



SIGAR

Office of the Special Inspector General
for Afghanistan Reconstruction

March 5, 2015

Mr. Alfonso E. Lenhardt,
Acting Administrator
U.S. Agency for International Development

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

Dear Mr. Lenhardt and Mr. Hammink:

During my recent visit to Afghanistan, several U.S. Embassy officials shared with me their concerns about the Afghan government's inability to meet its budgetary obligations in the current and upcoming fiscal years due to projected decreases in revenue. Representatives from the embassy's Economics Section noted that a large portion of the decline in revenue could be attributed to concerns that approximately half of the customs duties for Afghan fiscal year 1393 are believed to have been stolen.¹ Officials with the U.S. Agency for International Development (USAID) have suggested that eliminating or significantly stemming corruption in the customs process could potentially double the customs revenues remitted to the Afghan government. According to Afghanistan's 1393 and 1394 national budget statements, for Afghan fiscal years 1390 through 1393, taxes on international trade and transactions—a revenue category that includes customs revenue—produced between \$410 million and \$660 million annually, accounting for 24 percent to 36 percent of total domestic revenue.²

In April 2014, my office issued an audit report analyzing U.S. efforts to develop Afghanistan's customs assessment and collection capabilities.³ Our report highlighted concerns about the sustainability of the Afghan government's capacity to accurately assess and collect customs revenues; corruption within the customs process; and the use of U.S. government-funded buildings, materials, and equipment in the effort to develop the Afghan government's customs assessment and collection capabilities. The audit found that USAID's and the Department of Homeland Security (DHS) Border Management Task Force's (BMTF) programs had some successes in developing the Afghan

¹ Afghanistan follows the solar Hijri calendar, which began in 622 A.D. in the Gregorian calendar. SIGAR converts Hijri solar years to Gregorian equivalents. In the past, Afghan fiscal years ran approximately from March 21 to March 20 of Gregorian calendar years. Beginning in fiscal year 1392, however, the dates changed from December 21 through December 20.

² For domestic revenue, the Afghan government collected 93.7 billion Afghanis (\$1.9 billion) in fiscal year 1390 (March 21, 2011, through March 20, 2012), 81.5 billion Afghanis (\$1.6 billion) in the 9-month fiscal year 1391 (March 21, 2012, through December 20, 2012), 114 billion Afghanis (\$2.0 billion) in fiscal year 1392 (December 21, 2012, through December 20, 2013), and a projected 96 billion Afghanis (\$1.7 billion) in fiscal year 1393 (December 21, 2013 through December 20, 2014). For taxes on international trade and transactions, the Afghan government collected 32.5 billion Afghanis (\$660 million) in fiscal year 1390, 21.4 billion Afghanis (\$409 million) in the 9-month fiscal year 1391, 30.2 billion Afghanis (\$535 million) in fiscal year 1392, and a projected 34.7 billion Afghanis (\$598 million) in fiscal year 1393.

³ See SIGAR Audit 14-47-AR, *Afghan Customs: U.S. Programs Have Had Some Successes, but Challenges Will Limit Customs Revenue as a Sustainable Source of Income for Afghanistan*, April 15, 2014. This audit report followed our October 2013 alert letter highlighting concerns related to the construction and usage of a border crossing point at the Weesh-Chaman border crossing between Afghanistan and Pakistan (see SIGAR Alert Letter 14-2-AL, *Weesh Border Crossing Point Design Issues*, October 10, 2013).

government's ability to accurately assess and collect customs revenues. However, the audit also found that corruption within the customs process and questions about the sustainability of the U.S.-funded buildings, materials, and equipment persist. Moreover, the audit found that the Afghan government had not fully implemented or adopted two major innovations in the automation of customs processes—a risk management system and an electronic payment system—that would help combat corrupt practices.

Exacerbating these challenges was the ongoing drawdown of the international military and advisory presence throughout Afghanistan. We reported that "...when there is a U.S. presence at the [Afghan] border, the BMTF mentors are able to provide additional oversight and advisory services to Afghan officials, which helps to stem corrupt activities...when BMTF officials are not physically present at border crossings, corrupt and criminal activities often resume." The report highlighted similar concerns pertaining to USAID's ability to effectively implement and oversee its ongoing Afghanistan Trade and Revenue (ATAR) program given the security environment and stated,

ATAR will likely face security-related challenges similar to those of the BMTF over the planned 4-year life of the program. This may result in the alteration of ATAR initiatives as security realities on the ground overcome planned program activities. 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.

About the time of the release of our report, DHS and BMTF personnel steadily pulled back from border crossings and customs locations, and by the end of November 2014, they had all left Afghanistan. Their departure coincided with the lowest customs revenue collection in at least the last 4 years.⁴

Furthermore, as we reported in December 2014, Afghanistan has one of the lowest rates of domestic revenue collection in the world. If a sizeable portion of the Afghan government's total annual domestic revenue collections is being stolen, it is a major problem given the government's projected budget deficits.⁵ To make up for this shortfall in 2014, the U.S. provided over \$100 million to the Afghan government so that it could pay its employees and continue delivering basic services.⁶ According to Afghanistan's fiscal year 1394 national budget statement, the negative impacts on the economy that resulted in the budget deficit for fiscal year 1393 will continue into fiscal year 1394 with domestic revenue increasing slowly. These continued economic conditions could lead to another shortage in revenue that will likely require the Afghan government to obtain additional assistance from the international community and the U.S. government.

