan from NATO led counter-insurgency to an Afghan led transformation” and that “the implications of this transition are that military force-protection for project support will be considerably decreased, if not entirely absent.”<sup>28</sup> This may result in the alteration of ATAR initiatives as security realities on the ground overcome planned program activities. As coalition military support in Afghanistan diminishes, BMTF mentors and ATAR programs may have to be pulled back from less secure customs locations and focus on sites within secure areas. This withdrawal will likely result in customs locations receiving varying levels of mentoring, support, and training, allowing opportunities for corruption to go unchecked at customs locations that do not have BMTF mentors or ATAR program support.

## Corruption Continues to Put Customs Revenues at Risk

Corruption has been a major obstacle to customs reform, as well as a source of lost customs revenue. In 2008, the Afghanistan National Development Strategy outlined the goals of the Afghan government and stated that by the end of 2013, corruption at all levels of government, but especially concerning customs, would be significantly reduced. To reduce that corruption, the strategy proposed streamlining and automating customs processing procedures.

Contract documents from both TAFE and ATAR emphasize the importance of anti-corruption efforts and highlight specific anti-corruption measures promoted under each program, including streamlined customs procedures, events held to educate businesses about customs regulations, and increased automation in customs processes.

Two major innovations in the automation of customs processes—a risk management system and an electronic payment system—were started under TAFE. The risk management system, created to facilitate the targeted inspection of cargo based on the type of cargo being carried, broker behavior, and other intelligence sources is designed to optimize the use of limited security resources and decrease transit times. As early as 2010, TAFE worked with the ACD to establish a risk management system and had implemented this approach at one customs location by June 30, 2012. However, while the ACD accepted the risk management system in principle, it reportedly considered it too difficult and chose to adopt a scaled down approach, with the successive implementation of specific parts of the risk management system over a period of years. Although the risk management system is highlighted in the TAFE and ATAR contract documents as an important anti-corruption measure, we found that the ATAR contract does not require the implementing partner to meet annual targets for implementation of the system.

Like the risk management system, progress in implementing an electronic payment system for customs duties has been slow. Currently, customs fees in Afghanistan are processed in cash at the inland customs depots, where the imported cargo is inspected and assessed customs duties. This system can lead to customs brokers

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<sup>27</sup> BMTF has been active at the Kabul inland customs depot, Kabul Airport, Torkham, and the provinces of Mazar-e-Sharif, Herat, Kandahar, Jalalabad, Andkhai, and Kunduz. As of November 2013, BMTF was only providing mentoring at the Kabul and Kandahar airports, and was providing oversight of equipment at the Weesh border crossing point in Kandahar.

<sup>28</sup> USAID contract number AID-OAA-I-12-0035, signed November 7, 2013.

traveling long distances with large quantities of cash to pay customs fees assessed on imported goods.<sup>29</sup> The current cash-based payment system is inefficient, leaves customs brokers vulnerable to theft, and increases the opportunities for corruption to occur within the customs process.

According to USAID and TAFE program officials, at the conclusion of the TAFE programs in August 2013, major customs brokers at the Kabul International Airport—the planned pilot location—had been briefed on the proposed electronic payment system, and the ACD had the equipment and technical knowledge needed to launch it. However, according to USAID and implementing partner officials, the ACD had not yet implemented the electronic payment program. USAID officials said the implementation of the electronic payment system was delayed, in part, because the TAFE programs expired and the associated pressure on the Afghan government to implement the system was temporarily relieved. USAID officials also stated that implementation was delayed due to a proposal by an Afghan official that would allow only one Afghan bank to process all the electronic customs payments. This would have given the selected bank a monopoly on this revenue stream and a significant, and improper, advantage over its competitors.

Although implementation of the electronic payment system is one of the deliverables required by the ATAR contract, and an expected result of the ATAR program is for the implementing partner to increase the amount of customs revenue collected electronically from zero (currently) to 75 percent by the end of the 4-year performance period, the ATAR contract does not contain annual targets for the implementing partner to meet in achieving this goal, as it does for other contract requirements, limiting USAID's ability to assess the implementing partner's progress in this area.

The BMTF attempted to reduce corruption through mentoring at customs locations and the provision of advanced equipment and training classes focused on professionalizing ACD officers. While some progress was made, pilferage, corruption, and patronage networks continue to be a concern within both the ACD and the border police in Afghanistan.<sup>30</sup> For example, DOD found that Afghan officials at border crossing points are "particularly vulnerable to criminal [or corrupt] influence...because of the lucrative financial opportunities involved in cross-border smuggling, especially from the collection of illegal taxes and the theft of state customs revenues at border crossing points and airports."<sup>31</sup> In addition, DOD found that "most data indicates that corruption is still widespread and that patronage networks are one of the main ways to get promoted in the ABP [Afghan Border Police]."<sup>32</sup> BMTF and CBP officials stated that when there is a U.S. presence at the border, the BMTF mentors are able to provide additional oversight and advisory services to Afghan officials, which helps to stem corrupt activities. These same officials noted that when BMTF officials are not physically present at border crossings, corrupt and criminal activities often resume.

Similarly, according to USAID, CBP, and TAFE implementing partner officials, corruption impacts all levels of the customs process and is the biggest problem affecting Afghan customs processes and revenues. TAFE implementing partner officials stated that the levels of corruption are such that only highly visible and rapid prosecutions for corrupt activities will have an effect on the systemic corruption in the customs process. The scale and impact of corruption in Afghanistan's customs process is difficult to quantify. Nevertheless, USAID

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<sup>29</sup> Customs brokers are private individuals, partnerships, associations or corporations who assist importers and exporters in meeting requirements governing imports and exports. Brokers submit necessary information and appropriate payments on behalf of their clients and charge them a fee for this service.

<sup>30</sup> Patronage networks exist where services are provided in return for favors. For example, according to U.S. officials, Afghans will often pay for their positions within customs. Patronage networks are often linked to corruption. Pilferage is the theft of part of the contents of a package.

<sup>31</sup> U.S. Department of Defense, *Progress Toward Security and Stability in Afghanistan*, July 2013.

<sup>32</sup> U.S. Department of Defense, *Progress Toward Security and Stability in Afghanistan*, November 2013.

officials hypothesize that eliminating or significantly stemming corruption in the customs process could potentially double the customs revenues remitted to the central government.

Pilferage and criminal and patronage networks also affect the efficient and effective assessment and collection of Afghan customs revenues. According to USAID and BMTF officials, goods transiting from the border to the inland customs depots may be, and often are, stolen and/or misrepresented on customs forms. For example, BMTF officials noted that wheat and rice are often smuggled and misrepresented to customs officials when entering Afghanistan. Photo 2 shows a commercial vehicle moving goods through the border crossing point in Weesh along the border with Pakistan.

The BMTF also noted that criminal networks use intimidation to smuggle these commodities, resulting in the estimated loss of approximately \$25 million annually at a single customs location.<sup>33</sup> In a separate estimate, TAFAs implementing partner officials stated that approximately \$60 million is lost annually to commercial smuggling. BMTF advisers also report that efforts to combat criminal and patronage networks are being undercut by kidnapping and intimidation of Afghan employees for listening to the BMTF advisers and properly collecting customs duties.

U.S. officials have stated that, while the current ACD leadership appears to be a positive influence on reducing corruption within Afghan customs, the department remains “personality-driven” and permanent cultural changes are elusive. Moreover, U.S. officials have stated that although the current ACD leadership is supportive of customs reforms, if ACD leadership changes, these reforms could be in jeopardy. USAID, TAFAs, CBP, and BMTF officials all stated that reducing corruption within Afghanistan may be an endeavor that takes a generation to succeed. In fact, ATAR’s contract documents note that “the younger generation of Afghans holds the key to the sustainability of a market-oriented economy and a democratic political system.”

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**Photo 2 - Commercial Vehicle at the Weesh-Chaman Border Crossing Point**



Source: SIGAR, August 26, 2013

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Despite the \$83.8 million USAID already spent on the TAFAs programs, the ATAR contract documents note that Afghanistan remains poorly positioned to develop a self-sustaining economy because of corruption, mismanagement, and continuing instability along its borders. In addition, USAID and TAFAs officials told us that without continued international support and assistance, programs such as the electronic payment system are unlikely to move forward. CBP, USAID, and TAFAs program officials all noted that without U.S. pressure, decisions to reform processes within the ACD are often delayed or halted due to cultural and institutional roadblocks within the Afghan government.

ATAR contract documents further state that, “A major predictor of sustainability is [Afghanistan’s] political will to implement reforms and combat corruption.” The ATAR contract goes on to call for “increased automation and standardization of customs processes to expedite trade and narrow the space for corruption” as an

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<sup>33</sup> Approximately 1.377 billion Afghanis.

anticipated outcome and decreasing revenue leakages due to undervaluation of cargo as an expected result of the program.<sup>34</sup>

## Customs Revenues Sustainability Remains Unclear

The future of customs revenues as a stable source of income for the Afghan government remains unclear. The TAFE and BMTF programs achieved some successes in reforming and developing Afghan customs law, policies, and procedures; but, larger issues surrounding questionable customs data, the withdrawal of international forces, and corruption remain. The ACD's ability to create and disseminate accurate and reliable customs data will continue to grow in importance as international aid is reduced and Afghanistan is forced to rely upon domestic revenue collections to sustain its government. Without accurate customs data, the ACD will be unable to reliably collect customs revenues and ensure they reach the Afghan treasury. The ACD will also be unable to reliably track international trade entering and leaving the country.

