



SIGAR

Testimony

Before the Committee on Oversight and
Government Reform

U.S. House of Representatives

Challenges Affecting U.S. Foreign Assistance to Afghanistan

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Chairman Issa, Ranking Member Cummings, and Members of the Committee,

I am pleased to be here to discuss the serious challenges affecting U.S. foreign assistance to Afghanistan. It is the mission of the Special Inspector General for Afghanistan Reconstruction (SIGAR) to provide effective oversight of what has become the most costly reconstruction effort of a single country in U.S. history.¹

Since 2002, Congress has appropriated nearly \$93 billion to rebuild Afghanistan.² The Administration has signaled to the Afghan government and our coalition allies that it intends to request substantial additional assistance for Afghanistan through the transition period between now and the end of 2014 and during what the international community is calling the “Transformation Decade” following the withdrawal of U.S. and coalition combat forces through 2025. The World Bank estimates that Afghanistan will need more than \$7 billion each year for the next ten years to sustain reconstruction gains, fund Afghan security forces, and cover the large financial gap between Afghan government revenues and operations and maintenance costs.³

Congress and the Administration will determine how much of that projected cost the United States will pay. Whatever the amount, much of the new funding will be in the form of direct assistance that is programmed through the Afghan national budget.

Before 2010, the United States provided most of its assistance to Afghanistan through contracts, grants, and cooperative agreements that have been executed outside the Afghan budget and beyond the reach of Afghan officials. Since 2010, the United States and other donors have agreed in principle to provide more on-budget assistance to help Afghan government institutions build capacity to manage funds and deliver services. At the same time, the international donor community has made this aid conditional on the Afghan government tackling endemic corruption and demonstrating that it has the capacity to manage these funds in a transparent manner.⁴

Therefore, a successful security and political transition in 2014 and continued international support depend to a great degree on the ability of the Afghan government to allocate, manage, and account for direct assistance funds; and to put the money to good use for its intended purposes.

¹ In FY 2012, Congress provided more than \$16 billion for the reconstruction of Afghanistan. That is almost twice as much as Congress made available in FY 2012 for the next four largest foreign assistance beneficiaries—Israel, Iraq, Pakistan, and Egypt—combined.

² This number includes FY 2013 appropriations for DOD reconstruction programs but not the appropriations for State and USAID which are still being negotiated within the continuing resolution.

³ The World Bank, *Afghanistan in Transition: Looking beyond 2014*, 2013

⁴ The International Conference on Afghanistan, London 2010; the Kabul Conference, Kabul 2010; International Conference on Afghanistan, Bonn 2011; Tokyo Conference on Afghanistan, 2012

This testimony will summarize the major problems SIGAR has identified with the U.S reconstruction program—whether funding is provided on or off budget—in Afghanistan, examine the additional challenges posed by direct assistance, and describe what SIGAR is doing to address these issues.

But before proceeding further, it is important to remember that independent and effective oversight is essential for safeguarding U.S. foreign assistance and ensuring that it achieves desired outcomes. This is as true for government-to-government aid as it is for U.S.-funded contracts and grants.

Ongoing Challenges to Foreign Assistance in Afghanistan Put U.S. Funds at Risk

Since the end of 2008, when Congress created SIGAR to oversee the growing reconstruction effort in Afghanistan, our auditors and inspectors have completed 75 audit and inspection reports and made 245 recommendations. Federal agencies have implemented many of our recommendations to strengthen their ability to develop and execute programs, as well as to improve program management and quality control. SIGAR currently has 73 open recommendations. If all of them were accepted, the U.S. government could potentially save about \$450 million as well as achieve dozens of other improvements to the implementation of reconstruction projects in Afghanistan. Since I became the SIGAR, we have significantly increased our output. By the end of this quarter, the agency will have produced at least 31 products during my nine month tenure, three times what we produced in the previously nine months.