The Afghan government's ongoing challenges in collecting customs revenue are of great concern, given that customs revenue regularly accounts for over a third of the Afghan government's domestic revenue. In order to gain a clearer understanding of how U.S. reconstruction programs are addressing the Afghan government's need for a sustainable revenue collection system, I request that you provide responses to the following questions, with the appropriate supporting documentation.

⁴ As a percent of total domestic revenues.

⁵ SIGAR, *High-Risk List*, December 2014.

⁶ According to senior U.S. Embassy Kabul officials, these funds were re-programmed from planned funding for the World Bank-administered Afghanistan Reconstruction Trust Fund.

1. Please provide a summary of the ATAR program activities since January 2014.
2. To what extent has USAID revised ATAR initiatives and/or planned program activities due to the withdrawal and constriction of the international military presence, changing access, or security constraints?
3. Please provide an update of the status of the proposed electronic payment system for customs duties included in the ATAR program. Please note the progress made towards achieving annual targets and any successes and obstacles to success of the proposed electronic payment system.
4. Please provide an update of the status of the risk management system for targeted inspection of imported cargo that was being implemented under USAID-funded programs.
5. Do USAID or ATAR program representatives have access to customs collection and assessment sites, training facilities, and computer systems or databases used to track customs assessments and collection?
6. Do USAID or ATAR program representatives have an estimate of the amount of customs revenues that are lost annually through smuggling, theft, and corruption in the customs assessment and collection process? If so, please provide a methodology for calculating the estimate.
7. Apart from ATAR, do any USAID programs provide support to Afghanistan's customs assessment and collection process or agencies?
8. Please provide contract numbers and program summaries for any USAID programs that provided salary assistance to Afghan officials involved in the assessment and collection of customs revenues.

I am submitting this request pursuant to my authority under Public Law No. 110-181, as amended, and the Inspector General Act of 1978, as amended. Please provide the requested information by March 19, 2015. Should you or your staff have any questions about this request, please contact Mr. Jack Mitchell, Director of Special Projects, at [REDACTED] or [REDACTED].

Thank you in advance for your cooperation in this matter. I look forward to your response.

Sincerely,



John F. Sopko
Special Inspector General
for Afghanistan Reconstruction

cc:
The Honorable P. Michael McKinley
U.S. Ambassador to Afghanistan



MEMORANDUM

March 19, 2015

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

FROM: William Hammink, Mission Director 

SUBJECT: Response to the Inquiry Letter on Afghan Customs Revenue
(SIGAR Inquiry Letter-15-39-SP)

REF: SIGAR-15-39-SP-Inquiry Letter on Afghan Customs Revenue
dated March 5, 2015

Introduction

USAID thanks the Special Inspector General for Afghanistan Reconstruction (SIGAR) for the opportunity to provide this update about USAID technical assistance to the Government of the Islamic Republic of Afghanistan (GIROA).

1. *Provide a summary of the ATAR program activities since January 2014.*

The Afghanistan Trade and Revenue Project (ATAR) is designed to build GIROA trade capacity. The project's three components focus on trade policy, trade facilitation and promotion, and customs.

Improve Trade Policy: ATAR assists GIROA to formulate and implement a policy framework for trade and investment in accordance with international standards, including accession to the World Trade Organization (WTO). ATAR supports Afghanistan's WTO accession process by providing technical assistance to draft and implement compatible legislation. The work consists largely of a combination of workshops, seminars, forums, reports, and assistance on drafting, negotiating, amending, and educating stakeholders.

Improve Trade Facilitation and Promotion: ATAR provides technical assistance to GIROA with the goal of increasing Afghanistan's trade with regional trading partners. Technical advisors provide expert consultation about bilateral and

multi-lateral agreements with the Central Asian Republics, Pakistan and India. For example, ATAR supports the implementation of harmonized tariff and non-tariff norms and simplified border crossing procedures. ATAR provides some limited support for trade promotion activities. ATAR has provided technical assistance to facilitate and promote trade within the region. Under President Ghani, Afghanistan has begun to take a more determined leadership role in regional trade negotiations. ATAR has supported GIROA's efforts to improve the Afghanistan Pakistan Transit Trade Agreement (APTTA) and to potentially supersede it by forming the Pakistan Afghanistan Tajikistan Transit Trade Agreement (PATTTA). In addition, with ATAR's technical assistance, Afghanistan is encouraging multilateral and bilateral cross-border trade agreements with Turkmenistan, Uzbekistan, Kyrgyz Republic, and India.