According to Afghanistan's national budget reports, customs revenues remained relatively stable between 2010 and 2012, but experienced a sharp decline in 2013. This reduction coincides with the drawdown of international forces and demonstrates the importance of trade related to the international presence to customs revenue collection. As international forces continue to withdraw, and international aid is reduced, customs revenues may decline as fewer customs fees are paid by those forces and fewer imports are demanded due to reduced economic activity within Afghanistan.<sup>35</sup>

The TAFE programs' success in beginning to integrate Afghanistan into the regional economies may reduce the impact of the decline in international assistance on Afghanistan's economy. According to DOD, increased trade and regional economic integration are important for sustaining Afghanistan's economic development past 2014. According to a 2013 DOD report, domestic Afghan revenue generation is increasing and Afghanistan may be able to reach its International Monetary Fund-mandated revenue generation target of \$2.04 billion<sup>36</sup> for 2013,<sup>37</sup> despite the continued reduction in international assistance and military presence. Afghanistan's continued integration into regional and global economies could increase trade across its borders and customs revenue collections.

However, according to ATAR contract documents, Afghanistan remains "...ill positioned to transition to a self-sustaining economy without painful readjustments. Corruption, mismanagement, and continuing instability in the border regions have made the trade regime fractured and inefficient." As such, ATAR aims, in part, "to build [Afghanistan's] capacity to generate revenue, through both tax and customs revenues mechanisms, in a manner that facilitates sustainable economic growth and trade and reduces [Afghanistan's] dependence on donor funding."<sup>38</sup> As the military transition in 2014 continues, reforming and enhancing the Afghan government's process and capacity to assess and collect customs revenues remain primary objectives of the U.S. government.

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<sup>34</sup> USAID contract number AID-OAA-I-12-0035, signed November 7, 2013.

<sup>35</sup> For additional discussion of customs process fees paid by the U.S. government on exempt goods, see SIGAR Alert 13-3, *Afghan Government Levying Additional Fines, Fees, and Penalties that May Cost U.S. Government Millions of Dollars*, June 28, 2013.

<sup>36</sup> 114 billion Afghanis.

<sup>37</sup> U.S. Department of Defense, *Progress Toward Security and Stability in Afghanistan*, November 2013.

<sup>38</sup> U.S. Department of Defense, *Progress Toward Security and Stability in Afghanistan*, November 2013.

## CONCLUSION

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Customs revenue is a primary component of Afghanistan's domestic revenue and is essential for the long-term sustainability of the Afghan government. Since 2009, the United States has allocated at least \$198 million toward efforts to assist in developing the capacity of the Afghan government to assess and collect customs revenue. While these efforts had some positive effects, other factors have tempered these successes. For example, the TAFE programs failed to meet all of their benchmarks and were unable to implement the electronic payment system or fully implement the risk management system, and a lack of clear performance metrics and unreliable data make it difficult to assess the impact of development and reform efforts. Further, economic uncertainty surrounding the withdrawal of international forces and the elections in 2014 will have an impact on custom revenue collections. Corruption is the biggest factor that could undermine the success of U.S. efforts to develop the capacity of the Afghan government to assess and collect customs revenues. Regardless of the amount of funds expended or the number of programs and initiatives implemented, revenue collection at Afghanistan's borders will continue to be subject to graft and pilferage unless the government is fully committed to anti-corruption measures. While the amount of corruption was somewhat lowered by the presence of U.S. personnel working at the border and mentoring directly with ACD personnel, it may rise as U.S. forces withdraw from the country and financial assistance decreases in the near future. Gains made over the past few years may be irrevocably lost.

## RECOMMENDATIONS

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To help CBP assess if the BMTF program is achieving its intended outcomes, we recommend that the CBP Commissioner instruct the CBP attaché in Afghanistan to:

- 1. Develop clear performance metrics for BMTF mentor operations and submit such metrics to DOD/CENTCOM for incorporation into any future BMTF contracts or task orders.**

To ensure that USAID's goals in reforming Afghanistan's customs collection capabilities are met and contribute to the fiscal sustainability of the Afghan government, we recommend that the USAID Administrator instruct the USAID Mission Director for Afghanistan to:

- 2. Direct the ATAR implementing partner to continue to work with Afghanistan's Tariffs Statistics Unit to reduce discrepancies in customs data and make the reduction in statistical discrepancies a requirement of the contract for the ATAR program.**
- 3. Ensure that annual targets for implementation of anti-corruption measures, such as the electronic payment system, are included as performance requirements in the ATAR program contract.**

## AGENCY COMMENTS

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We provided a draft of this report to CBP, USAID, and CENTCOM for their review and comment. We received written comments on a draft of this report from CBP and USAID, which are reproduced in appendices VI and VII respectively. CENTCOM provided technical comments, which we incorporated into our report, as appropriate.

In its comments, CBP concurred with our recommendation that the CBP attaché in Afghanistan develop clear performance metrics for BMTF mentor operations and submit such metrics to DOD for incorporation into any future BMTF contracts or task orders. CBP stated that it would complete the implementation of the recommendation by September 30, 2014. CBP also provided technical comments, which we incorporated into our report, as appropriate.

In its comments, USAID stated that it agreed with the findings in the audit report and partially concurred with the two recommendations directed to it. Regarding our recommendation that USAID direct the ATAR implementing partner to continue working with Afghanistan's Tariffs Statistics Unit to reduce discrepancies in customs data and make the reduction in statistical discrepancies a contractual requirement, USAID stated that, while it considered the recommendation, it "finds it impossible to do so because the discrepancies in customs data are often driven by factors outside the control of the project, which does not manage the data." However, USAID stated that it will issue a letter to the implementing partner directing it to continue working to decrease discrepancies between the Central Statistics Office and the ACD. In addition, USAID stated that it set a target for a reduction in the discrepancy between Central Statistics Office and ACD statistics to 20 percent for 2014, down from 30 percent in 2013. While we are encouraged that USAID will write a letter to the implementing partner directing it to continue to work with the ACD to decrease discrepancies in customs data, we continue to believe that contractually requiring the implementing partner to continue these efforts is an important step in working to reduce the discrepancies.

Regarding our recommendation that the agency include annual targets for anti-corruption measures, such as the implementation of the electronic payment system, in ATAR's contract language, USAID stated that it cannot include anti-corruption system performance requirements in the contract because the ACD is ultimately responsible for institutionalizing these systems, not the ATAR implementing partner. However, USAID also stated that timelines for the development of systems that facilitate trade and curb corruption at the ACD, such as institutionalizing the BMM, implementing the risk management system, and implementing the electronic payment system, are included in the ATAR annual work plans. Given that USAID officials stated they included these key anti-corruption steps into the ATAR annual work plans, it is unclear why associated targets cannot accompany the institutionalization and implementation of these projects. Finally, USAID stated that it will issue a letter by May 2014, instructing the implementing partner to continue to work toward implementing anti-corruption measures. While we welcome USAID's decision to write a letter to the implementing partner directing it to continue to work with the ACD to implement anti-corruption measures, we maintain that including annual targets for the implementation of anti-corruption efforts in the ATAR program contract is needed to ensure the adoption of critical anti-corruption measures, such as the electronic payment system.

## APPENDIX I - SCOPE AND METHODOLOGY

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This audit focused on U.S. efforts to develop and reform Afghanistan's ability to assess and collect customs tariffs. Specifically, our objectives were to (1) determine the extent to which the U.S. Agency for International Development (USAID) and Department of Homeland Security's Customs and Border Protection (CBP) programs that were designed to reform Afghanistan's customs laws, policies, and procedures, from January 1, 2010, to August 31, 2013, achieved their intended outcomes, and (2) examine challenges to creating a stable and lasting source of customs revenue for Afghanistan.

Our methodology to determine the extent to which efforts to reform Afghanistan's customs laws, policies, and procedures achieved intended outcomes included reviewing the relevant Afghan laws, policies, and procedures related to the assessment and collection of customs revenues, as well as contract documents and operational histories of the USAID Trade Accession and Facilitation for Afghanistan (TAFAs) and Afghanistan Trade and Revenue (ATAR) programs and of the Border Management Task Force (BMTF). We reviewed contract documents and the operational history of the TAFAs program, as provided by USAID officials managing the TAFAs contracts and by the TAFAs implementing partner. We reviewed contract documents related to USAID's ATAR program from USAID officials involved in awarding and overseeing the execution of the contract; we also reviewed contract documents and the operational history of the BMTF mentors, as provided by the Army Acquisition Command, the CBP, and the BMTF contractor. In addition to the document review, we conducted interviews with Department of State, USAID, CBP, International Security Assistance Force (ISAF), implementing partner, the BMTF contractor, and Afghan Customs Department (ACD) officials familiar with the U.S. programs and visited customs locations throughout Afghanistan. Finally, we reviewed Afghanistan's customs laws, processes, and procedures as codified for reforms and developments attributable to the efforts of the U.S. funded programs.