SIGAR has repeatedly identified a number of serious ongoing challenges to this historic reconstruction effort. These systemic problems, which apply to all U.S. assistance in Afghanistan, include the following five primary areas of concern:

- Inadequate planning
- Poor quality assurance
- Poor security
- Questionable sustainability
- Pervasive corruption

Inadequate Planning

SIGAR's audits and inspections have repeatedly found that inadequate planning and lack of coordination have led to waste, increased costs, delays, and unsustainable projects, as well as facilities that are not being used for their intended purposes. Some programs have failed

to achieve strategic objectives, such as supporting the counterinsurgency effort, promoting improved governance, and fostering economic development.⁵

Effective planning is especially important now, as the United States withdraws combat forces and prepares to transition reconstruction projects to the Afghan government. Last month, SIGAR announced an audit to determine whether U.S. government agencies have transition plans in place. This audit will examine whether U.S. plans adequately address the asset-transfer process and the Afghan government's ability to maintain those assets. It will also evaluate the extent to which a comprehensive inventory of all U.S.-funded projects and assets has been developed.

Poor Quality Assurance

Quality assurance, particularly of infrastructure projects, continues to be a major problem. SIGAR inspections have repeatedly highlighted structural problems, improper site grading, soil issues, and improper usage of facilities.⁶ SIGAR is currently conducting 17 inspections of U.S.-funded infrastructure projects—Afghan security force facilities, schools, and clinics—in Afghanistan's northern provinces to determine whether these facilities have been built in accordance with contract requirements and are being used for the purposes intended. Our inspections teams are also examining waste incinerators, designed to protect U.S. and coalition forces from the hazards of open pit burning of waste, and the Kajaki hydroelectric dam, which is key to providing sustainable power in southern Afghanistan.

Poor Security

Poor security poses a major challenge to every aspect of the reconstruction effort, from executing programs to providing oversight. SIGAR remains particularly concerned about two aspects of security relating to development projects.

First, because of the dangerous environment, contractors and nonprofit organizations must rely more and more on private security services. But as of a year ago, they have been required by Afghan law to contract with the government-run Afghan Public Protection Force (APPF) instead of private security companies. Last year, a SIGAR audit of the transfer of

⁵ SIGAR Audit 13-2, *Afghanistan National Power Utility: \$12.8 Million in DOD-Purchased Equipment Sits Unused, and USAID Paid a Contractor for Work Not Done*, December 18, 2013; SIGAR Audit 12-12, *Fiscal Year 2011 Afghanistan Infrastructure Fund Projects Are Behind Schedule and Lack Adequate Sustainment Plans*, July 30, 2012; SIGAR Inspection 13-4, *Kunduz Afghan National Police Provincial Headquarters: After Construction Delays and Cost Increases, Concerns Remain About the Facilities Usability and Sustainability*, January 2013; SIGAR Inspection 13-5, *Imam Sahib Border Police Company Headquarters in Kunduz Province: \$7.3 million Facility Sits Largely Unused*, January 2013

⁶ SIGAR Inspection 13-01, *Kunduz ANA Garrison: Army Corps of Engineers Released DynCorp from All Contractual Obligations Despite Poor Performance and Structural Failures*, October 2012; SIGAR Inspection 13-03, *Gamberi Afghan National Army Garrison: Site Grading and Infrastructure Maintenance Problems Put Facilities at Risk*, October 2012

security services of USAID-funded projects to the APPF found that the cost of security services could increase because of the APPF fee structure.⁷ SIGAR has an ongoing second audit to identify the cost of security services for selected USAID projects and determine the impact of the APPF transition on reconstruction projects. APPF effectiveness is another issue of potential concern.

Second, as U.S. and coalition forces withdraw, it will become steadily more difficult for both the implementing and oversight agencies to monitor projects. With the military drawdown and transition to the Afghan security forces, it has already become harder for implementing agencies to effectively manage projects and for oversight agencies such as SIGAR to visit and inspect projects. This is because U.S. forces in Afghanistan have a policy of only providing security in areas within an hour by road or air travel of a medical facility. For example, recently SIGAR was unable to visit \$72 million in infrastructure projects in northern Afghanistan because they are located outside the security “bubble.” This will only get worse as more bases close or are handed over to Afghan units that lack medical-evacuation capability. SIGAR is examining ways to continue to provide vigorous oversight in this evolving security environment, including expanding the use of satellite imagery and hiring Afghans or other third-country nationals to conduct site visits.

