

SIGAR

**Special Inspector General for
Afghanistan Reconstruction**

SIGAR Audit 13-16

Stability in Key Areas (SIKA) Programs: After 16 Months
and \$47 Million Spent, USAID Had Not Met Essential
Program Objectives



JULY
2013

SIGAR

Special Inspector General for
Afghanistan Reconstruction

WHAT SIGAR REVIEWED

Over the past decade, the U.S. Agency for International Development (USAID) has overseen a series of stabilization programs throughout Afghanistan aimed at improving security and extending the reach and legitimacy of the Afghan government. USAID currently administers the Stability in Key Areas (SIKA) programs throughout Afghanistan. USAID created the four regional SIKA programs—East, West, South, and North—through separate contracts with a total value of over \$203 million. AECOM International Development, Inc. (AECOM) received the contracts for SIKA East, SIKA West, and SIKA South, and Development Alternatives, Inc. (DAI) received the contract for SIKA North. Each of the contracts has an 18-month base period of performance with the possibility of additional 18-month option periods.

This audit focuses on the status of SIKA expenditures and program execution. Specifically, our objectives were to (1) describe USAID's progress in expending funds under the four regional SIKA programs, and (2) examine the challenges USAID experienced in expending funds and implementing the SIKA programs.

SIGAR conducted this work in Washington, DC from February through July 2013.

July 2013

Stability in Key Areas (SIKA) Program: After 16 Months and \$47 Million Spent, USAID Had Not Met Essential Program Objectives

SIGAR AUDIT 13-16

WHAT SIGAR FOUND

According to the SIKA contracts, contractors would award grants to communities for projects that address sources of instability identified by the community. In September 2012, USAID and the Afghan government agreed that each of the SIKA programs would be a “quick delivery program,” in which projects identified by the community were initiated quickly but would achieve long-term results. Such projects could include road graveling, culvert construction, or canal lining. The contracts also state that grants are the “essential” component to the program and shall be provided to communities. Although USAID had disbursed approximately \$47 million for the four SIKA contracts as of March 31, 2013, none of the funds had gone to grants that fund community projects, such as those that are “labor-intensive or productive infrastructure projects,” as called for in the SIKA contracts to address sources of instability.

Although contractors had not completed any grants to address sources of instability, all four reported some progress in developing proposals and obtaining approval for various grant projects. For example, all four reported achievements in (1) identifying sources of instability and potential solutions, (2) increasing awareness of Afghan government line departments and nongovernmental organizations delivering services to the community, and (3) improving communication between provincial and district entities.

The SIKA contracts also identified the importance of the programs being viewed as extensions of the Afghan government, with the programs working with and through government partners. However, USAID did not secure a formal agreement with key Afghan government partners until 9 months after it signed the first SIKA contract. Contractors for the four regional SIKA programs cited the lack of an agreement with the Afghan government as the reason for significant delays in program implementation. The delay led USAID to extend the performance periods for three of the contracts and sign a new contract for the fourth, even though the contractors had not executed any grants. The overall delay in awarding grants appears to have created participant dissatisfaction with the programs. For example, according to one of USAID's contractors, participants in one of the regional programs are experiencing “fatigue” with the many planning workshops they have attended. Such disappointment may actually result in further destabilization and disaffection toward the Afghan government.

Finally, although the contracts require SIKA to follow the Kandahar Model of community contracting—in which the community is responsible for grant project conception, implementation, and financial management—a lack of clarity in USAID's presentation of the model and inconsistencies in contractors' application of it undercut SIKA's objectives and further delayed project implementation. For example, one of the regional programs plans to use in-kind grants through nongovernmental organizations and commercial companies to implement projects for the communities, a practice that would not meet a key requirement of SIKA—having Afghan district entities directly responsible for project implementation.

WHAT SIGAR RECOMMENDS

SIGAR recommends that the USAID Mission Director for Afghanistan (1) issue guidance requiring documentation of Afghan government agreement for future USAID programs that align with Afghan government initiatives prior to the start of the program. To help ensure that the SIKA programs achieve identified strategic and program objectives, SIGAR also recommends that the USAID Mission Director for Afghanistan (2) instruct the USAID Mission Afghanistan's Office of Acquisition and Assistance and Stabilization Unit to modify the SIKA contracts to clearly articulate a consistent plan for community contracting and implementing the Kandahar Model, and (3) instruct the contracting officer's representatives for each of the contracts to ensure that this approach is applied in the regional SIKA programs.

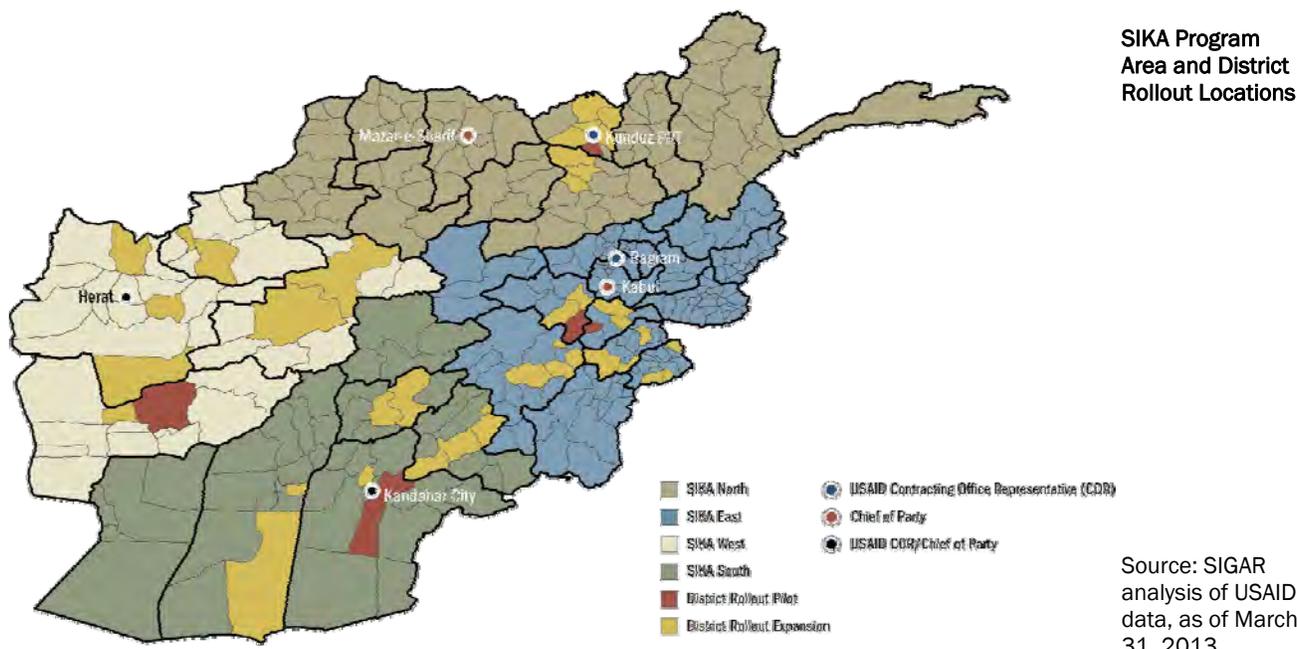
USAID provided written comments to a draft of this report.