To examine the challenges to creating a stable and lasting source of customs revenue for Afghanistan, we reviewed Afghanistan's monthly customs revenue data from January 2010 through November 2013, as provided by the ACD through the CBP. We conducted interviews with Department of State, USAID, CBP, ISAF, implementing partner, contractor, and ACD officials familiar with Afghanistan's customs capabilities. Additionally, we utilized computer processed data showing monthly customs figures received from the ACD and concluded that the data may not be reliable. While this audit did not specifically review the internal controls of the Automated System for Customs Data (ASYCUDA) system, we did find a number of possible internal control weaknesses related to data input.

During the course of our audit, we visited a number of locations within Afghanistan including Kabul, Mazar-e-Sharif, Hairatan, Spin Boldak, and Weesh. We were unable to accomplish our planned visits to Torkham Gate and Herat due to security concerns; however, we were able to successfully communicate with key personnel familiar with Afghan customs issues from Herat.

We conducted our audit work at various locations throughout Afghanistan, and Washington, D.C., from July 2013 to February 2014, and reviewed documents dated from September 2004 through December 2013, in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. This audit was performed by SIGAR (code 083A), under the authority of Public Law No. 110-181, as amended, and the Inspector General Act of 1978, as amended.

## APPENDIX II - ANTICIPATED RESULTS OF TRADE ACCESSION AND FACILITATION FOR AFGHANISTAN AND U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT RESPONSE

Table 2 identifies the eight anticipated results contained in the Trade Accession and Facilitation for Afghanistan (TAF) contract documents, as well as information the U.S. Agency for International Development (USAID) provided us about the status of each indicator.

**Table 2 - USAID's Contractually Identified Anticipated Results for the TAF Program and Completion Status**

| Number | Anticipated Result  | USAID Response   |
|--------|---|--|
| 1      | Strengthened institutional capacity of government and affiliated organizations to effectively and properly implement trade policy reform, prepare negotiation documents, and negotiate regional terms of trade—specifically starting with implementation of the Afghanistan Pakistan Transit Trade Agreement (APTTA) between Afghanistan and Pakistan and cross border trade agreements with Turkmenistan, Tajikistan, and the Kyrgyz Republic. | Progress has been made in strengthening staff capacity and organizational capacity at the Ministry of Commerce and Industry, but capacity building is a longer term process.   |
| 2      | Implementation by the Afghan government of Afghanistan of a World Trade Organization (WTO) Accession Master Plan to move forward with the WTO accession process.  | During TAF and TAF II, developing and following a master plan was key to achieve the efficiency with which the different activities have moved forward in order to comply with WTO rules.  |
| 3      | Streamlined processes and reduced costs for importing and exporting goods, translating into an improved ranking on the trading across borders indicator of the World Bank's "Doing Business" survey—at the least, Afghanistan should improve to come in line with at least the regional average (if not exceed) for the time, costs, and number of documents required for trading across borders.   | Trading across borders improved 2 ranks in 2012 to 178. This is a significant accomplishment, especially if compared to the other 9 topics included in the "Doing Business Indicator" many of which actually went down or stayed the same. Rankings of countries around Afghanistan: Tajikistan-184; Turkmenistan-no data; Uzbekistan-185; Kyrgyzstan-174; Kazakhstan-182; Pakistan-85 (Although Pakistan has been a difficult trade partner for Afghanistan). Average (excluding Afghanistan): 162. Afghanistan compares favorably to the countries to the north. Still, of course, there is vast room for improvement. |
| 4      | Specifically, improved transit of goods through Pakistan to reach destination markets through joint cooperation with Pakistan at key border crossings such as Torkham Gate, Chaman, and other key ports of entry; and cooperation with other neighboring countries along Afghanistan's border.  | Transit of goods through Pakistan continues to be a challenge. Despite signing a trade and transit agreement (APTTA), Pakistan continues to insist in redundant security measures and insurances that are not part of the agreement, and containers have been stranded for one or another reason in Karachi, once for several months. Transit of goods to India is also a challenge since trucks are not allowed to bring back Indian goods and therefore they are empty coming back, making transportation more expensive than it should. The Afghan government with TAF and State Department support                   |

|   |  |   |
|---|--|---|
|   |  | continues engaging Pakistan on APTTA. There are signs that the new Pakistani government is more open to work out trade issues plus Pakistan is interested in reaching the Central Asia market. USAID will continue support of APTTA under the Afghanistan Trade and Revenue (ATAR) program.   |
| 5 | Increase institutional capacity of the Afghanistan Customs Department (ACD) to carry out essential Customs administration functions and further revenue generation; with strengthened linkages between the capital, regions, and border crossing points.   | TAFAs and TAFAs II developed and supported an Afghan Customs Department (ACD) structure reorganization (which, among other things, lowered the number of staff at ACD and which is in the latest stages of completion); defined a system for pay scales, the Salary Improvement Program (not implemented due to issues with the Civil Service Commission); and developed work load indicators for staffing needs, developed a training assessment matrix and carried out numerous trainings for ACD personnel, at ACD headquarters and in the field.                                    |
| 6 | Improved transit of goods through Pakistan to reach destination markets.   | See answer to anticipated result Number 4.  |
| 7 | Increased awareness and involvement of private sector stakeholders at the central, provincial and local levels in the process of trade-related strategy and policy formulation and in accessing and taking advantage of new opportunities afforded for trade-related business development. This translates into increasing Afghanistan's overall trade export volumes each year. | TAFAs and TAFAs II provided extensive training on trade, customs, advantages of WTO membership, in Kabul and the main cities around the country. The projects also supported the creation of public-private coordination groups like the Customs and Trade Consultative Council (CTCC) at ACD, and the WTO consultative group at the Ministry of Commerce and Industries. During TAFAs I, several public campaigns were developed to educate the public and different sectors in the government (the parliamentarians, for example) on WTO and regional and bilateral trade agreements. |
| 8 | Increased understanding of the benefits of regional and bilateral trade agreements and WTO accession and identification of WTO process milestones by political, public, and private sector stakeholders.   | See answer to anticipated result Number 7.  |

Source: TAFAs Contract documents and USAID responses to SIGAR inquiry

## APPENDIX III - TRADE ACCESSION AND FACILITATION FOR AFGHANISTAN PROGRAM INDICATORS

Table 3 identifies the 56 program indicators, including targets and results, where appropriate, tracked by the U.S. Agency for International Development's (USAID's) Trade Accession and Facilitation for Afghanistan (TAF) implementing partner throughout the life of the program.<sup>39</sup>

**Table 3 - TAF Program Indicators**

| Indicator  | Type of Indicator | Baseline |                | 2010          |                        | 2011          |                       | 2012          |                         | 2013          |                                     | Definition   |
|--|-------------------|----------|----------------|---------------|------------------------|---------------|-----------------------|---------------|-------------------------|---------------|-------------------------------------|--|
|  |                   | Year     | Data           | Target        | Result                 | Target        | Result                | Target        | Result                  | Target        | Result                              |  |
| <b>Project Objectives: Improved Trade for Afghanistan, Fostering Increased Investment, Export, and Market-Based Employment Opportunities</b> |                   |          |                |               |                        |               |                       |               |                         |               |                                     |  |
| Growth in trade volume   | TAF I/<br>TAF II  | 2009     | \$5.7 billion  | Tracking only | \$7.04 billion in 1389 | Tracking only | \$7.8 billion in 1390 | Tracking only | \$7.6 billion in 1391   | Tracking only | \$1.7 billion in first quarter 1392 | Trade volume is defined as the licit trade value of goods and services brought into the country (import) and the value of goods and services sold in the foreign country or countries (export).<br>Calculation: Total value of exports + total value of imports in a year. |
| Value of exports   | TAF I/<br>TAF II  | 2009     | \$316 million  | Tracking only | \$388 million in 1389  | Tracking only | \$375 million in 1390 | Tracking only | \$318.1 million in 1391 | Tracking only | \$76 million in first quarter 1392  | Value of exports here refers to the total value of Afghan licit goods and services sold in the foreign country or countries.   |
| Value of imports   | TAF I/<br>TAF II  | 2009     | \$5.63 billion | Tracking only | \$6.8 billion in 1389  | Tracking only | \$7.4 billion in 1390 | Tracking only | \$7.25 billion in 1391  | Tracking only | \$1.6 billion in first quarter 1392 | Value of imports here refers to the total value of goods or services brought into Afghanistan from other countries.  |

<sup>39</sup> TAF Final Report, August 31, 2013.