Questionable Sustainability

SIGAR was among the first to highlight another great risk to the reconstruction effort: sustainability. The United States is building infrastructure and launching programs that the Afghan government has neither the financial nor technical ability to operate and maintain. The United States has provided tens of billions of dollars for infrastructure, everything from roads and electricity networks to schools, clinics, and security force facilities.⁸ However, as we and the World Bank have pointed out, the Afghan government lacks the revenue, institutional capacity, and human capital to operate and maintain much of this infrastructure. In FY 2011, the most recent year for which the World Bank has complete data, Afghanistan’s budget included about \$335 million—or 10% of its core expenditures—for operations and maintenance (O&M). But, as the United States and other donors transfer these assets to the Afghans, future requirements are expected to rise to \$4.8 billion for total civilian and security O&M.⁹

⁷ SIGAR Audit 12-10, *Increases in Security Costs Are Likely under the Afghan Public Protection Force; USAID Needs to Monitor Costs and Ensure Unlicensed Security Providers Are Not Used*, June 29, 2012

⁸ SIGAR Audit 13-1, *Afghan National Security Forces Facilities: Concerns with Funding, Oversight, and Sustainability for Operations and Maintenance*, October 30, 2012

⁹ The World Bank, *Afghanistan in Transition: Looking beyond 2014*, 2013, p. 6

Pervasive Corruption

Corruption threatens the entire reconstruction effort in Afghanistan. It siphons funds away from vital programs, undermines the rule of law, and reduces popular support for the Afghan national government. For this reason, SIGAR has conducted a number of audits that assessed Afghanistan's anti-corruption bodies, has evaluated efforts to monitor bulk cash flows through the Kabul International Airport, and has deployed investigators to field offices in six locations in Afghanistan to identify individuals engaged in bribery and extortion. SIGAR's audit work has highlighted serious shortcomings in Afghan capacity and lack of political will to combat corruption.

More than two years ago, SIGAR recommended that the United States develop an integrated anti-corruption strategy.¹⁰ Although the U.S. Embassy in Kabul produced a draft strategy, it was not adopted. SIGAR's Office of Special Projects is now conducting a review to evaluate the current U.S. anti-corruption strategy and its implementation, and the progress the United States has made in meeting its anti-corruption goals in Afghanistan. In addition, SIGAR's Audit and Inspection Directorate is currently reviewing a major State Department rule of law program. As noted above, the international donor community has stipulated that the Afghan government must demonstrate a commitment to deterring corruption as a prerequisite to receiving continued development assistance. It is our responsibility to hold the Afghan government accountable to their latest promises to improve their anti-corruption capabilities.

The Use of Direct Assistance in Afghanistan

Direct assistance, strictly defined, is aid provided through a host nation's national budget. This assistance can be delivered through multinational trust funds or by individual governments through bilateral agreements. International donors contribute to multinational trust funds that provide and oversee assistance to Afghanistan's national budget. Bilateral aid can consist of direct budget support for government salaries, all aspects of government functions, and earmarked projects to be managed by government institutions. For example, since 2005, the United States has given funding directly to the Afghan Ministry of Public Health to administer some basic health services. SIGAR has an ongoing audit of this program.

In January 2010, the United States and other donors at the International Conference on Afghanistan in London supported Afghanistan's request to increase the proportion of development aid delivered through the Afghan government to 50 percent over two years. However, they made this support conditional on the Afghan government's progress in

¹⁰SIGAR Audit 10-15, *U.S. Reconstruction Efforts in Afghanistan Would Benefit from a Finalized Comprehensive U.S. Anti-Corruption Strategy*, August 5, 2010

strengthening its public financial management systems, reducing corruption, improving budget execution, and developing government capacity.¹¹ At the Kabul Conference six months later, the United States and other international donors restated their support for channeling at least 50 percent of development aid through the Afghan government's core budget within two years provided the Afghan government achieved the necessary reforms.¹²

USAID and the Department of Defense (DOD) are both providing direct assistance to Afghanistan using multinational trust funds and bilateral agreements.