With regard to the first recommendation, USAID stated that its guidance—*Mission Order Number 201.03, Project Design and Approval Process*—already calls for reaching concurrence with the applicable ministry and the Ministry of Finance during the design stage of a program. Thus, USAID believes that the recommendation has been met and should be removed. However, SIGAR determined that the intent of the recommendation has not been addressed because the guidance does not explicitly require documentation of the Afghan government agreement. Therefore, SIGAR retained the recommendation in the report.

USAID partially concurred with the second recommendation. It stated that each of the SIKA programs already uses the Kandahar Model, albeit in slightly different ways. However, USAID agreed that it inadvertently omitted reference to the Kandahar Model from the contract for the SIKA West program. USAID plans to modify the SIKA West contract to include explicit reference to the Kandahar Model. Although including explicit language in the SIKA West contract will ensure that all four contracts contain the same references to the Kandahar Model, it does not meet the intent of the recommendation to articulate a consistent plan for community contracting and implementing the model by identifying key steps that should be integrated into the identification of projects and the execution and management of grants.

USAID did not concur with the third recommendation to instruct the contracting officer's representatives for each of the SIKA contracts to ensure that the Kandahar Model is applied in the regional programs because it considered the recommendation redundant to processes already in place. However, inconsistencies in the application of the model demonstrate that the existing processes are not sufficient to ensure consistent application in each of the SIKA programs.

We address these and other USAID comments in the Agency Comments section of the report. USAID's comments are reproduced in appendix II.





SIGAR | Office of the Special Inspector General
for Afghanistan Reconstruction

July 29, 2013

The Honorable John Kerry
Secretary of State

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

Mr. William Hammink
USAID Mission Director for Afghanistan

This report discusses the results of SIGAR's audit of the U.S. Agency for International Development's (USAID) Stability in Key Areas (SIKA) programs. We initially planned to assess USAID's planning, implementation, and oversight of SIKA grant projects. However, it was not possible to conduct our original audit as designed because, as of March 31, 2013, none of the SIKA programs had implemented any community grants. As a result, we focused on USAID's progress in expending funds under the four SIKA programs and examined the challenges USAID experienced in implementing the SIKA programs. This report makes three recommendations to strengthen execution, management, and oversight of SIKA programs.

In commenting on a draft of this report, USAID disagreed with a number of our findings and conclusions. In addition, USAID requested that the first recommendation be removed, partially concurred with the second, and did not concur with the third. We maintain that the evidence we obtained provides a reasonable basis for the findings, conclusions, and recommendations in our report, and we discuss agency comments and our response to them in more detail on page 15 of this report. USAID's comments and our responses to them are also presented in appendix II.

SIGAR conducted this work under the authority of Public Law 110-181, as amended, and the Inspector General Act of 1978, as amended; and in accordance with generally accepted government auditing standards.

John F. Sopko
Special Inspector General
for Afghanistan Reconstruction

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ABBREVIATIONS

CDC	Community Development Council
DDA	District Development Assembly
MRRD	Ministry of Rural Rehabilitation and Development
NABDP	National Area-Based Development Program
SIKA	Stability in Key Areas
USAID	U.S. Agency for International Development

Over the past decade, the U.S. Agency for International Development (USAID) oversaw a series of stabilization programs throughout Afghanistan aimed at improving security and extending the reach and legitimacy of the Afghan government.¹ In June 2011, a congressional report on U.S. foreign assistance to Afghanistan recommended that U.S. government agencies “challenge the assumption that our stabilization programs in their current form necessarily contribute to stability,” calling for continued assessment of the effectiveness of Afghanistan stabilization programs and, as necessary, the reallocation of funds.² In April 2012, we highlighted several deficiencies with USAID’s management of a prior stabilization program—the Local Governance and Community Development program. Our report showed that USAID increased funding and extended the life of the program despite high contractor operating costs, difficulty setting and measuring program outcomes, and mixed program results. USAID currently administers four regional Stability in Key Areas (SIKA) programs as follow-on programs to the Local Governance and Community Development program.

The objectives of this audit were to (1) describe USAID’s progress in expending funds under the four regional SIKA programs, and (2) examine the challenges USAID experienced in expending funds and implementing the SIKA programs.

To accomplish these objectives, we reviewed USAID’s contracts, modifications, and related program guidance for the four regional SIKA programs, including grants manuals, work plans, and performance management plans, to determine overall strategic and program objectives and approaches to program implementation. We analyzed monthly and quarterly reports, financial reports, and grant project data from each of the SIKA programs to ascertain USAID and contractor progress in implementing the programs. Additionally, we interviewed the contractors (chief of party or deputy chief of party) and USAID oversight officials (contracting officer’s representatives or alternate contracting officer’s representatives) responsible for each of the SIKA programs and USAID staff from the Stabilization Unit and the Office of Acquisition and Assistance. We conducted our work from February 2013 through July 2013 in accordance with generally accepted government auditing standards. Appendix I contains a more detailed discussion of our scope and methodology.

BACKGROUND

In fiscal year 2006, USAID established the Local Governance and Community Development program to promote and establish linkages between provincial governments and local communities in priority districts.³ Through this program, USAID sought to address causes of instability at the community level and assist the local citizenry in developing institutions, processes, and projects to create a stable environment for long-term political, economic, and social development. At the conclusion of the program, USAID found that instability was still a problem at the district level. USAID identified two main causes: the lack of development and lack of good governance. To address these weaknesses, USAID designed the SIKA programs to deliver community-implemented projects in partnership with the Afghan government to build confidence in the Afghan government and increase stability.