| Indicator  | Type of Indicator    | Baseline |                        | 2010  |   | 2011   |        | 2012                   |                       | 2013                   |  | Definition   |
|--|----------------------|----------|------------------------|---|---|--------|--------|------------------------|-----------------------|------------------------|--|--|
|  |                      | Year     | Data                   | Target                                      | Result                                    | Target | Result | Target                 | Result                | Target                 | Result   |  |
| Change in World Bank's Doing Business Trade Across Borders   | TAF A I/<br>TAF A II | 2009     | 183                    | Tracking only                               | 183                                       | 179    | 179    | 177                    | 178                   | 177                    | 178  | The annual World Bank Doing Business report presents quantitative indicators on business regulations and protection of property rights that can be compared across 185 economies over time.  |
| <b>Intermediate Result (IR) 1: Trade Policy Liberalized</b>  |                      |          |                        |   |   |        |        |                        |                       |                        |  |  |
| <b>Sub-IR1.1: Improved Government Interagency Coordination to Advance and Implement Consistent Trade and Tariff Policy</b> |                      |          |                        |   |   |        |        |                        |                       |                        |  |  |
| Number of consultative processes with private sector as a result of U.S. government assistance                             | TAF A I/<br>TAF A II | 2009     | 0                      | 4   | 7   | 15     | 16     | 10                     | 6                     | 10                     | 17   | Negotiating and implementing agreements requires intense coordination and cooperation among ministries and state bodies, as well as with private sector and civil society stakeholders. Working groups (involving public and private sector stakeholders) for consultations on developing trade policies, negotiations strategies, streamlining trade procedures, and on preparing draft legislation were captured under this indicator. |
| Reduction in discrepancy between the Central Statistics Office and the Afghan Customs Department (ACD) on trade statistics | TAF A I/<br>TAF A II | 2009     | 60% import; 80% export | Decrease 10% import and decrease 20% export | 50% import and 60% export meet the target | 0      | 0      | 10% export; 10% import | 3% export; 15% import | 10% export; 10% import | Data not provided by Central Statistics Office in two quarters of 2013 | It is crucial to have reliable trade-related data for policy and planning. TAF A supported the ACD and CSO to harmonize trade-related data between the two organizations. When TAF A started, the discrepancy between the CSO and the ACD on trade-related data was 60% for imports and 80% for exports.   |

| Indicator   | Type of Indicator | Baseline |      | 2010   |        | 2011   |        | 2012     |            | 2013     |         | Definition  |
|---|-------------------|----------|------|--------|--------|--------|--------|----------|------------|----------|---------|---|
|   |                   | Year     | Data | Target | Result | Target | Result | Target   | Result     | Target   | Result  |   |
| Preparation time of replies to World Trade Organization (WTO) questions decreased                                 | TAFA II           | N/A      | 0    | 0      | 0      | 0      | 0      | 2 months | 2.5 months | 2 months | 1 month | Preparation of negotiation documents, particularly replies to questions by WTO members, is a major challenge. It requires significant coordination and cooperation among state bodies. This indicator reflects progress made among ministries and state bodies in resolving issues more quickly and in responding more rapidly to WTO questions through increased coordination and cooperation in formulating trade policies. |
| Trade-related procedures and fees by ministries and state bodies available online on a single website for traders | TAFA II           | N/A      | 0    | 0      | 0      | 0      | 0      | Yes      | Yes        | Yes      | Yes     | Most trade procedures (including required documents) and fees are not publicly available for traders. A comprehensive inventory published on a single website will ensure greater transparency and reduce the cost of trade. This initial step is an indication that ministries are willing to cooperate on publicly sharing information on the implementation of trade policy.   |
| Tariff-setting mechanism involving key stakeholders   | TAFA II           | N/A      | 0    | 0      | 0      | 0      | 0      | Yes      | Yes        | Yes      | Yes     | The Minister of Finance is in charge of setting tariff rates with no consultation with stakeholders. It is critical to involve other ministries and ensure proper consultations with stakeholders (including the private sector) before the determination of tariff rates. Putting such a mechanism in place will ensure greater cooperation and coordination.  |

| Indicator  | Type of Indicator | Baseline |      | 2010   |        | 2011   |                       | 2012                 |                       | 2013                 |                                     | Definition   |
|--|-------------------|----------|------|--------|--------|--------|-----------------------|----------------------|-----------------------|----------------------|-------------------------------------|--|
|  |                   | Year     | Data | Target | Result | Target | Result                | Target               | Result                | Target               | Result                              |  |
| <b>IR 1.2: Assist Afghanistan and Other Countries in the Region in Negotiating and Implementing Bilateral and Regional Trade Agreements and WTO Accession Requirements</b> |                   |          |      |        |        |        |                       |                      |                       |                      |                                     |  |
| Number of launched or signed initiatives on regional integration   | TAFA II           | N/A      | 0    | 0      | 0      | 0      | 0                     | 0                    | 0                     | 2                    | 0                                   | Afghanistan is interested in deepening and expanding regional integration through negotiating new and joining existing agreements (bilateral and regional) related to trade, investment, economic cooperation, transport, and transit. This indicator captured initiatives (agreements and memorandums of understanding (MOUs)) launched (or signed) in this regard during TAFA. |
| Volume of trade with South Asian Free Trade Agreement (SAFTA) member countries   | TAFA II           | N/A      | 0    | 0      | 0      | 0      | \$1.9 billion in 1390 | 5% increase in trade | \$1.9 billion in 1391 | 5% increase in trade | \$489 million in first quarter 1392 | Trade here refers to export/import of goods and services by SAFTA countries. This indicator covered the increase in value of Afghanistan's trade with SAFTA member countries taking advantage of SAFTA.  |
| Weighted average tariff level with SAFTA countries   | TAFA II           | N/A      | 0    | 0      | 0      | 0      | 0                     | 6.20%                | 5.80%                 | 6.20%                | 5.50%                               | Weighted average tariff is share of total duties collected to total value of imports. This indicator measured imports from SAFTA countries by Afghanistan. The lower the tariff, the more imports are coming.  |

| Indicator  | Type of Indicator | Baseline |      | 2010   |        | 2011   |        | 2012   |        | 2013   |        | Definition  |
|--|-------------------|----------|------|--------|--------|--------|--------|--------|--------|--------|--------|---|
|  |                   | Year     | Data | Target | Result | Target | Result | Target | Result | Target | Result |   |
| Number of sensitive tariff lines of Afghanistan under SAFTA                                  | TAFA II           | N/A      | 0    | 0      | 0      | 0      | 0      | 800    | 850    | 800    | 850    | Goods on the sensitive list are exempt from the free trade agreement with SAFTA countries. Broader, deeper trade liberalization is achieved by reducing the number of goods on the sensitive list. TAFA assisted in reducing the list in 2011–2012 from 1,072 to 857. |
| Number of WTO working party bilateral and plurilateral meetings held toward accession to WTO | TAFA II           | N/A      | 0    | 0      | 0      | 0      | 0      | 8      | 6      | 8      | 8      | Holding working party meetings and bilateral/plurilateral negotiations is indicative of progress made toward WTO accession, greater liberalization, and improvement in the policy, legal, and institutional aspects related to Afghanistan's foreign trade regime.    |
| Number of documents submitted to WTO in support of accession                                 | TAFA II           | N/A      | 0    | 0      | 0      | 0      | 0      | 10     | 13     | 10     | 12     | This indicator captured the effort made by Afghanistan to support its WTO accession process. This includes replies to questions/enquiries, conformity charts, notifications, offers and revised offers, special documents, and legislation (including drafts).        |

| Indicator  | Type of Indicator | Baseline |      | 2010   |        | 2011   |        | 2012   |        | 2013   |        | Definition  |
|--|-------------------|----------|------|--------|--------|--------|--------|--------|--------|--------|--------|---|
|  |                   | Year     | Data | Target | Result | Target | Result | Target | Result | Target | Result |   |
| Number of WTO-related legal acts advancing through the legislative process     | TAFA II           | N/A      | 0    | 0      | 0      | 0      | 0      | 10     | 10     | 10     | 15     | Bringing the legal framework in line with WTO agreements is a pre-condition for becoming a WTO member. Legal reform in line with WTO requirements will establish a conducive environment for trade and investment, reduce the cost of doing business, and lower opportunities for corrupt practices. It also will provide businesses with guaranteed and rapid access to administrative appeals and judiciary. This indicator captured progress in the legislative process when draft laws (including amendments) and sublegal acts (regulations, orders) move from one stage to another. |
| Number of draft laws prepared/finalized at ministerial level with TAFA support | TAFA II           | N/A      | 0    | 0      | 0      | 0      | 0      | 5      | 4      | 5      | 9      | This captured the number of new draft laws and sublegal acts (including amendments) that were prepared with TAFA assistance.  |
| Number of WTO-related institutional reforms launched with TAFA support         | TAFA II           | N/A      |      | 0      | 0      | 0      | 0      | 5      | 4      | 5      | 7      | Acceding to the WTO requires establishment of new institutions related to customs, trade, sanitary and phytosanitary, technical barriers to trade, and intellectual property. This captured institutional reforms launched by Afghanistan with TAFA support.  |
| <b>IR 2: Customs Reforms Instituted</b>  |                   |          |      |        |        |        |        |        |        |        |        |   |