Multinational Trust Funds

The United States is currently providing the most of its direct assistance to Afghanistan through two major multinational trust funds: the Afghanistan Reconstruction Trust Fund (ARTF) which is managed by the World Bank and the Law and Order Trust Fund for Afghanistan (LOTFA), which is managed by the United Nations Development Programme (UNDP).

The ARTF is the primary funding mechanism for direct international assistance to the Afghan operational and development budgets. The Afghan government uses these funds to pay recurrent costs such as salaries and O&M, as well as for national development programs. From 2002 through December 20, 2012, the World Bank reported 33 donors had pledged nearly \$6.18 billion, of which more than \$6.11 billion had been paid in to the ARTF. The United States, the single largest donor to the ARTF, has provided more than \$1.74 billion—or 28 percent—of the total that has been paid into the trust fund.¹³ USAID draws from the Economic Support Fund (ESF) to contribute to the ARTF.

LOTFA supports the Afghan National Police (ANP), primarily by funding salaries. Since 2002, donors have pledged more than \$2.65 billion to the LOTFA of which nearly \$2.57 billion has been paid in. The United States has contributed nearly \$970 million—or 38 percent—of the total funding for LOTFA since the Fund's inception. Over the next two years, DOD expects to contribute an additional \$567 million which will bring the total U.S. LOTFA contributions to \$1.25 billion in 2014.¹⁴ DOD supports the LOTFA from the Afghan Security Forces Fund (ASFF), which Congress established in 2005 to pay for programs to train, equip, and sustain the Afghan army and police forces.

¹¹Communiqué of "Afghanistan: The London Conference," January 28, 2010

¹² Communiqué, Kabul Conference on Afghanistan, July 20, 2010

¹³ Based on USAID response to SIGAR data call, March 30, 2013

¹⁴ Based on a chart provided by DOD/OSD-Comptroller to SIGAR on March 29, 2013

Bilateral Assistance

USAID and DOD also provide direct assistance to the Afghan government. Since 2002, USAID has obligated more than \$452 million from the ESF to 13 Afghan ministries and government agencies. Before providing direct assistance to government entities, USAID assesses whether a ministry or government institution has the capacity to manage and fully account for funds provided.

In 2009, USAID in Afghanistan completed pre-award assessments of the Afghan Ministry of Finance, the Central Bank, and Afghanistan's Control and Audit Office. However, in 2010, USAID's Office of the Inspector General concluded that these assessments were not reliable. Consequently, in 2011, USAID issued a new directive requiring that a public financial management risk assessment framework be completed prior to distributing direct assistance to another government entity.

Between 2011 and 2013, USAID contracted with two accounting firms to assess the capacity of Afghan ministries to manage and account for direct assistance. The firms have completed assessments of 13 Afghan ministries. Because of SIGAR's concerns about the Afghan government's capacity to administer and account for U.S. funding, a SIGAR audit is examining USAID's contracts with the accounting firms, summarizing the firm's findings, and evaluating how USAID plans to use the assessments in providing direct assistance. SIGAR is also evaluating the Afghan Ministry of Public Health's U.S.-funded program to deliver basic health care.