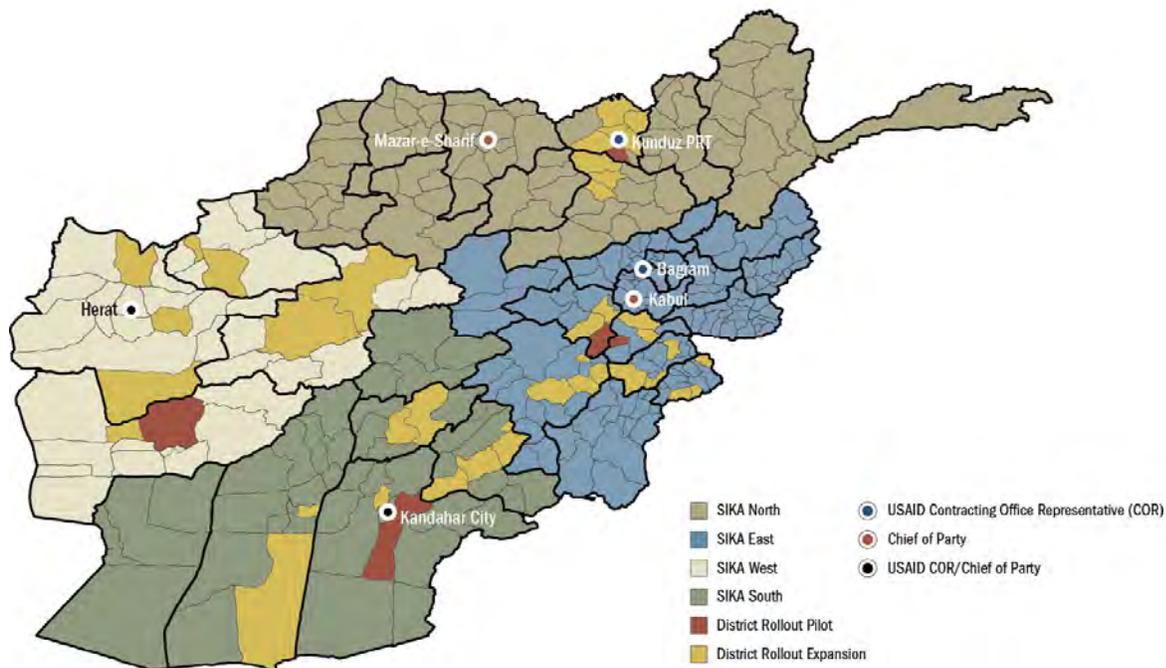
¹ USAID supports Afghanistan in addressing the drivers of instability and establishing an environment for sustained social and economic development by (1) engaging/supporting at-risk populations, (2) extending the reach of the government to unstable areas, (3) providing social and economic assistance and income-generation opportunities, (4) building trust between citizens and their government, and (5) encouraging local populations to take an active role in their development. USAID’s stabilization programs in Afghanistan include the Quick Impact Projects, which concluded in 2006; the Local Governance and Community Development program, which concluded in 2011; the Community Based Stabilization Grants Program and Afghanistan Stabilization Initiative, which concluded in 2012; and the Community Development Programs, scheduled to conclude in 2013.

² United States Senate Committee on Foreign Relations, *Evaluating U.S. Foreign Assistance to Afghanistan: A Majority Staff Report*, Washington, D.C., June 8, 2011.

³ Priority districts are the districts within Afghanistan that USAID Field Program Officers, local Provincial Reconstruction Teams, and their Afghan government counterparts identified for implementation of the Local Governance and Community Development program.

USAID created the four regional SIKA programs—East, West, South, and North—as separate cost-plus-fixed-fee term contracts with a total value of over \$203 million.⁴ AECOM International Development, Inc. (AECOM) received the contracts for SIKA East (\$88,680,279 awarded December 7, 2011), SIKA West (\$32,005,753 awarded January 29, 2012), and SIKA South (\$58,784,676 initially awarded April 10, 2012).⁵ Development Alternatives, Inc. (DAI) received the contract for SIKA North (\$23,708,930 awarded March 14, 2012). Each contract has an 18-month base period of performance with the possibility of additional 18-month option periods. USAID extended the periods of performance for SIKA East, West, and North before the 18-month base periods expired,⁶ and signed a new contract for SIKA South with a new 18-month base period in March 2013. The SIKA programs are currently active in 43 districts. Figure 1 shows the rollout of the SIKA programs, including the initial pilot districts and subsequent expansion districts as of March 31, 2013.

Figure 1 - SIKA Regional Program, District, and Office Locations



Source: SIGAR analysis of USAID data, as of March 31, 2013.

USAID required the four programs to advance the same strategic and program objectives and intermediate results. SIKA’s strategic objective is for Afghans to have increased confidence in their district government, leading to the expansion of Afghan provincial government authority and legitimacy. As a secondary program

⁴ A cost-plus-fixed-fee contract is a cost-reimbursement contract that provides for payment to the contractor of a negotiated fee that is fixed at the inception of the contract. The fixed fee does not vary with actual cost, but may be adjusted as a result of changes in the work to be performed. A cost-plus-fixed-fee contract may take one of two basic forms—completion or term. The “term” form describes the scope of work in general terms and obligates the contractor to devote a specified level of effort for a stated time period. Under this form, if the performance is considered satisfactory by the government, the fixed fee is payable at the expiration of the agreed-upon period, upon contractor statement that the level of effort specified in the contract has been expended in performing the contract work.

⁵ According to the SIKA South Contracting Officer’s Representative, following a bid protest, USAID issued a new contract for SIKA South to AECOM in March 2013 in the amount of \$60,241,053.

⁶ In January 2013, USAID extended SIKA West’s initial period of performance by 7 months, from July 2013 to February 2014. In March 2013, USAID extended SIKA East’s initial period of performance by 9 months, from June 2013 to March 2014. In May 2013, SIKA North received a 4-month extension from September 2013 to January 2014.

objective, SIKA aims to assist district and provincial level Afghan government officials in responding to the local population's development and governance concerns, instilling confidence, and building stability. In each contract, USAID identified four intermediate results required to achieve these objectives:⁷

1. Provincial and district entities increasingly address sources of instability and take measures to respond to the population's development and governance concerns.
2. Provincial and district entities understand what organizations and provincial line departments work within their geographic areas, what kind of services they provide, and how the population can access those services.
3. Provincial authorities improve their ability to communicate with district entities to help them better understand their population's needs and prioritize basic service delivery interventions.
4. Provincial authorities are able to improve basic service delivery by using the Afghan government, Community Development Councils (CDCs), District Development Assemblies (DDAs), Afghanistan Social Outreach Program District Community Councils, which gain capacity to plan, design, implement and monitor projects, with a focus on labor-intensive projects or productive infrastructure.

In September 2012, 9 months after USAID awarded the first SIKA contract to AECOM, the USAID Mission Director for Afghanistan, the Director General of the Afghan Independent Directorate for Local Governance, and the Afghan Ministers of Finance and Rural Rehabilitation and Development signed an implementation letter covering all four SIKA programs.⁸ The implementation letter documented agreement on the programs' objectives and outlined the roles and responsibilities of each of the parties. USAID agreed to implement the SIKA programs as Afghan government programs that worked within Afghan structures. The agreement stated that activities advancing intermediate result 4 were intended to make each SIKA a "quick delivery program," in which projects identified by the community—such as local infrastructure projects—were initiated quickly but would achieve long-term results. Additionally, the implementation letter reiterated the SIKA contract requirement that projects be executed with community-led development.

National Area Based Development Program and the Kandahar Model

The SIKA contracts require AECOM and DAI to work within the existing framework and methodology of the National Area Based Development Program (NABDP) and the Kandahar Model.⁹ Developed in 2002, the NABDP is a joint initiative of the Ministry of Rural Rehabilitation and Development (MRRD) and the United Nations Development Programme. The goal of NABDP is to contribute to a sustainable reduction of poverty and improve livelihoods in rural Afghanistan.¹⁰ In 2007, MRRD developed a variant of the NABDP called the Kandahar Model. The Kandahar Model features "decentralisation of procurement and financial procedures coupled with community contracting," along with "rapid decision making, [and] reduction of red tape." In each of the four SIKA contracts, USAID states that the Kandahar Model generally uses community contracting "without the involvement of external commercial companies or [nongovernmental organizations, and] has led to rapid implementation of district level projects."

⁷ In its comments on a draft of this report, USAID also referred to the four intermediate results as project components.