| Indicator  | Type of Indicator    | Baseline |               | 2010          |                       | 2011          |                       | 2012          |                        | 2013          |                                     | Definition  |
|--|----------------------|----------|---------------|---------------|-----------------------|---------------|-----------------------|---------------|------------------------|---------------|-------------------------------------|---|
|  |                      | Year     | Data          | Target        | Result                | Target        | Result                | Target        | Result                 | Target        | Result                              |   |
| Growth in customs revenue  | TAF A I/<br>TAF A II | 2009     | \$741 million | Tracking only | \$946 million in 1389 | Tracking only | \$993 million in 1390 | Tracking only | \$894 million in 1391  | Tracking only | \$434 million in first quarter 1392 | A customs duty and tax refers to tax on the import and export of goods collected by customs houses.   |
| <b>Sub-IR 2.1: Improved Customs Procedures to Reduce Delays and Costs for Compliance with Customs Requirements</b> |                      |          |               |               |                       |               |                       |               |                        |               |                                     |   |
| Number of Inland Customs Depots (ICDs) adopting customs streamlined procedures                                     | TAF A I/<br>TAF A II | N/A      | 0             | 0             | 0                     | 0             | 0                     | 1             | 0                      | 1             | 10                                  | Customs streamlined procedure refers to simplification of customs clearance process for imports and exports by eliminating unnecessary steps, procedures, and documents and improving and streamlining clearance procedures. In 2013, the resulting number refers to ICDs at which streamlined procedures had already been implemented and at which TAF A monitored compliance. The resulting number is not new ICDs, but rather those which enforced the procedures. |
| Customs processing times reduced (overall and at key ICDs)   | TAF A I/<br>TAF A II | 2009     | 8 days        | 6 days        | 5 days                | 3 days        | 3 days                | 6 hours       | 3 hours and 49 minutes | 6 hours       | 3 hours and 27 minutes              | This indicator refers to the number of days required for Customs processing of goods (import and export at key borders). It is required by contract, but has been slightly reworded for greater clarity.  |

| Indicator  | Type of Indicator  | Baseline |      | 2010   |        | 2011          |  | 2012          |  | 2013          |  | Definition   |
|--|--------------------|----------|------|--------|--------|---------------|--|---------------|--|---------------|--|--|
|  |                    | Year     | Data | Target | Result | Target        | Result   | Target        | Result   | Target        | Result   |  |
| Number of steps eliminated at ICDs and Border Crossing Points (BCPs )        | TAF A I / TAF A II | N/A      |      |        |        |               |  | 5             | 0  | 5             | Import-3   | Elimination of customs procedures means time and cost savings for exporters. Elimination here refers to when a step is removed from customs procedures and no longer practiced at that ICD or BCP.                   |
| Monetized value of reduced steps   | TAF A I            | N/A      | 0    | 0      | 0      | Tracking only | \$3.7 million at Kabul ICD; \$1.4 million at Kabul Airport (KIA) | Tracking only | \$7.5 million at Hairatan; \$24.8 million at Jalalabad | Tracking only | \$10.2 million at Herat; \$1.1 million at Kandahar; \$0.8 million at KIA | TAF A monetized the benefits of streamlined procedures at six ICDs. The dollar values indicate the value of savings of the stops removed that are not aligned with the national blueprint.                           |
| Number of ICD locations and key borders monetized                            | TAF A I            | N/A      |      |        |        |               |  | 5             | 1 (Herat)  | 5             | 3  | Monetized value is a financial measurement of a reduced steps document or procedure.   |
| Number of BCPs where Border Management Model is rolled out                   | TAF A II           | N/A      | 0    | 0      | 0      | 0             | 0  | Tracking only | 3 (Hairatan, Sher Khan Bandar, Islam Qala)             | Tracking only | 2  | The Border Management Model (BMM) allows for information-sharing between the ACD and the Afghan Border Police and establishes roles and responsibilities for both agencies in the customs and immigration processes. |
| Number of ICDs adopting risk management system in customs clearances process | TAF A II           | N/A      | 0    | 0      | 0      | 0             | 0  | 4             | 0  | 4             | 2  | Risk management in the cargo verification process will enhance customs compliance measures without unfairly impeding legitimate traders. This activity started in 2012.  |

| Indicator   | Type of Indicator | Baseline |               | 2010          |        | 2011          |               | 2012          |             | 2013   |        | Definition  |
|---|-------------------|----------|---------------|---------------|--------|---------------|---------------|---------------|-------------|--------|--------|---|
|   |                   | Year     | Data          | Target        | Result | Target        | Result        | Target        | Result      | Target | Result |   |
| Number of intelligence units established at ICDs                          | TAFA I            | N/A      | 0             | 0             | 0      | 0             | 0             | 4             | 0           | 4      | 0      | TAFA reached an agreement with the ACD Enforcement Directorate to identify regional intelligence officers from mobile verification teams in four main locations: Herat, Jalalabad, Mazar, and Kandahar. Please see section above on challenges for an explanation of why TAFA did not meet this target. |
| Number of intelligence profiles generated by the ACD                      | TAFA I            | N/A      | 0             | 0             | 0      | 0             | 0             | 50            | 60          | 80     | 90     | Intelligence profiles are an important tool that aids trade facilitation while ensuring compliance.   |
| Number of permanent professional positions allocated for women at the ACD | TAFA II           | N/A      | 0             | 0             | 0      | 0             | 0             | 20            | 0           | 20     | 1      | In line with the Tokyo Mutual Accountability Framework and the National Action Plan for Women, TAFA supported the ACD in meeting benchmarks related to increasing female participation in elected and appointed bodies at all levels of governance to 30 percent by 2020.                               |
| Number of female interns completing a six-month internship at the ACD     | TAFA II           | N/A      | 0             | 0             | 0      | 0             | 0             | 20            | 0           | 20     | 20     | TAFA partnered with the USAID-funded Women in Government program to implement an internship program at the ACD for university women.  |
| Value of goods exported to the United States taking advantage             | TAFA I            | 2009     | \$1.5 million | Tracking only | 0      | Tracking only | \$2.2 million | Tracking only | \$4 million | 0      | 0      | The Generalized System of Preferences is a scheme where a wide range of industrial and agricultural products originating in certain developing  |

| Indicator  | Type of Indicator | Baseline |      | 2010   |        | 2011   |        | 2012   |        | 2013   |        | Definition   |
|--|-------------------|----------|------|--------|--------|--------|--------|--------|--------|--------|--------|--|
|  |                   | Year     | Data | Target | Result | Target | Result | Target | Result | Target | Result |  |
| of Generalized System of Preferences   |                   |          |      |        |        |        |        |        |        |        |        | countries are given preferential access to the U.S. market.  |
| Number of new requests, offers, revised offers, or other format texts that are submitted by a host country | TAFA I            | N/A      | 0    | 0      | 0      | 0      | 0      | 4      | 10     | 0      | 0      | A new request, offer, revised offer, or other format text submitted by a host country represents significant progress toward WTO accession. Data were maintained on each type of new request or offer. This indicates progress made in negotiations toward liberalization. |
| Number of trade-related international agreements and/or MOUs signed  | TAFA I            | N/A      | 0    | 0      | 2      |        |        | 1      | 2      | 0      | 0      | In 2010, Afghanistan signed the APTTA and SAFTA agreements.  |
| <b>Sub IR 2.2: Improved Speed and Efficiency of Transit and Transportation of Goods</b>                    |                   |          |      |        |        |        |        |        |        |        |        |  |
| Number of ICDs where e-money payment system introduced   | TAFA II           | N/A      | 0    | 0      | 0      | 0      | 0      | 4      | 0      | 4      | 0      | TAFA implemented solutions to use e-money for automated payment of transit fees and guarantees, to quickly facilitate trade while removing redundant steps for cash payments. See challenges section above for an explanation of this missed target.                       |
| Number of impediments eliminated to cross-border trade with  | TAFA II           | N/A      | 0    | 0      | 0      | 0      | 0      | 3      | 0      | 3      | 1      | USAID and TAFA visited Pakistan, Tajikistan, and Uzbekistan to identify potential regional cooperation, harmonization, and integration. TAFA   |

