



SIGAR

**Special Inspector General for
Afghanistan Reconstruction**

ANTI-CORRUPTION MEASURES: PERSISTENT PROBLEMS EXIST IN MONITORING BULK CASH FLOWS AT KABUL INTERNATIONAL AIRPORT

This product was completed under SIGAR's Office of Special Projects, the Special Inspector General's response team created to examine emerging issues in prompt, actionable reports to federal agencies and the Congress. The work was conducted pursuant to the Special Inspector General's authorities and responsibilities under the National Defense Authorization Act for FY 2008 (P.L. 110-181).

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The Honorable Janet Napolitano
Secretary of Homeland Security

The Honorable Hillary Rodham Clinton
Secretary of State

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

The international community, including the U.S. government, has long held serious concerns about the flow of cash out of the Kabul International Airport (KBL). According to the Congressional Research Service, an estimated \$4.5 billion was taken out Afghanistan in 2011.¹ While large cash movements are typical in Afghanistan because it is a cash-based economy, these bulk cash flows raise the risk of money laundering and bulk cash smuggling—tools often used to finance terrorist, narcotics, and other illicit operations.

Recognizing the seriousness of this problem, a civilian-military interagency working group based at the U.S. Embassy in Afghanistan developed the “bulk cash flow action plan” in 2010 to better regulate cash flow at KBL.² That same year, the Government of the Islamic Republic of Afghanistan (GIROA) pledged to adopt and implement regulations or laws within one year to govern the bulk transfers of cash outside the country.³

In July 2011, SIGAR reported on U.S. government efforts to strengthen oversight over the flow of U.S. funds through the Afghan economy, including the bulk cash flow action plan.⁴ We initiated this review in August 2012, to follow up on concerns we raised in that report regarding implementation of the plan, particularly Operation FinTRAX—an initiative to place bulk currency counters at KBL to monitor the outflow of funds from Afghanistan.⁵ We conducted a site visit to the airport to observe the use of bulk currency counters and other measures designed to monitor outflows of currency. We also interviewed U.S. officials responsible for helping

¹U.S. officials report that only about 5 percent of the population use banks and 90 percent use informal cash transfer “hawalas” systems. See Congressional Research Service report, “*Afghanistan: Politics, Elections, and Government Performance*”, November 30, 2012, p.48.

²This action plan outlined 33 short-term, medium-term, and long-term measures designed to make it more difficult for illicit funds to leave Afghanistan and to enhance the airport authorities’ ability to secure KBL from an array of illegal activities. These 33 measures covered a range of areas, such as terminal controls for employees and passengers, cargo and baggage controls, currency and merchandise declaration procedures, training and investigative efforts, revenue collection, and regulatory enforcement.

³See *Kabul International Conference on Afghanistan Communiqué: A Renewed Commitment by the Afghan Government to the Afghan People, A Renewed Commitment by the International Community to Afghanistan*; 20 July 2010, p.4.

⁴ See SIGAR Audit-11-13, “*Limited Interagency Coordination and Insufficient Controls over U.S. Funds in Afghanistan Hamper U.S. Efforts to Develop the Afghan Financial Sector and Safeguard U.S. Cash*”, July 20, 2011, p.12-13. Another SIGAR report noted that DHS was proposing a currency tracking program, including at KBL, to trace the source of exported funds and exploit the intelligence gained from tracking bulk cash. See SIGAR Audit-10-15, “*U.S. Reconstruction Efforts in Afghanistan Would Benefit from a Finalized Comprehensive U.S. Anti-Corruption Strategy*,” August 5, 2010, p.15.

⁵ Operation FinTRAX (Financial Tracking, Recording, and Exploitation) is also designed to place currency counters in banks engaged in processing electronic fund transfers on behalf of U.S. and international donors.

the Afghans strengthen controls over the flow of cash throughout Afghanistan and Afghan officials working at KBL.

We conducted our work in Kabul, Afghanistan, from September 2012 to November 2012 in accordance with SIGAR's quality control standards. Those standards require that we plan and perform the review to obtain sufficient, appropriate evidence to meet our stated objectives and to discuss any limitations in the work. We believe that the information and data obtained, and the analysis performed, provide a reasonable basis for our findings and conclusions. This work was conducted under the authority of Public Law No. 110-181, as amended; the Inspector General Act of 1978; and the Inspector General Reform Act of 2008.

Background

Bulk currency counters are an important anti-money laundering tool because they can capture currency serial numbers, data useful for detecting and investigating financial crimes. The machines purchased for KBL⁶ were designed to record currency serial numbers, create databases, and process up to 900 bills per minute. They also were intended to transmit these data via an internet link to the Financial Transactions and Records Analysis Center of Afghanistan (FinTRACA). FinTRACA—part of Afghanistan's Central Bank (Da Afghanistan Bank)—uses data on financial activity to identify financial crimes and assist law enforcement agencies in the investigation and prosecution of criminal activity.