DOD provides direct assistance to Afghanistan's Ministry of Defense (MOD) and Ministry of Interior (MOI) from the ASFF. The Combined Security Transition Command-Afghanistan (CSTC-A), which is responsible for developing the Afghan security forces, oversees the direct contributions to the MOD and MOI. DOD guidance stipulates that direct assistance may be used to pay salaries; procure food, goods, and services; and fund minor construction in support of the Afghan army and police. In 2010, DOD began providing substantial direct assistance to the operating budgets of the defense ministries. In FY 2010 and FY 2011, DOD contributed a total of nearly \$900 million to the MOD for its operating budget to cover recurrent costs and more than \$230 million to the MOI.¹⁵

Earlier this year a SIGAR audit found accountability weaknesses in CSTC-A's process for ordering, delivering, and paying for fuel for the Afghan army.¹⁶ CSTC-A, in coordination with the Afghan government, is trying to develop the ANA's capability to provide its own logistics and maintenance requirements and had been planning to provide direct assistance to the Afghan government to procure ANA fuel. Our report included six recommendations to CSTC-A

¹⁵ Based on a CSTC-A response to SIGAR data call, July 2012

¹⁶ SIGAR Audit 13-4, *Afghan National Army: Controls Over Fuel For Vehicles, Generators, and Power Plants Need Strengthening To Prevent Fraud, Waste, and Abuse*, January 24, 2013

to address the problems we identified. CSTC-A concurred with all of these recommendations, including one of the most important: to revise its strategy for providing direct contributions to the Afghan government for future fuel purchases and make direct assistance contingent upon the Afghan MOD demonstrating it can manage and account for U.S. funds.

We are currently evaluating plans to provide direct assistance to purchase fuel for the Afghan police. Later this year, we will begin an audit of U.S. efforts to build the financial-management capacity at the MOI.

SIGAR Concerns about Direct Assistance

As U.S. combat troops withdraw and the transition to the Afghan security forces proceeds, both USAID and DOD have told SIGAR they intend to provide more direct funding to the Afghan government.

SIGAR does not oppose direct assistance. But if the Administration and Congress proceed with plans to increase direct assistance, we believe it is critical that they focus on three issues that could dramatically threaten our reconstruction objectives:

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

Lack of Afghan Capacity

Some studies indicate that direct assistance may have a more positive impact on Afghanistan's economy than "off budget" assistance. For example, the World Bank has urged international donors to increase on-budget aid and manage operations and maintenance through government systems to improve aid effectiveness. However, just this year, the World Bank also cautioned that the Afghan government "will need to overcome serious absorptive capacity constraints to be able to receive and effectively use additional donor money on budget."¹⁷

Budget execution remains a problem. In December 2012, the lower house of the Afghan parliament voted to impeach 11 government ministers for failing to spend at least 50 percent of their prior fiscal-year budgets.¹⁸ According to the World Bank, Afghanistan has only been able to execute around \$1 billion of its core development budget annually since 2007/2008. The Bank attributes the low budget execution rate to a combination of

¹⁷ The World Bank, *Afghanistan in Transition: Looking beyond 2014*, 2013, p. 20

¹⁸ Tolo News (Afghanistan), "Parliament Rejects 2013 Budget," December 23, 2012, <http://tolonews.com/en/afghanistan/8815-parliament-rejects-2013-budget>

structural and capacity issues.¹⁹ It concluded, “Over the next few years a concerted push by donors and government alike is needed to improve government capacity to spend its development budget.”²⁰

SIGAR’s audits of the ARTF and LOTFA have raised questions about the Afghan government’s ability to account for funds. In its July 2011 assessment of the ARTF, SIGAR found that although Afghan ministries had increased their capacity to manage government finances, the Afghan government continued to face challenges in training and retaining civil servants able to administer and account for ARTF funds.²¹ SIGAR’s audit of the MOI’s personnel systems concluded that the MOI’s payroll system provided little assurance that only those ANP personnel who are actually working are paid and that LOTFA funds are used to reimburse only eligible ANP costs. Furthermore, SIGAR’s auditors found that the UNDP could not confirm that LOTFA funds were used to reimburse only eligible ANP costs.²²

Pervasive Corruption

Although the Afghan government has said it is committed to tackling endemic corruption, Afghan officials remain reluctant to take serious action to prosecute corrupt officials, especially if they are high-ranking or well-connected. In its latest report, the Independent Joint Anti-Corruption Monitoring and Evaluation Committee (MEC) noted some government ministries—such as the Ministry of Mines and the Ministry of Finance—had made progress in implementing the Committee’s recommendations and meeting benchmarks to deter corruption. However, the MEC said the justice sector has not made similar strides and noted that the Attorney General’s office has not taken the steps needed to combat corruption.²³