| Indicator   | Type of Indicator | Baseline |      | 2010   |        | 2011   |        | 2012          |                       | 2013          |                                     | Definition   |
|---|-------------------|----------|------|--------|--------|--------|--------|---------------|-----------------------|---------------|-------------------------------------|--|
|   |                   | Year     | Data | Target | Result | Target | Result | Target        | Result                | Target        | Result                              |  |
| Pakistan and other countries in the region  |                   |          |      |        |        |        |        |               |                       |               |                                     | continued to find impediments to cross-border trade with these countries and suggest solutions for elimination.  |
| Number of Customs and Trade Consultative Council meetings held to provide interaction within private sector, including women-owned businesses and customs | TAFA II           | N/A      | 0    | 0      | 0      | 0      | 0      | 4             | 1                     | 4             | 1                                   | The initial council meeting was in December 2012 with the Afghanistan Chamber of Commerce and Industries, to confirm the terms of reference for future meetings. |
| <b>IR 3: Trade Facilitation Strengthened</b>  |                   |          |      |        |        |        |        |               |                       |               |                                     |  |
| Increase in trade with Central Asian Republic countries   | TAFA II           | N/A      | 0    | 0      | 0      | 0      | 0      | Tracking only | \$1.1 billion in 1391 | Tracking only | \$271 million in first quarter 1392 | This includes the total value of trade with Kazakhstan, Tajikistan, Turkmenistan, and Uzbekistan.  |
| <b>Sub-IR 3.1: Increased Management Capacity of Private Sector Production and Marketing Enterprises</b>   |                   |          |      |        |        |        |        |               |                       |               |                                     |  |

| Indicator  | Type of Indicator | Baseline |      | 2010   |        | 2011   |        | 2012         |        | 2013   |           | Definition  |
|--|-------------------|----------|------|--------|--------|--------|--------|--------------|--------|--------|-----------|---|
|  |                   | Year     | Data | Target | Result | Target | Result | Target       | Result | Target | Result    |   |
| Value of export sales increased by project-supported firms   | TAFA II           | N/A      |      |        |        |        |        | Not reported | 0      | 5%     | \$673,450 | Export sales value based on what is invoiced to the client; value of executed contracts. The target of 5% was set before identification of firms to be included in specific activities. In the end, these firms were willing to share the value of resulting export sales, but not the size of their overall revenue due to considerations related to security and competition. |
| Number of firms receiving project-supported capacity building assistance to increase exports                           | TAFA II           | N/A      | 0    | 0      | 0      | 0      | 0      | Not reported | 0      | 20     | 115       | Any firm participating in any export partnership activity.  |
| Number of technical assistance and capacity building activities provided to firms and trade promotion agencies         | TAFA II           | N/A      | 0    | 0      | 0      | 0      | 0      | 5            | 1      | 5      | 9         | Market research, short-term technical assistance to government and/or private sector beneficiaries, study tours and international trade fairs/exhibitions, exporter training sessions.  |
| <b>Sub-IR 3.2: Improved Coordination and Collaboration of Private Sector Engagement through Central and South Asia</b> |                   |          |      |        |        |        |        |              |        |        |           |   |

| Indicator   | Type of Indicator | Baseline |      | 2010   |        | 2011   |        | 2012         |        | 2013   |        | Definition   |
|---|-------------------|----------|------|--------|--------|--------|--------|--------------|--------|--------|--------|--|
|   |                   | Year     | Data | Target | Result | Target | Result | Target       | Result | Target | Result |  |
| Number of new contracts between local producers and Central Asian Republic vendors                  | TAFa II           | N/A      | 0    | 0      | 0      | 0      | 0      | Not reported | 0      | 2      | 0      | TAFa supported participation of Afghan firms in Agro World and the World Food Exhibition on April 3-5, 2013 in Tashkent, Uzbekistan. As a result, more opportunities were created for Afghan producers and Central Asian Republic vendors to start businesses.   |
| Number of TAFa-sponsored activities aimed at engaging Central Asian and Afghan women in the economy | TAFa II           | N/A      | 0    | 0      | 0      | 0      | 0      | Not reported | 0      | 3      | 1      | Activities include grants, technical assistance, research papers, business training, trade fairs, and conferences.   |
| Number of regional trade events attended by Afghan firms  | TAFa II           | N/A      | 0    | 0      | 0      | 0      | 0      | 2            | 0      | 2      | 3      | TAFa identified regional trade events in the Central Asian republics that Afghan firms can attend, offering opportunities for networking and identifying possible business partners. These events helped identify new markets for Afghan goods and give Afghan businesses the opportunity to identify the standards they need to compete in the Central Asian republics. |

| Indicator   | Type of Indicator | Baseline |                         | 2010   |                         | 2011                    |                         | 2012                  |                         | 2013   |        | Definition  |
|---|-------------------|----------|-------------------------|--------|-------------------------|-------------------------|-------------------------|-----------------------|-------------------------|--------|--------|---|
|   |                   | Year     | Data                    | Target | Result                  | Target                  | Result                  | Target                | Result                  | Target | Result |   |
| Number of documents required for import/export  | TAFA I            | 2009     | 12 export;<br>11 import | 0      | 12 export;<br>11 import | 10 import;<br>10 export | 10 import;<br>10 export | 9 import;<br>9 export | 10 import;<br>10 export | 0      | 0      | Based on the World Bank's Doing Business 2010, in Afghanistan 11 documents are required for import and 12 for export. TAFA found that more documents were required for import and export than Doing Business reported. This component worked with government counterparts to come up with a list of documents required for import and export. This list was used as the baseline, and targets were set accordingly. |
| Number of trade-related public-private partnership projects developed for government to implement | TAFA I            | N/A      | 0                       | 0      | 0                       | 0                       | 0                       | 2                     | 0                       | 0      | 0      | There are no specific laws and regulations in Afghanistan that enable public-private partnerships and ensure protection for private investors.  |
| Number of exporters using services of the one-stop shop   | TAFA I            | N/A      | 0                       | 0      | 0                       | Tracking only           | 750                     | 1,250                 | 0                       | 0      | 0      | This means the number of exporters that take advantage of one-stop shops. The targets are not cumulative.   |
| Number of licensed freight-forwarders that take part in transport capacity building               | TAFA I            | 2009     | 0                       | 0      | 80                      | 40                      | 131                     | 0                     | 0                       | 0      | 0      | Licensed freight-forwarders refers to the number of freight-forwarders registered with the Afghanistan Freight Forwarding Association.  |
| <b>Cross-Component Indicators</b>   |                   |          |                         |        |                         |                         |                         |                       |                         |        |        |   |

| Indicator   | Type of Indicator | Baseline |      | 2010   |        | 2011   |        | 2012   |        | 2013   |        | Definition   |
|---|-------------------|----------|------|--------|--------|--------|--------|--------|--------|--------|--------|--|
|   |                   | Year     | Data | Target | Result | Target | Result | Target | Result | Target | Result |  |
| Number of U.S. government-supported training events held that relate to improving the trade environment | TAF A I           | N/A      | 0    | 20     | 21     | 40     | 103    | 33     | 51     | 33     | 39     | Training is defined as a TAF A-led training activity that is related to improving the trade environment. It refers to an activity in Afghanistan or another country that is intended for teaching or providing knowledge and information on a specific topic.  |
| Number of person-days of training of key personnel in trade and customs regulation                      | TAF A I           | N/A      | 0    | 0      | 0      | 1,730  | 4,080  | 1,400  | 1,489  | 1,400  | 542    | Key personnel are defined as female and male personnel who are targeted for training and receive training. A person-day is a 7-hour day of training received by one person.  |
| Number of public events held to discuss trade and business policy matters with stakeholders and public  | TAF A I           | N/A      | 0    | 50     | 52     | 80     | 84     | 60     | 65     | 30     | 41     | A public event is defined as a TAF A-led and/or -supported trade-related activity such as a conference, seminar, coordination meeting, working group meeting, trade-related fair, roundtable, consultative process, forum, presentation to major gathering of university students, public-private partnership event, launch of trade campaign, presentation to National Assembly members or ministries, other key events that stakeholders attended. |

| Indicator  | Type of Indicator | Baseline |               | 2010          |        | 2011   |        | 2012   |        | 2013   |        | Definition   |
|--|-------------------|----------|---------------|---------------|--------|--------|--------|--------|--------|--------|--------|--|
|  |                   | Year     | Data          | Target        | Result | Target | Result | Target | Result | Target | Result |  |
| Number of new policy, procedures, and management tools developed for the ACD with TAFE technical assistance for management practices | TAFE II           | N/A      | 0             | 0             | 0      | 0      | 0      | 10     | 25     | 13     | 12     | Policy, procedures, and management tools developed for the ACD with TAFE technical assistance for management practices.  |
| Number of vehicles entering/exiting key borders  | TAFE I            | 2009     | 1,500 per day | Tracking only | 0      | 0      | 0      | 0      | 0      | 0      | 0      | Definition and methodology is based on the number of declarations by the number of vehicles paying customs duties. The key borders included Herat, Jalalabad, Kandahar, Mazar, and Nimroz (not including International Security Assistance Force goods). |
| <b>Public Outreach</b>   |                   |          |               |               |        |        |        |        |        |        |        |  |
| Number of media articles published on trade  | TAFE I            | 2009     | 26            | 0             | 87     | 100    | 170    | 0      | 0      | 0      | 0      | This indicator refers to the number of trade-related articles published in daily newspapers.   |
| Number of trade- and customs-related communication campaigns conducted with counterparts   | TAFE I            | N/A      | 0             | 0             | 0      | 4      | 3      | 0      | 0      | 0      | 0      | “Campaigns” refers to major campaigns, such as those to reach stakeholders in provinces on trade agreements.   |

| Indicator  | Type of Indicator | Baseline |  | 2010   |              | 2011   |        | 2012   |        | 2013   |        | Definition   |
|--|-------------------|----------|--|--------|--------------|--------|--------|--------|--------|--------|--------|--|
|  |                   | Year     | Data   | Target | Result       | Target | Result | Target | Result | Target | Result |  |
| Number of public information printed materials distributed | TAFI I            | N/A      | 0  | 0      | 6,605 copies | 11,000 | 10,355 | 0      | 0      | 0      | 0      | Information and materials printed and distributed to the public.   |
| Change in people's perception toward trade                 | TAFI I            | N/A      | 91% positive view in trade/ knowledge, attitudes, practices survey | 0      | 0            | 0      | 0      | 0      | 0      | 0      | 0      | Change here refers to the change in the public's attitude toward trade. The 2010 survey on Afghans' knowledge, attitudes, and practices related to trade and its potential benefits for Afghanistan. |

Source: TAFI Final Report, August 31, 2013

Note: N/A = Not Applicable.