⁸ U.S. Agency for International Development Afghanistan, *Implementation Letter Number 20-01 Stabilization in Key Areas*, September 3, 2012.

⁹ AECOM and DAI must work within the existing framework of the NABDP and the Kandahar Model in districts with DDAs. NABDP established DDAs to be the primary, elected, district-level institution representing local populations in community-led development processes. According to the NABDP Second Quarter 2012 Progress Report—the latest available—there are a total of 388 DDAs, which represents 96 percent of districts in Afghanistan.

¹⁰ Because of the close relationship with the NABDP, USAID officials consider SIKA to be aligned with two National Priority Programs, which advances their commitment to 80 percent alignment with National Priority Programs.

Community Grants

The four SIKA contracts state that “the grants program is considered essential to the activities of the Contractor in achieving the overall strategy and expected results of the program.” Grants that fund the community-identified and -managed projects are the mechanisms by which the SIKA programs address the lack of development and lack of good governance that USAID identified as overarching sources of instability. As such, USAID set aside \$46.5 million in the SIKA programs for “grants under contract,” and required AECOM and DAI to provide grants to designated district entities for community projects as shown in table 1 below.¹¹ Grants under contract are grants that a USAID contractor is allowed to execute with nongovernmental organizations (nonprofits or for-profits). These grants can take different formats, including standard, simplified, or fixed obligation grants. In the case of fixed obligation grants, payments are based on the achievement of verifiable milestones, rather than the actual costs incurred by the recipient.¹² According to USAID officials, for the SIKA programs, grants under contract, specifically fixed obligation grants, are considered to be the same as the Kandahar Model’s method of community contracting. In this report, we refer to grants under contract as community grants. Examples of community-implemented projects through NABDP include road gravelling; retaining wall, small diversion dam, well, or culvert construction; and canal lining.

Under the SIKA programs, only nongovernmental district entities are eligible to receive grants. District Governors, or any Afghan government entity or official, are not eligible to receive SIKA grants. Table 1 identifies the various district entities involved in implementing SIKA grants.

Table 1 - District Entities Identified in SIKA Contracts

	Village Level	District Level	Province Level
Governmental		District governor	Provincial Directorate of the Ministry of Rural Rehabilitation and Development
Nongovernmental	Community Development Council <ul style="list-style-type: none"> · established by the National Solidarity Program · help to prioritize community development needs · plan, manage, and monitor community-driven rural reconstruction and development subprojects 	District Development Assembly <ul style="list-style-type: none"> · established by the National Area Based Development Program · comprised of representatives of clustered Community Development Councils · conduit for stabilization initiatives and social and economic development planning at the district level 	
		District Community Council <ul style="list-style-type: none"> · established by the Afghanistan Social Outreach Program · selected through a traditional jirga process · expected to practice collective decision making and build community solidarity · facilitate interaction between communities and government, including on security matters 	
		Traditional District Shura <ul style="list-style-type: none"> · to be utilized if no Community Development Council, District Development Assembly, or District Community Council exist 	

Eligible to Receive SIKA Grants
Expected to Monitor and Evaluate SIKA Grants
Eligible to Receive SIKA Grants and Expected to Monitor and Evaluate SIKA Grants

Source: SIGAR analysis of USAID data.

¹¹ The SIKA contracts define district entities as including nongovernmental and governmental entities and officials.

¹² See USAID, *ADS Chapter 303, Grants and Cooperative Agreements to Nongovernmental Organizations*, partially revised July 3, 2012.

USAID HAS PAID AECOM AND DAI NEARLY \$47 MILLION, BUT THE CONTRACTORS HAVE NOT COMPLETED ANY COMMUNITY-IMPLEMENTED GRANT PROJECTS

As of March 31, 2013, USAID had disbursed approximately \$47 million for the four SIKA contracts.¹³ However, none of the disbursements were used to execute community grants under contract “with a focus on labor-intensive projects or productive infrastructure,” as called for under intermediate result 4 of the SIKA contracts. All four SIKA contracts explicitly state that “the grants program is considered essential to the activities of the Contractor in achieving the overall strategy and expected results of the program,” and grants execution is the only program component identified as “essential” in the contracts. Table 2 shows the total awards and amounts set aside for grants in the base period, along with funds disbursed as of March 31, 2013.

Table 2 - USAID SIKA Base Award and Disbursed Amounts as of March 31, 2013

Program	Implementer	Base Award \$		Disbursed \$	
		Estimated Cost + Fixed Fee \$	Grants under Contract \$	Estimated Cost + Fixed Fee \$	Grants under Contract \$
SIKA East	AECOM	67,680,279	21,000,000	21,769,715	0
SIKA West	AECOM	25,005,753 ^a	7,000,000	9,664,132	0
SIKA South	AECOM	44,784,676 ^b	14,000,000	9,192,168	0
SIKA North	DAI	19,208,930	4,500,000	6,178,736	0
Grand Total		156,679,638	46,500,000	46,804,751	0

Source: SIGAR analysis of USAID, DAI and AECOM data.

Notes:

^aFor SIKA West, the total for estimated costs and fixed fee includes \$157,500 budgeted for grants handling costs.

^bFor SIKA South, the total for estimated costs and fixed fee is based on the original contract signed in April 2012. The most recent contract signed in March 2013 included estimated costs and fixed fees of \$46,241,053.

Even in a few districts designated as pilot districts, AECOM and DAI did not complete a full project cycle—from identifying sources of instability through implementing community grant projects. Furthermore, as of March 31, 2013, neither AECOM nor DAI had awarded grants to eligible district entities either in the pilot districts or expansion areas even though they had 8 to 10 months to do so. An independent management review commissioned by the United Nations Development Programme in 2010 noted that NABDP projects took between 45 days and 6 months from receipt of district petition to contract award depending on the complexity of the project.¹⁴ None of the four SIKAs met this timeframe, even in the pilot districts.

SIKA East, West, and South failed to meet their targeted goals for completed community grant activities—a key performance indicator. According to the programs’ Performance Monitoring Plans, the first year target for number of completed grants activities was 40 for SIKA East, 72 for SIKA West, and 60 for SIKA South.¹⁵ In its comments on a draft of this report, USAID stated that, because the agreement with the Afghan government on the SIKA programs was required to be in place before any grants could be implemented, the lack of an agreement between USAID and the Afghan government prior to September 2012, and the resulting delay in the implementation of grants, affected the targets set in the Performance Monitoring Plans. Nevertheless, AECOM

¹³ In June 2013, USAID provided updated funding data and reported that, as of June 18, 2013, USAID had disbursed almost \$57 million for the four SIKA contracts.

¹⁴ United Nations Development Programme. *Independent Management Review National Area Based Development Programme (NABDP) III Afghanistan*. Kabul, Afghanistan, December 14, 2010. In its comments on a draft of this report, USAID stated that an MRRD official told them that NABDP projects typically take 6 to 9 months.

¹⁵ “Grants activities” refers to all the activities in a district’s prioritized list of projects that qualified for funding to address sources of instability. An activity is any task within a grant with a timeline milestone and budget line that are independent of other aspects of the grant. Grants may include one activity, or several. The latest SIKA East Quarterly Report shows the first year target as 24 completed grants activities. SIKA North’s Performance Monitoring Plan did not have an indicator for the target number of grants activities.

and DAI failed to complete any community grants, even in the pilot districts where they were instructed to begin projects while the parties negotiated the agreement.