In 2011, SIGAR found that:

- Although the contract to install these bulk currency counters at airport customs areas was awarded in July 2010, they were not installed until April 2011, in part because U.S. and Afghan officials disagreed on where to put them.
- When we visited the airport in April 2011, the machines were being used to count declared cash, but not to record currency serial numbers and report financial data to FinTRACA.
- Passengers designated by GIRoA as Very Important Persons (VIPs) could bypass the main security and customs screenings and instead use a separate facility to enter the airport's secured area. While these VIPs were required to declare the amount of currency they were carrying, their cash was not scanned through bulk currency counters, and Afghan officials reportedly had no plans to do so.

Despite this lack of cooperation from Afghan officials to fully implement the bulk cash flow action plan, GIRoA has continued to make public commitments to combat corruption and institute stronger border controls. At the July 2012 Tokyo Conference,⁷ for example, GIRoA agreed to implement recommendations from the Financial Action Task Force Asia Pacific Group, which publishes internationally recognized standard to protect against money laundering and terrorist financing.⁸ Among these recommendations is one stating that countries' financial intelligence units⁹ should have access on a timely basis to the financial, administrative and law

⁶The currency counter machines were among those purchased by the United States for Operation FinTRAX for a total cost of \$117,275.

⁷On July 8, 2012, representatives from 70 countries, international organizations, and non-profits groups met in Tokyo, Japan to create a framework for continued international support for Afghanistan's economic development.

⁸The Financial Action Task Force Asia Pacific Group is an independent intergovernmental body, established in 1989, was mandated to set standards and promote effective implementation of legal, regulatory, and operational measures for combating money laundering, terrorist financing and the financing of proliferation, and other related threats to the integrity of the international financial system.

⁹Typically, financial intelligence units are based within the central bank, the Ministry of Finance, or the regulatory agency of a country and provide intelligence on suspicious transactions to law enforcement organizations for investigation and arrest. FinTRACA is Afghanistan's financial intelligence unit. To see the recommendations, see <http://www.fatf-gafi.org>

enforcement information that it requires to undertake its functions properly—the type of information meant to be collected and transmitted by the currency counters at KBL.

Afghan Government Still Does Not Use Bulk Currency Counters at KBL to Monitor Currency Movement

We found that, more than 1 year since our last visit to KBL, the cash counters are still not being used for their intended purpose, and VIPs continue to bypass key controls. In coordination with Department of Homeland Security (DHS) officials, we visited KBL on September 20, 2012, to assess implementation of the bulk cash flow action plan, including use of the currency counters. These machines are located in the international terminal in a small closet-like area. (See figure 1).

Figure 1: Bulk Currency Counters at KBL



Source: SIGAR 20 September 2012.

We observed the following weaknesses:

- The two bulk currency counters were located in an area not easily accessible to Customs and FinTRACA officials in the international terminal.
- Although DHS officials told us that Afghan customs officials have been provided on-the-job training on the use of the bulk currency counters, we did not observe any use of the machines.¹⁰ However, we were able to check that each machine was plugged into an electrical outlet and appeared to be in working order.

¹⁰In April 2011, DHS officials told us that many of the airport workers felt uncomfortable using the machines and needed time to gain familiarity with the machines' basic function of counting cash.

- Neither bulk currency counter was connected to the internet or a computer server, which is essential for sending data to FinTRACA. (In our July 2011 report, we noted that the installation of an internet connection at the airport would be postponed until FinTRACA had moved to its new facility. According to a DHS official, this move occurred in 2011.)
- No bulk currency counter was available for the counting or data collection of currency declared by VIPs, who do not undergo main customs or security screenings. According to a DHS official, many of the individuals who traffic money leave from the VIP area.
- A new Very Very Important Persons (VVIP) lounge was built to provide easier boarding access for high-ranking officials, again allowing transit without main customs screenings or use of a bulk currency counter.

DHS officials told us that their efforts to address these problems have stalled, even though the use of bulk currency counters to record and transmit data is critically important for their law enforcement activities. According to one official, Afghan officials have neither committed to connecting the machines to the internet nor agreed to establish a working link to FinTRACA. Notably, GIRoA has been able to resolve internet connectivity issues for other technical infrastructure items at KBL, calling into question its commitment to connecting the machines and improving controls over the movement of bulk currency. During our visit, Afghan customs and FinTRACA officials were unable to explain why the machines remained without internet connectivity. However, one DHS official told us that Afghan customs at KBL were afraid that they would experience negative repercussions from GIRoA if progress in instituting controls at the airport was made. As of October 2012, according to DHS officials, efforts to connect the bulk currency counters to the internet or a computer server were “at a standstill.”