## APPENDIX IV - AFGHANISTAN TRADE AND REVENUE PROGRAM CONTRACT REVIEW

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The Afghanistan Trade and Revenue (ATAR) program contract states that, “The purpose of ATAR is to provide technical support and assistance aimed to strengthen the business climate of Afghanistan to enable private investment, enhanced trade, job creation, and fiscal sustainability through the critical Transition period and continuing into the Transformational Decade.” The ATAR contract further states that the program will achieve these goals by

“1) improving the capacity of the Government of the Islamic Republic of Afghanistan to formulate and implement a liberal policy framework for trade and investment in accordance with international standards; 2) enhancing integration in the regional and world economy through the promotion of trade agreements, enhanced economic corridors governance, and private sector linkages throughout South and Central Asia; and 3) strengthening revenue generation for fiscal sustainability and trade facilitation through reforms and anti-corruption measures in customs and taxation.”

Finally, the contract requires the implementing partner to provide: “1) technical assistance on trade agreements, WTO accession, and rules compliance; 2) organization of regional trade fairs and private sector matchmaking events;<sup>40</sup> and 3) capacity building for the implementation of reforms in customs, and for Value-Added Tax implementation.”<sup>41</sup> Specific customs reforms include continued work on the Border Management Model,<sup>42</sup> risk management, customs procedures modernization and streamlining, and customs procedures harmonization with customs of other countries—all initiatives begun under the TAFE programs.

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<sup>40</sup> Private sector matchmaking events aim to connect Afghan business with potential international trade partners.

<sup>41</sup> USAID contract number AID-OAA-I-12-0035, signed November 7, 2013.

<sup>42</sup> The Border Management Model provides guidelines for the roles and responsibilities of Afghan agencies operating at customs and border locations.

## APPENDIX V - ADDITIONAL OBJECTIVES FOR THE BORDER MANAGEMENT TASK FORCE

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The subcontract executed between CACI, Inc. and Fedsys, Inc. for task order 0096, signed on December 19, 2012, states that the purpose of the Border Management Task Force (BMTF)

“Is to assist and provide guidance to the Government of Islamic Republic of Afghanistan (GIROA), in the development and operation of a sustainable, strategic, integrated border management program by improving operational processes within the international recognized ports of entry and inland customs depots, as well as between GIROA border agencies and departments. In addition the BMTF assists with the Afghan Border Security Mission through the integration of the Civilian, Military and GIROA goals, while coordinating with International and Regional Partners combating the transnational issue of narcotics and smuggling.”<sup>43</sup>

More specifically, the subcontract between CACI, Inc. and Fedsys, Inc. for the provision of BMTF services in Afghanistan lists the following objectives, stating mentors must assist the Afghan government:

- “Develop inspection and reporting strategies for dealing with cross-border trade and customs violations, to include smuggling of narcotics, explosives, and other illicit materials
- Improve cooperation and coordination with other regional customs and border management agencies
- Identify training needs for inspection and detection techniques for the on-site Afghan Border Management personnel
- Identify techniques to assist in the inspection of immigration documents and recording and reporting immigration data
- Coordinate meetings with GIROA [Government of the Islamic Republic of Afghanistan] ministries and departments, foreign government organizations, and key U.S. Government civilian and military personnel and contractors
- Identify training needs for inspection and detection techniques for the on-site Afghan Border Management personnel
- Provides technical and policy expertise to the Combatant Commander and his staff concerning port and border security operations, domestic and international customs procedures, and other issues concerning immigration, smuggling, and trafficking
- Establish proper controls for importation and exportation on foods entering the country. The controls ensure that no narcotics leave the country and no pre-cursors enter the country, by helping instill a compliance and enforcement regime in Afghanistan
- Identify and articulate white paper for potential immediate, impact projects that would enhance and support the processes at POE [points of entry]; to include potential small scale capacity building construction projects
- Will be required to undertake various administrative tasks in support of both individual and mission activities.”<sup>44</sup>

The subcontract further provides a list of items that the subcontractor’s monthly status report must detail. These requirements include a summary of the work being performed under the task order, a detailed

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<sup>43</sup> Prime contract number W15P7T-06-D-E402, Subcontract number S13-126600, signed on December 19, 2012. The subcontract lists several border management mentor objectives more specifically, but still lacks clear metrics or indicators against which performance can be measured; see appendix V for a complete list of the BMTF objectives contained in the subcontract.

<sup>44</sup> Prime contract number W15P7T-06-D-E402, Subcontract number S13-126600, signed on December 19, 2012.

description of each month's accomplishments, the subcontractor's plan for the next month, any significant developments from the prior month, descriptions of any problems encountered, and a description of the financial status of the project.

The subcontract executed between CACI, Inc. and Fedsys, Inc. for task order 0127, signed on October 11, 2011, provides even less guidance to BMTF advisers than the subcontract for task order 0096. This subcontract simply states that Fedsys, Inc. should

- “Provide In-Country C4ISR [Command, Control, Communications, Computers, Intelligence, Surveillance and Reconnaissance] experts to station/deploy into USCENTCOM [U.S. Central Command] and other countries to perform C4ISR [Command, Control, Communications, Computers, Intelligence, Surveillance and Reconnaissance] and Counter Narcotics communication systems quality assurance tasks, witness testing, assist in training events, NIU [National Interdiction Unit] firing and training range management, and provide liaison/coordination between customer nations, embassies and C2D [Command and Control Directorate]. The C2D Counter Narcotics Program Coordinators shall report back to CENTCOM HQ [Headquarters], as well as the C2D task leader to ensure current projects are delivered on time and within budget.
- Oversee the design, installation and integration of all C4ISR equipment (to include existing equipment, Furnished equipment (CFE), Government Furnished Equipment (GFE), etc.) being fielded to the host nations.
- Develop detailed plans, goals, and objectives. Analyze, balance, and reconcile program requirements with available resources.
- Provide the analysis of user requirements, preparation of plans and other associated documentation, on-site supervision, risk assessments, mission analysis, and any other similar activity relevant to C2D events. The subcontractor may be required to perform test and/or inspection activities in support of C2D.”<sup>45</sup>

In addition to the above requirements, the subcontract states that Fedsys, Inc. “shall support the Government in identifying C4ISR training requirements and shall support the Government in obtaining or developing training personnel.” The subcontract goes on to state that the training programs to be provided by Fedsys, Inc. in Afghanistan will include the BMTF. Finally, the subcontract for task order 0127 states that the subcontractor shall provide a summary of work performed, progress achieved and any applicable milestones, potential problems and solutions, and what work will be performed over the next period on a monthly basis.

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<sup>45</sup> Prime contract number W15P7T-06-D-E402, Subcontract number S12-120216, signed on October 11, 2011.

## APPENDIX VI - U.S. CUSTOMS AND BORDER PROTECTION COMMENTS

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1300 Pennsylvania Avenue NW  
Washington, DC 20229



**U.S. Customs and  
Border Protection**

March 31, 2014

Mr. John F. Sopko  
Special Inspector General for Afghanistan Reconstruction  
400 Army Navy Drive  
Arlington, VA 22202

Re: Draft Report SIGAR Audit 083A: "AFGHAN CUSTOMS: U.S. Programs Have Had Some Successes, but Challenges will Limit Customs Revenue as a Sustainable Source of Income for Afghanistan"

Dear Mr. Sopko:

Thank you for the opportunity to review and comment on this draft report. The U.S. Customs and Border Protection (CBP), Office of International Affairs (INA) appreciates the Special Inspector General for Afghanistan Reconstruction's (SIGAR's) work in planning and conducting its review and issuing this report.

CBP/INA is pleased to note that many successes by the Border Management Task Force (BMTF) were included in the report. SIGAR also found the Department of Defense (DOD) contract lacking for specific metrics for the program. While CBP does not fund or manage the contractual aspects of the BMTF program, a recommendation will be made from CBP to DOD, U.S. Central Command (CENTCOM) to incorporate metrics into the contractual language of any future BMTF contracts or task orders.