However, all four SIKA programs reported some progress in developing proposals and obtaining approval for various grant projects. For example, as of March 31, 2013, SIKA East reported submitting seven grant applications to USAID for approval and receiving 30 completed grant application packages; an additional 87 grant applications were under development at that time. SIKA West reported that it gained USAID approval on 20 grant projects.¹⁶ SIKA South reported 63 project “concept notes” for potential grant projects in various stages of review.¹⁷ Finally, SIKA North reported “...moving to awarding grants in the pilot district” in its most recent quarterly report in March 2013, but DAI officials did not provide specific numbers or any further information.

In its comments on a draft of this report, USAID reported that, as of July 1, 2013, the four SIKA programs had made “significant progress” in awarding grants. According to USAID, SIKA East currently has 41 grants underway and \$164,868 in disbursements for grants. SIKA West has 29 grants underway and \$109,927 in disbursements. SIKA North has 49 grants underway and \$10,399 in disbursements. USAID also reported that SIKA South has still not made any disbursements for grants. Despite this recent progress, the \$285,194 in cumulative disbursements for grants represents only 0.6 percent of the \$46.5 million designated for grants execution between the four contracts.

SIKA Funds Have Been Spent Primarily on Operational Expenses and Community Workshops and Training Sessions, Rather than Grants

Sixteen months after signing the first contract, the SIKA programs reported that cumulative disbursements primarily consisted of operational expenses, such as subcontracts, security, labor, and indirect costs, and resulted in community workshops, meetings, and training sessions. In other words, as of March 31, 2013, the \$47 million disbursed by USAID was primarily spent to support (1) identifying sources of instability and potential solutions, (2) increasing awareness of Afghan government line departments and nongovernmental organizations delivering services to the community, and (3) improving communication between provincial and district entities, primarily through community workshops and training sessions.¹⁸

- Since March 2012, SIKA North reported providing 83 training sessions for 1,776 participants on the use of the Stability Analysis Mechanism tool to identify sources of instability, and then create a local stability plan, in which community members propose solutions to the identified sources of instability.
- Since December 2011, SIKA East reported holding 16 service provider catalog training workshops for 606 district entity participants to help them understand what organizations and departments work in their geographic area.
- Since January 2012, SIKA West reported conducting 47 communications training sessions for provincial authorities and district entities that focused on building communications skills, outlining the importance of communications in the daily work of the district government, and designing communications plans. For example, in Pusht-e-Rod district, 26 farmers received a communications needs assessment and training on developing a communications plan.

¹⁶ While SIKA West’s official report to USAID showed no funds spent for the grants under contract line item as of March 31, 2013, in documentation provided to SIGAR, AECOM reported disbursing approximately \$27,000 from the grants under contract budget to communities as reimbursements for participation in administrative training on project and financial management.

¹⁷ Project concept notes are project proposals that district entities submit to USAID for concurrence prior to developing a full grant application for the project. The concept notes include basic information such as the sources of instability the project addresses, location, and estimated activity budget.

¹⁸ Some activities in support of intermediate result 4 include administrative grant process training for program stakeholders and technical surveys conducted by district engineers for infrastructure projects.

- In the quarter ending March 31, 2013, SIKA South reported undertaking a capacity assessment of district and provincial government entities' strengths and weaknesses.

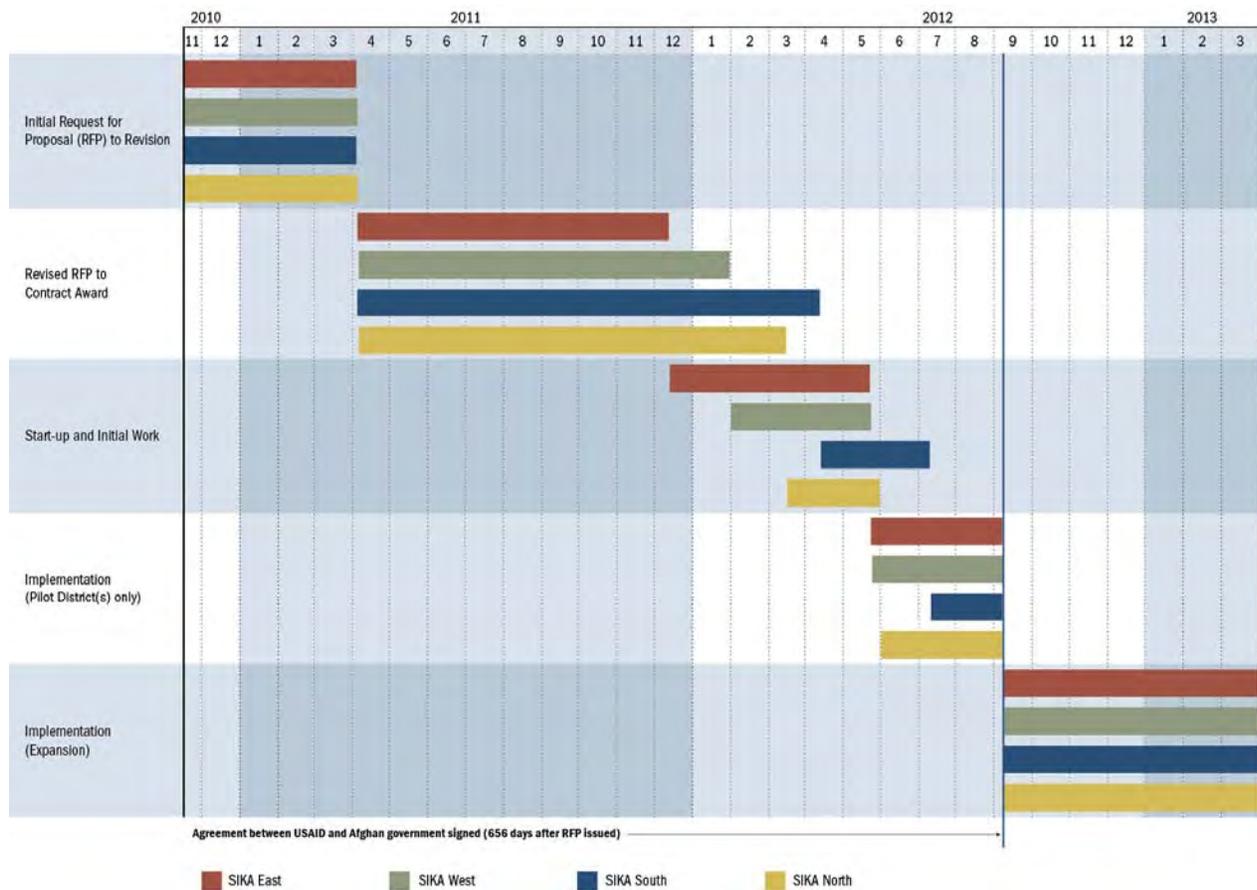
In September 2012, USAID and the Afghan government agreed that each of the SIKA programs would be a “quick delivery program,” in which projects identified by intermediate result 1 activities—such as community infrastructure projects—were to be initiated quickly but would achieve long-term results. Our findings demonstrate that the SIKA programs failed to achieve this objective. Nevertheless, nearly 16 months after signing the first SIKA contract, USAID extended three of the SIKA contracts and signed a new contract for the fourth program.