Given the widespread corruption in Afghanistan, direct assistance has some inherent risks that could see the funds benefitting only those with close ties to the government. Last month, during his visit to Kabul, Secretary of State John Kerry met with a group of Afghan businesswomen who underscored this concern. These entrepreneurs, who have carved

¹⁹ The World Bank, *Afghanistan in Transition: Looking beyond 2014*, 2013, p. 12

²⁰ The World Bank, *Afghanistan in Transition: Looking beyond 2014*, 2013, p. 91

²¹ SIGAR Audit 11-13, *The World Bank and the Afghan Government Have Established Mechanisms to Monitor and Account for Funds Contributed to the Afghanistan Reconstruction Trust Fund, but Some Limitations and Challenges Should be Addressed*, July 22, 2011

²² SIGAR Audit 11-10, *Despite Improvements in MOI’s Personnel Systems, Additional Actions Are Needed to Completely Verify ANP Payroll Costs and Workforce Strength*, April 25, 2011

²³ Independent Joint Anti-Corruption Monitoring and Evaluation Committee, “3rd Six-Month Report of the Independent Joint Anti-Corruption Monitoring and Evaluation Committee (July-December 2012),” p. 30, 3/13/2013. The Joint Anti-Corruption Monitoring and Evaluation Committee (MEC) was created by Presidential Decree in March 2010 after the need for independent monitoring and evaluation of anti-corruption efforts was identified at a series of international conferences. The mandate of the MEC is to develop anti-corruption recommendations and benchmarks; to monitor and evaluate the government and international community’s efforts to fight corruption; and to report to the President, Parliament, people and the international community.

niches for themselves in an overwhelmingly male-dominated society, told the Secretary of State they were worried that they and others who are not politically connected to the Afghan government could be marginalized. Clearly we must ensure that everyone has a fair chance to compete for any Afghan government contracts funded by direct assistance.

Ensuring Oversight is Vital to Protecting the U.S. Investment in Afghanistan

The U.S. government plans to significantly increase its direct assistance to Afghanistan as the security transition progresses. It is imperative that the Afghan government has the capacity to execute and account for this money. The United States and other international donors must establish mechanisms to protect direct assistance from corruption and ensure that there is vigorous oversight of these funds. Implementing agencies are the first line of defense against waste, fraud, and abuse. They must have clear bilateral agreements with strong provisions for oversight. Accordingly, direct assistance should be conditioned on the Afghan ministries not only meeting measureable outcomes, but also providing unfettered and timely access to their books and records as well as to sites, offices, and staff of projects funded by U.S. assistance.

Let me close by observing that none of us knows exactly what kind of impact the transition to increased direct assistance is going to have on the political, economic, and social development of Afghanistan. On the one hand, a greater proportion of the funds will be going toward Afghans, rather than foreign contractors or NGOs, and this may result in increased government capacity and more sustainable development. On the other hand, capacity challenges in the Afghan ministries coupled with the difficulties of providing assistance in a conflict zone riddled with corruption will also put direct assistance funds at risk of being wasted. Whatever type of aid the United States provides, U.S. government officials must address the systemic problems inherent in every aspect of the reconstruction effort—inadequate planning, poor quality assurance, poor security, questionable sustainability, and pervasive corruption.

SIGAR intends to make certain that Congress is informed of safeguards needed to ensure that U.S. funds provided to the Afghan government are spent as appropriately and effectively as the risk environment allows. That is why SIGAR has several ongoing audits and special projects examining key aspects of direct assistance. Our reports, including the Quarterly Report to Congress, will document that work. We look forward to sharing our findings and recommendations on these timely concerns over the coming months.

Thank you for the opportunity to testify today. I look forward to answering your questions.