To improve accountability for bulk cash transfers, DHS officials have reportedly conducted several training and ongoing mentorship programs. Since 2010, the U.S. Embassy reports that DHS has trained over 400 students from over seven different Afghanistan law enforcement agencies in programs that contain elements aimed at addressing the flow of currency out of the country, including Cross Border Financial Investigation training and the Afghan Advanced Border Management course. The U.S. Embassy Kabul reports that further trainings are planned for 2013.

Other Weaknesses Limit the Ability to Monitor the Flow of Cash at KBL

In addition to problems with the bulk currency counters, we identified other weaknesses that negatively impact the ability to monitor currency flows. First, U.S. officials have raised concerns about a February 2012 GIRoA decree that raised the limit on the amount of currency persons travelling outside of Afghanistan are required to declare from \$10,000 to \$20,000. According to these officials, this change is likely to increase the risk of illicit bulk cash movement and further weaken controls for monitoring money movements at KBL because it makes it easier for individuals to engage in a practice called “structuring,” in which transactions such as money transfers or drug purchases are conducted repeatedly in small amounts to avoid suspicion. According to comments received from the U.S. Embassy Kabul, prior to the decree, there was no limit to the amount that could be taken out of the country, although travelers were required to report anything over \$10,000. Under the current system, it is illegal to carry over \$20,000 out of the country but there is no requirement to report anything under \$20,000. The U.S. Embassy Kabul noted that the legal limit has increased out-bound electronic fund transfers by “hawalas” using banks to bypass the limit. However, the increased declaration limit encourages smuggling amounts over \$20,000 and no tracking of funds under \$20,000, according to the U.S. Embassy. The U.S. Embassy Kabul further stated that an effort was reportedly underway by the Afghan government to lower the legal limit to \$10,000. It remains unclear whether such a change would impact declaration requirements.

Second, we observed that the customs office is not in a secure, undisturbed area suitable for search, seizure, and storage of confiscated items, as recommended by the Bulk Cash Flow Action Plan. In the international

terminal, the airport janitors' office was down the hall, and we observed custodians looking at the video surveillance monitor in the Customs area of the terminal as they passed.

Third, although the Bulk Cash Flow Action Plan calls for video surveillance cameras to be installed and used in the baggage screening and cargo areas of the airport, we observed that these cameras were installed and used only in the baggage screening area inside the main international terminal. They were not installed inside the VIP baggage screening or cargo areas.

Conclusion

The persistent delays in instituting basic anti-money laundering procedures by GIRoA at KBL are deeply troubling. Although proper controls to monitor cash flows are important for any country to institute, they are particularly critical for a country fraught with corruption, narcotics trafficking, and insurgent activity. In 2010, Ambassador Eikenberry presciently noted that "many of these measures [in the bulk cash flow action plan] require few, if any, additional resources; their success depends largely on the degree of GIRoA political will." It is now imperative that GIRoA live up to its commitments to combat corruption and, particularly, to strengthen FinTRACA by ensuring that FinTRACA has all of the information required to undertake its functions properly. That means full use of the bulk currency counters and video security system as intended, and an immediate end to the practice of exempting designated VIPS and VVIPs from the customs procedures required of all other passengers. We will continue to monitor this problem and expect that the Department of the State will hold GIRoA accountable for meeting their stated commitments.

Agency Comments

We provided a draft of this report to the Department of Homeland Security, the Department of State and the U.S. Embassy Kabul for their review and comment. The U.S. Embassy Kabul provided technical comments that we have considered and incorporated, as appropriate, in this report. In its comments, the U.S. Embassy Kabul discussed ongoing USG efforts to complete tasks outlined in the Bulk Cash Action Plan, noting that 26 of the 33 tasks have been completed and that the Embassy plans to coordinate the issue of the bulk currency flows at the interagency level and will continue to raise the issues with senior levels of the Afghan government.

This product is one in a series of products completed under SIGAR's Office of Special Projects, the SIGAR response team created to examine emerging issues in prompt, actionable reports to federal agencies and the Congress. (This work was initiated under SIGAR-067A). The work was conducted in accordance with SIGAR's quality control standards and under the authority of Public Law No. 110-181, as amended; the Inspector General Act of 1978; and the Inspector General Reform Act of 2008. Major contributors to this report were Emmitt Candler, Larry Dare, Tim McQuay, and Jenniffer Wilson. Please contact my Director for Special Projects, Ms. Monica Brym at Monica.i.brym.civ@mail.mil or 703-545-6003 if you have any questions or concerns regarding this work.



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