LACK OF AN AGREEMENT WITH THE AFGHAN GOVERNMENT AND USAID'S FAILURE TO COMMUNICATE KEY PROGRAM CONCEPTS CONTRIBUTED TO DELAYED GRANTS EXECUTION

USAID's SIKA Activity Approval Memo, its requests for proposal, and contracts all call for SIKA to be implemented jointly with the Afghan government. The contracts specifically state that the SIKA programs must “be seen as an extension of the [Afghan government], not as increased foreign presence and must work within Afghan structures.” Moreover, the contracts require AECOM and DAI to work within the existing Kandahar Model framework and methodology to ensure that service delivery does not result in parallel institutions or processes.¹⁹ Despite the requirement that SIKA be seen as Afghan government programs, USAID did not secure a formal agreement with key Afghan government partners until 9 months after awarding the first SIKA contract to AECOM and almost 22 months after issuing the first requests for proposal. The delay in signing an agreement meant that USAID could not be assured of Afghan government participation in SIKA implementation. Figure 2 shows key dates associated with SIKA contracting and implementation.

¹⁹ In July 2010, international donors agreed to progressively align their development assistance behind the Afghan government National Priority Programs with the goal of achieving 80 percent of alignment within the next 2 years. USAID officials stated that the four SIKA programs are aligned under the Agriculture and Rural Development Cluster with National Priority Program-4, Strengthening Local Institutions and under the Governance Cluster, Local Governance.

Figure 2 - Amount of Time Between Requests for Proposal and Implementation of SIKa Programs



Source: SIGAR analysis of USAID, DAI and AECOM data.

AECOM and DAI stated that the initial absence of an agreement with the Afghan government caused the significant delays in program implementation.²⁰ USAID officials told us that, in their opinion, the delays caused by the lack of an agreement with the Afghan government were excusable. However, the overall delay in awarding grants appears to have created participant dissatisfaction with the programs. For example, AECOM reported that the delay in awarding grants and implementing projects in SIKa East “has caused some district stakeholders to begin losing patience with the program.” Further, AECOM reported that some district stakeholders have accused SIKa East staff members of “incompetence or even deception.” Similarly, AECOM reported that participants in two districts in SIKa South are experiencing “fatigue” with the many planning workshops they have attended. AECOM also reported that its facilitators and district staff in SIKa South are worried that the lengthy processes of project development and approval could expose them to physical risk from angry local representatives or constituents. According to a USAID third party monitor reviewing the SIKa programs, expectation management is a significant issue, particularly in instances where the process could

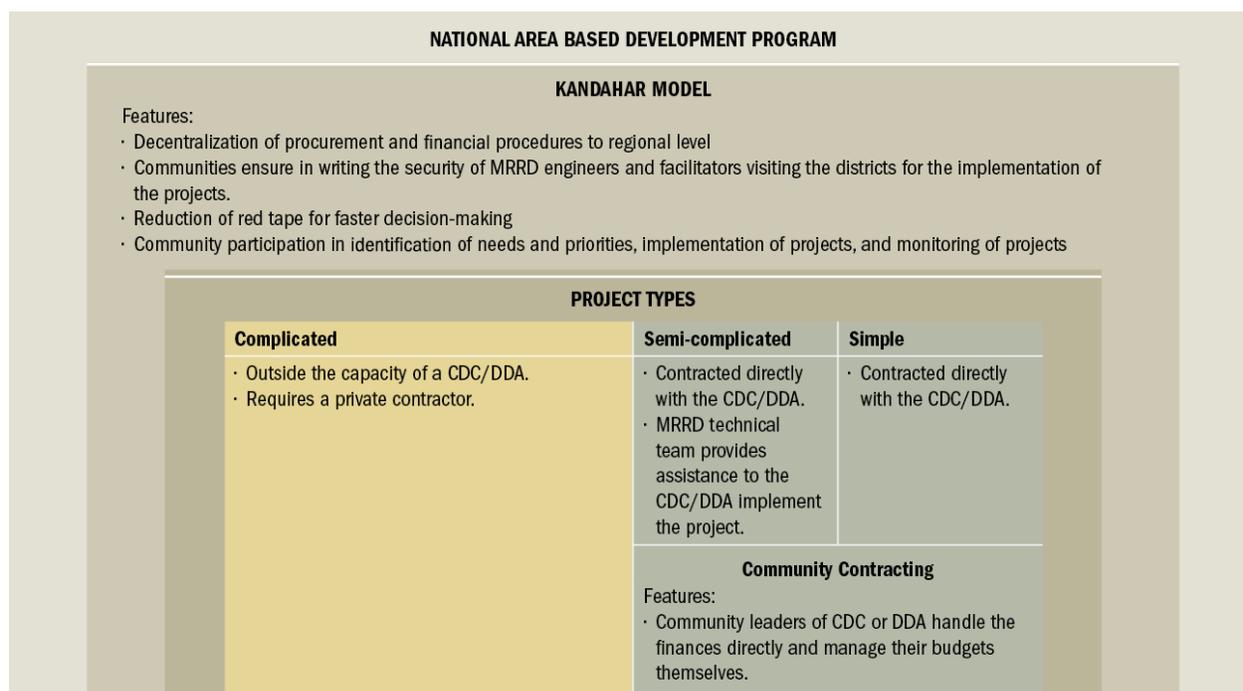
²⁰ According to USAID officials, the USAID Regional Legal Office recommended that the agreement with the Afghan government be through an implementation letter rather than a memorandum of understanding due to the complexity of the partnership with the Afghan government. USAID officials further stated that the Afghan government indicated comfort with either a memorandum of understanding or implementation letter outlining the roles and responsibilities regarding the SIKa programs and were not concerned with the format of the agreement.

raise expectations and disappoint the community if projects are continuously delayed or not executed.²¹ Such disappointment may actually result in further destabilization and disaffection toward the Afghan government.

Lack of Clarity and Understanding of Key Program Concepts Undercut Program Objectives

In addition to delays caused by the absence of an agreement with key Afghan government partners, a lack of clarity in USAID’s presentation of the Kandahar Model in the SIKA contracts and inconsistencies in AECOM and DAI’s application of it has undercut SIKA’s strategic and program objectives and further delayed grant-funded project implementation. The SIKA contracts require AECOM and DAI to use the Kandahar Model community contracting methodology to implement grant-funded community projects.²² Community contracting ensures that CDCs and DDAs gain hands-on experience in project planning, execution, and management of finances. According to NABDP, there are three types of projects characterized by their level of technical complexity (see figure 3). Of these, two types of projects—semi-complicated and simple—are managed by CDCs or DDAs. Figure 3 shows the key features of the Kandahar Model, including the community contracting methodology.

Figure 3 - Kandahar Model of Community Contracting



Source: SIGAR analysis of MRRD, United Nations Development Programme, and USAID data.