CBP has led the BMTF program since its inception in 2006. The primary mission of the BMTF is to build strategic and operational capacity of the Afghan Border Police (ABP), Afghan Customs Department (ACD) and Afghan Customs Police (ACP) to enable them to gain operational control of their borders while facilitating legal trade and travel. While the contracted mentors have passed through a number of contracting companies, CBP has consistently managed and improved the performance metrics, both qualitatively and quantitatively, used to monitor the effectiveness and impact of the BMTF Program.

There are a number of qualitative measures employed to monitor the overall performance of the contract. These include such items as the weekly reports completed by each mentor and submitted to the CBP Attaché, twice weekly conference calls with the Attaché to discuss progress and issues, semi-annual team leaders' conferences, and regular site visits and interviews conducted by CBP personnel at each location. Additionally, a CBP representative is deployed forward, to each regional command, to monitor and direct the mentors in that specific region.

There are also quantitative measures employed to measure the effectiveness of the program. These include the following:

- Mission Essential Capabilities (MEC). This program, begun in 2011, measured standards necessary to conduct baseline operations at the respective Border Crossing Point (BCP) and Ports of Entry (POE). The MEC measured the Afghan's ability to achieve a level of operations to deny the entry of unauthorized goods and people, facilitate legal travel and migration, and maximize revenue growth and commerce.
- Borders Efficiency and Capabilities Assessment (BECA). The MEC was expanded in 2013 and became the BECA. The BECA expanded the MEC concept, measuring the following:
  - Equipment shortfall and surplus for resupply and re-allocation
  - Agency progress towards operational goals
  - Skill deficiencies or proficiency in mission essential tasks
  - Effective/Ineffective implementation of policy and procedures
- In 2014, the BECA was refined again, this time creating an Afghan lead for the program. This will allow for shared responsibilities for improvements while transferring the program to a sustainable Afghan lead. The program was also simplified to make an "Afghan Right" program that could be sustained upon CBP/BMTF departure.

These measurements are shared with CENTCOM as they are reported. They are also discussed with CENTCOM during semi-annual reviews where the allocation of resources is reviewed for effectiveness. Additionally, CENTCOM also uses these metrics to adhere to their own DOD metrics reporting requirements.

There are a number of issues that will affect metric achievability to include:

- Limited and varying site access due to security issues.
- A second and third order effect such as a change in leadership, affecting seizure numbers by the ABP/ACD.
- Reduction in Customs revenue due to a reduced foreign presence at the same time of possible increasing efficiency by the ACD.

The report contained one recommendation addressed to the CBP Commissioner to help assess if the BMTF program is achieving its intended outcomes.

**Recommendation 1:** Develop clear performance metrics for BMTF mentor operations and submit such metrics to DOD/CENTCOM for incorporation into any future BMTF contracts or task orders.

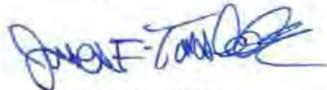
**CBP Response:** Concur. The CBP attaché in Afghanistan will develop clear performance metrics for BMTF mentor operations, and will submit such metrics to DOD/CENTCOM for incorporation into any future BMTF contracts or task orders.

**Estimated Completion Date:** September 30, 2014

CBP/INA remains committed to continuing its work with the U.S. Department of State and other relevant stakeholders in efforts to assist in developing the capacity of the Afghan government to assess and collect customs revenue. During a recent visit to the United States by the ACD Director General, it was revealed that the ACD was developing a Five-Year Strategic Plan. The Director General stated that he would provide CBP with a copy of the strategy in the near future. CBP looks forward to continuing its close working relationship with the ACD, ACP, and ABP.

Thank you again for the opportunity to review and comment on this draft report. The U.S. Customs and Border Protection (CBP) appreciates the Special Inspector General for Afghanistan Reconstruction's (SIGAR's) work in planning and conducting its review and issuing this report. Technical comments have been submitted under separate cover. We look forward to working with you on future Homeland Security issues.

Sincerely,

A handwritten signature in blue ink, appearing to read "James F. Tomsheck", written over a light blue horizontal line.

James F. Tomsheck  
Assistant Commissioner  
Office of Internal Affairs

## APPENDIX VII - U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT COMMENTS



### MEMORANDUM

**DATE:** March 31, 2014

**TO:** John F. Sopko, Special Inspector General for Afghanistan Reconstruction (SIGAR)

**FROM:** William Hammink, Mission Director for the U.S. Agency for International Development (USAID) Afghanistan 

**SUBJECT:** The Mission Response to Draft SIGAR Report, "Afghan Customs: U.S. Programs Have Had Some Success, But Challenges Will Limit Customs Revenue as a Sustainable Source of Income for Afghanistan" (SIGAR Audit 14-XX-AR)

**REF:** SIGAR Transmittal email dated 03/01/2014

Thank you for providing USAID with the opportunity to respond to the referenced audit report, examining U.S. Government efforts in assessing and collecting customs revenue in Afghanistan. The audit report covers programs implemented by USAID and the Department of Homeland Security Customs and Border Protection (CPD) and includes two audit recommendations addressed to USAID.

We appreciate SIGAR's acknowledgement of USAID accomplishments in improving the trade and customs environment in Afghanistan. The *Trade Accession and Facilitation for Afghanistan (TAF A I and II)* programs have contributed significantly to reducing the customs processing times and steps required to trade across Afghanistan's borders. Despite these successes, major challenges remain, as alluded to in the report, with transforming processes and procedures relating to custom revenue collection.

USAID agreed with the findings in the audit report and has presented below its response to the recommendations.

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Kabul, Afghanistan

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<http://afghanistan.usaid.gov>

**RECOMMENDATION:**

- 2. Direct the Afghanistan Trade and Revenue (ATAR) implementing partner to continue to work with Afghanistan’s Tariffs Statistics Unit to reduce discrepancies in customs data and make the reduction in statistical discrepancies a requirement of the contract for the ATAR program.**

**USAID COMMENT:**

USAID partially concurs with this recommendation. While USAID has considered SIGAR’s recommendation to include in the contract a performance requirement relating to statistical discrepancies, USAID finds it impossible to do so because the discrepancies in customs data are often driven by factors outside the control of the project, which does not manage the data.

“Reduction in discrepancy between the Central Statistics Office and the ACD on trade statistics” is currently a USAID requested indicator. The target set for 2014 is a reduction to 20% discrepancy between CSO and ACD statistics.

There are two types of discrepancies in customs data that ATAR will continue to address in the future:

- A. Discrepancies between data reported by the Afghanistan Customs Department (ACD) and by the Central Statistics Organization (CSO), and
- B. Anomalies in ACD collected data due to technical and other difficulties.

USAID continues to ensure that ATAR works with ACD to improve the accuracy, completeness and reliability of data it collects. Anomalies and missing data will decline as more staff and institutional capacity building is provided to ACD by ATAR.

To address this recommendation, USAID will issue a letter directing the Implementing Partner (IP) to continue to put forth efforts to decrease discrepancies between Central Statistics Organization (CSO) and Afghan Customs Department (ACD) statistics.

**Target Closure Date: May 2014**

**RECOMMENDATION:**

- 3. Ensure that annual targets for implementation of anti-corruption measures, such as the electronic payment system, are included as performance requirements in the ATAR program contract.**

**USAID COMMENT:**

USAID partially concurs with the recommendation. USAID cannot include in ATAR's contract the use of ACD's anti-corruption systems as performance requirements because the ACD is responsible for institutionalizing these systems, not ATAR.

ATAR included in its annual work plan targets with timelines for development of systems that facilitate trade and curb corruption at ACD, such as institutionalizing the Border Management Model (BMM), strengthening customs code and policies, implementing risk-management systems, and implementing electronic payment of customs debt. These systems were chosen in close coordination with ACD officials and USAID expects that they will be employed by ACD. USAID will closely monitor the IP and continue to encourage ACD to use these systems.

In response to the audit recommendation, USAID will issue a letter directing the Implementing Partner to continue to put forth its best effort in implementing anti-corruption measures.

**Target Closure Date: May 2014**

Cc: U.S. Embassy Kabul/Coordination Directorate

## APPENDIX VIII - ACKNOWLEDGEMENTS

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The following staff provided additional support:

Mia Bonarski, Methodologist

This audit report was conducted  
under project code SIGAR-083A.

## SIGAR's Mission

The mission of the Special Inspector General for Afghanistan Reconstruction (SIGAR) is to enhance oversight of programs for the reconstruction of Afghanistan by conducting independent and objective audits, inspections, and investigations on the use of taxpayer dollars and related funds. SIGAR works to provide accurate and balanced information, evaluations, analysis, and recommendations to help the US Congress, US agencies, and other decision-makers to make informed oversight, policy, and funding decisions to:

- improve effectiveness of the overall reconstruction strategy and its component programs;
- improve management and accountability over funds administered by US and Afghan agencies and their contractors;
- improve contracting and contract management processes;
- prevent fraud, waste, and abuse; and
- advance US interests in reconstructing Afghanistan.

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- Phone Afghanistan: +93 (0) 700-10-7300
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