Improve Customs Capacity: ATAR provides technical expertise to assist the Afghanistan Customs Department (ACD) leadership design and implement best-practices for cargo processing, electronic payments, risk management, audit, enforcement, and gender inclusion. ATAR is focused on improving administrative policies, procedures, and employee skills related to cargo processing, risk management, customs payment system, audit, enforcement, and gender inclusion.

Please see the attached reports for greater detail about ATAR activities: Annual Report, January and February 2015 Monthly Reports and the biweekly reports for December 1-15 and December 16-31, 2014 (*Attachments 1-5*).

2. To what extent has USAID revised ATAR initiatives and/or planned program activities due to the withdrawal and constriction of the international military presence, changing access, or security constraints?

The bulk of ATAR's work on customs is done in Kabul. The drawdown of the international military has minimally affected the project's ability to function outside of Kabul. ATAR's work with the regional customs facilities is conducted by Afghan nationals. Security restrictions currently in place prevent non-Afghan consultants from traveling to the regional facilities in Jalalabad, Herat, and Mazar-e-Sharif.

Mounting security risks at the ACD headquarters in Kabul have impacted the delivery of technical assistance as well as US Chief of Mission staff's ability to visit their offices. Recent security incidents have also caused a review by our implementing partner of their ability to visit the ACD. Local nationals are permitted to work there under permissible security conditions determined by the implementing partner.

In response to these restrictions, ACD leaders have agreed to meet ATAR and USAID staff at the Implementing Partner's headquarters. Technical Advisors will work with Afghan nationals and counterparts in ACD by electronic means and visit when allowed. ATAR leadership sets and reviews work duties, objectives, and tasks. USAID's trade team monitors the activities as well.

3. Please provide an update of the status of the proposed electronic payment system for customs duties included in the ATAR program. Please note the progress made towards achieving annual targets and any successes and obstacles to success of the proposed electronic payment system.

ATAR's customs payment activity has not yet been implemented. As a result of a recent meeting brokered by USAID, officials from ACD requested that Da Afghanistan Bank (DAB – the Central Bank) issue a letter stipulating that DAB has the legal authority to implement the customs payment system and that DAB will assume responsibility for the fidelity of the payment information so that manual procedures are not necessary when the automated system is used. DAB has responded affirmatively.

4. Please provide an update of the status of the risk management system for targeted inspection of imported cargo that was being implemented under USAID-funded programs?

ACD leadership at both national and regional levels cooperates with ATAR technical advisors to improve the risk management system. Customs agents are learning how to better delineate between high and low risk cargo. On a weekly basis, ACD provides ATAR with data on the number of declarations by risk level, time release, number of infractions, and revenue collected.

Leadership works to further reduce the frequency of manual inspections to conform to best risk management practices. ATAR representatives are encouraging the adoption of increasingly sophisticated risk profiles, improved record keeping regarding inspection results, the use of a standard valuation database to standardize fee estimates, the use of randomized sampling procedures for inspection, and the utilization of risk profile request forms.

These matters are discussed on a weekly basis with the Director General and Regional Directors at Herat, Jalalabad, Hairatan, and Kabul (Hamid Karzai International Airport and Inland Clearance Depot).

5. Do USAID or ATAR program representatives have access to customs collection and assessment sites, training facilities, and computer systems or databases used to track customs assessments and collection?

USAID and ATAR staff have limited access to ACD facilities. Afghan nationals can work there as security permits. ATAR representatives working in regional Customs Clearance Depots have access to facilities. No USAID or ATAR representatives typically visit the Afghanistan National Customs Academy (ANCA).

ATAR program representatives have limited access to ACD customs collections sites in the field. ATAR provides technical assistance and training at the Hamid Karzai International Airport in Kabul and at the Inland customs Department as well as in Jalalabad, Torkham Border Crossing Point (BCP), Herat Inland Clearance Depot (ICD) and Mazar ICD.

Neither USAID nor ATAR representatives have access to ACD computer systems or databases. Instead, ATAR staff members can and do request relevant information from ACD to track customs collections.

6. Do USAID or ATAR program representatives have an estimate of the amount of customs revenues that are lost annually through smuggling, theft, and corruption in the customs assessment and collection process? If so, please provide a methodology for calculating the estimate?

Neither the USAID Trade Team nor ATAR representatives produce their own estimates of the annual loss of revenue due to smuggling, theft, and corruption in the customs assessment and collection process.

7. Apart from ATAR, do any USAID programs provide support to Afghanistan's customs assessment and collection process or agencies?

ATAR is the only USAID project that provides support for Afghanistan's customs assessment and collection process or agencies.

8. Please provide contract numbers and program summaries for any USAID programs that provided salary assistance to Afghan officials involved in the assessment and collection of customs revenues.

USAID programs do not directly provide salary assistance to Afghan officials involved in the assessment and collection of customs revenues.

Attachments:

- 1 – Annual Report**
- 2 – January 2015 Monthly Reports**
- 3 – February 2015 Monthly Reports**
- 4 – Bi-weekly Report December 1-15, 2014**
- 5 – Bi-weekly Report December 16-31, 2014**

cc:

Mr. Alfonso E. Lenhardt
Acting Administrator, U.S. Agency for International Development

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