While USAID required AECOM and DAI to use the Kandahar Model for SIKA implementation, the agency did not provide the contractors with details of what the framework entailed or ensure consistent application of that framework across the four SIKA programs. For example, during the request for proposal process, a potential offeror asked USAID to provide additional detail on the Kandahar Model of community contracting, but USAID

²¹ Caerus Associates, LLC. *Community Outreach and Engagement for Stabilization Activity Planning and Implementation: An Evaluation of Best Practices*. Washington, DC, March 16, 2013.

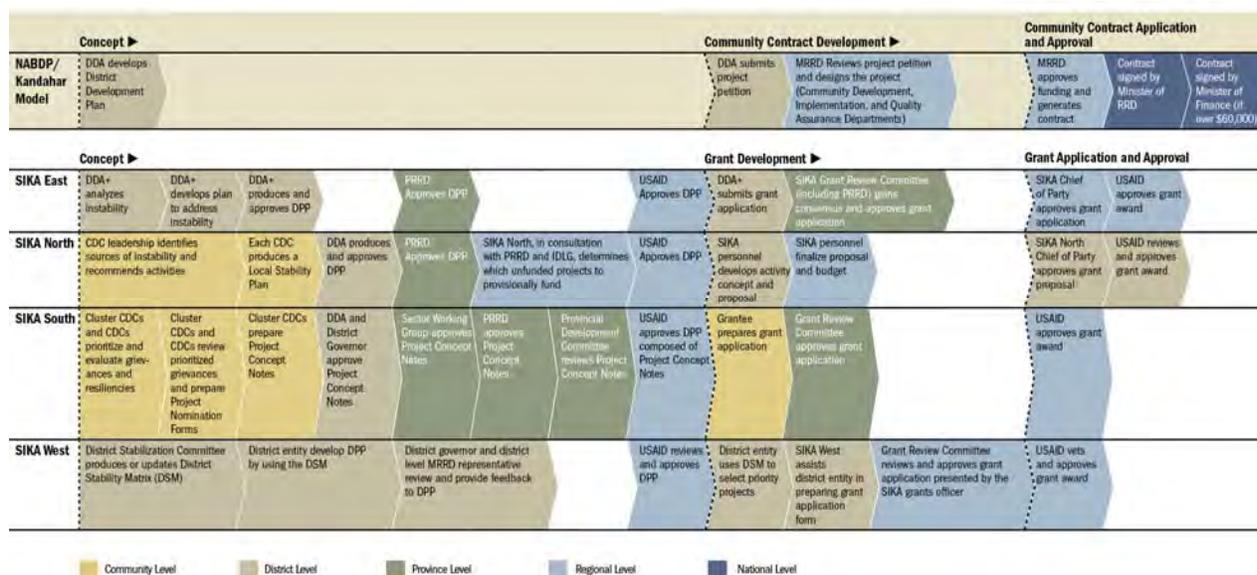
²² The four contracts use the term “community contracting” interchangeably with SIKA grants under contract.

declined to provide additional details to all potential offerors.²³ Similarly, when we initially requested clarification on the Kandahar Model in March 2013, the documentation USAID provided did not clearly demonstrate how the SIKA contractors were to implement the model. For example, USAID provided a four-page brochure from the MRRD that touted the benefits of the Kandahar Model, but did not explain how the SIKA programs were to implement the model.

At the end of June 2013, USAID provided us a two-page document on the Kandahar Model, which included a comparison of USAID’s understanding of the NABDP version of the Kandahar Model with the SIKA variation of the model. However, the USAID document did not contain citations to indicate how it identified the key steps in its interpretation of NABDP’s Kandahar Model, and these steps did not align with the process we identified through our own analysis of primary documentation from MRRD and NABDP. Additionally, the document was not dated and USAID provided no evidence that it had provided the document to either AECOM or DAI.

We found that, in the absence of guidance from USAID, each of the four SIKA programs differs in its application of the Kandahar Model and approach to conceptualizing projects and awarding grants. This contradicts USAID’s SIKA variation of the Kandahar Model, which presents the model as a single, clearly delineated process. Figure 4 shows that each of the four SIKA programs established a different approach for project development, approval, and award, despite the contractual requirement that they follow the Kandahar Model and community contracting method.

Figure 4 - Process Comparison of Kandahar Model Community Contracting and SIKA Non-Competitive Grants to District Entities



Source: SIGAR analysis of MRRD, USAID, DAI and AECOM data.

Several senior USAID and contractor staff stated that the SIKA implementation process is as important—if not more important—than the final service delivery in achieving the program and strategic objectives. However, we found several instances where the process developed in each SIKA region deviated from the contractually required Kandahar Model of community contracting. Below are examples of how the different SIKA programs adopted varying approaches and the effects of the changes thus far.

²³ During the request for proposal process, USAID allowed potential SIKA offerors the opportunity to ask questions and gain clarification. Any information USAID provided in response to one offeror is then made available to all offerors as an amendment to the solicitation.

Additional Entities in Grant Process

As shown in figure 4, the Kandahar Model requires participation from only three entities—the DDA, MRRD, and the Ministry of Finance—in the entire process. However, figure 4 also shows that each of the SIKA programs inserted additional entities throughout the grant process. For example, SIKA South introduced additional entities for grant concept review at the provincial level, which resulted in more delays beyond those caused by the lack of the implementation letter. The SIKA South contracting officer’s representative stated that review of project ideas at the provincial level by the inter-ministerial Sector Working Group and Provincial Development Committee (which is chaired by the provincial governor) is “how things are supposed to work,” but admitted that it is not clear if these steps are a requirement of the Kandahar Model.²⁴ The lack of clear guidance and understanding of how the model has worked in Kandahar allowed the provincial governor to delay SIKA South operations by directing district government officials not to attend SIKA workshops and by personally reviewing each grant project. SIKA South reports that the uncertain schedule of Kandahar provincial Sector Working Groups and the intervention of the provincial governor delayed project approval.

Definition, Structure, and Composition of District Entities

SIKA East, SIKA West, and SIKA South modified the district entities with which they were required to work. As shown in figure 4, the Kandahar Model places responsibility for project concept and contract development on DDAs. According to NABDP documents, to keep the size of the DDA manageable, the membership of a DDA should not exceed 30 individuals. SIKA East, however, uses the DDA Plus, which includes DDAs, District Community Councils, and others. According to SIKA East program documentation, the DDA Plus has a maximum size of 62 members, but in one case, the DDA Plus grew to 103 members. In SIKA West, AECOM is using what it calls a “District Stabilization Committee,” though the term is not defined in the work plan and does not exist in the contract as an entity eligible to receive community grants. In the case of SIKA South, the contracting officer’s representative stated that the existing DDA in the pilot district was not elected and were “not the right guys.” The contracting officer’s representative further stated that, as a result, SIKA South and the contracting officer’s representative had to force the MRRD provincial representative to hold new DDA elections in the pilot district, which caused further delays.²⁵

Grants for Communities

According to the SIKA contracts, a benefit of the Kandahar Model is that it does not generally involve external commercial companies or nongovernmental organizations. Instead, the Kandahar Model of community contracting places responsibility on the community itself for project conception, implementation, and financial management. However, the SIKA North chief of party and the USAID contracting officer’s representative both stated that they prefer having services provided to communities rather than by the communities. The SIKA North contracting officer’s representative further stated he did not see a problem with having contractors act as intermediaries between the Afghan government and the district entity. These officials stated that SIKA North intends to provide in-kind grants through nongovernmental organizations and commercial companies to implement projects for the community.²⁶ This use of in-kind grants does not meet a key requirement of the SIKA programs of having Afghan district entities directly responsible for project implementation. According to

²⁴ Provincial Development Committees were established to coordinate the activities of the Afghan government line ministries, prepare Provincial Development Plans, improve donor coordination, monitor the implementation of development projects, and enhance the capacity of the provincial administration for public administration and public service delivery. Committee roles, functions, and membership vary by province. Sector Working Groups serve as functional subcommittees for the Provincial Development Committee.

²⁵ In its comments on a draft of this report, USAID stated that it was MRRD that required the NABDP to conduct new elections to assure the legitimacy of DDAs as there had not been elections in over 3 years.

²⁶ The SIKA grants manuals define in-kind grants as when the SIKA contractor procures supplies or services on behalf of the grantee (district entity). With an in-kind grant, the district entity does not receive or manage grant funds. USAID does not define in-kind grants in *ADS 303 Grants and Cooperative Agreements to Nongovernmental Organizations* but does include language regarding in-kind grants in *ADS Chapter 308 Awards to Public International Organizations*.

the USAID's National Coordinator for the SIKA programs, the MRRD considers the use of in-kind grants a part of community contracting within the Kandahar Model because the community generates project ideas. In its June 2013 Kandahar Model document, USAID stated that "[p]rojects proposed should also be done directly, by the people of the CDCs and DDAs without external subcontractors [as this] builds confidence among the local population and a sense of responsibility among local community members." The use of in-kind grants does not meet a key requirement of the SIKA programs, namely, that Afghan district entities are directly responsible for project implementation. This approach shows different interpretations that do not fit community contracting through the Kandahar Model.

CONCLUSION

In November 2010, USAID issued requests for proposals for SIKA programs in four regions of Afghanistan with the intent of supporting and strengthening the Afghan government at the district and provincial level to implement community-led development and governance initiatives, which would build confidence in the Afghan government and therefore increase stability. As of March 31, 2013—16 months after USAID signed the first contract—the four SIKA programs had disbursed almost \$47 million of the \$203 million in total contract value, largely for community workshops and training sessions. Yet none of the four programs had awarded grants to communities to address sources of instability. USAID officials cited the delay in finalizing the implementation letter with key Afghan government partners as the main cause for the lack of progress in providing grants to communities. However, given that the SIKA programs were intended to be seen as an extension of the Afghan government and work within Afghan structures, it is disconcerting that USAID did not secure the agreement of key government partners prior to issuing the requests for proposal or, at the very least, before awarding contracts. Additionally, the variation in the approaches of the regional SIKA programs demonstrates that USAID did not provide contractors with a clear understanding or application of the model or enforce contractual requirements to use the Kandahar Model. USAID has offered little assurance that key USAID and contractor staff have a shared vision of the Kandahar Model or community contracting. This, along with delays in implementation, has resulted in community dissatisfaction with the lack of progress in implementing community grants and potentially jeopardized the achievement of strategic and program objectives. To date, while the four programs conducted several meetings and training sessions, the value of these events—and ultimately the overall effectiveness of SIKA itself—cannot be established without grants execution, which USAID identified as essential in achieving the overall strategy and expected results of the contracts.

RECOMMENDATIONS

To help ensure that future USAID programs do not face unnecessary delays in implementation, SIGAR recommends that the USAID Mission Director for Afghanistan:

- 1. Issue guidance requiring documentation of Afghan government agreement for future USAID programs that align with Afghan government initiatives. This agreement should be structured in a manner similar to the SIKA agreement that outlines the roles and responsibilities of each signatory in relation to the particular USAID program. Further, USAID should finalize such agreements prior to the start of the USAID program.**

To help ensure that SIKA programs achieve identified strategic and program objectives (increased confidence in district government, leading to the expansion of Afghan provincial government authority and legitimacy through government officials responding to the local population's development and governance concerns), we recommend that the USAID Mission Director for Afghanistan instruct the USAID Mission Afghanistan's Office of Acquisition and Assistance and Stabilization Unit to:

- 2. Modify each of the SIKA contracts to clearly articulate a consistent plan for community contracting and implementing the Kandahar Model under the NABDP, including the roles of specific government**

and/or community entities and the processes to be followed in developing, approving, implementing, and monitoring community projects in support of SIKA program goals.

3. Instruct the contracting officer's representatives for each of the contracts to ensure that this plan for community contracting and implementing the Kandahar Model under the NABDP is applied in the regional SIKA programs.

AGENCY COMMENTS

We received written comments on a draft of this report from the Acting USAID Mission Director for Afghanistan. USAID disagreed with several of our findings, but did not offer sound, fact-based reasoning for its concerns. For example, USAID stated that our report illustrates a “fundamental misunderstanding of SIKA’s purpose in that the implementation of grants is portrayed as the most important element of the program.” However, we emphasized the importance of grants in the report only because USAID explicitly stated (in all four of its SIKA contracts) that “the grants program is considered essential to the activities of the Contractor in achieving the overall strategy and expected results of the program.” Our analysis of the contracts showed that grants are the only program component identified as “essential.” USAID’s comment regarding our lack of understanding of SIKA’s purpose misrepresents the critical importance of grant execution in achieving the intended outcomes of the SIKA programs. The objective of the SIKA programs is “to promote stabilization in key areas by supporting the [Afghan government...] to implement community led development and governance initiatives that respond to the population’s needs and concerns in order to build confidence, stability, and increase the provision of basic services,” and, according to the SIKA contracts, grants are vital tools in accomplishing this objective.

Additionally, throughout its comments, USAID stated that the variation in AECOM’s and DAI’s application of the Kandahar Model across the four SIKA programs is acceptable and encouraged. However, by allowing such varying approaches, USAID is ignoring identical contractual requirements that the Kandahar Model be used. Moreover, in June 2013, when USAID provided us with its understanding of the Kandahar Model, USAID presented a single SIKA variant of the model, which made no mention of flexibility across regional programs. Nevertheless, USAID continued to cite the programs’ “flexibility” to adapt the Kandahar Model in ways suitable to local conditions as a key reason for developing four regional programs instead of a single, nationwide program. Further, when AECOM and DAI took different approaches to implement SIKA, USAID failed to provide documentation explaining the reasons for the differing approaches.

USAID requested that our first recommendation be removed because, in USAID’s opinion, it already has sufficient guidance. However, after reviewing the guidance cited by USAID in its comments—*Mission Order Number 201.03, Project Design and Approval Process*—we determined that it does not meet the intent of our recommendation because it does not call for written documentation of agreement by essential Afghan government partners prior to the start of a USAID program. Requiring the formal documentation of agreement is particularly critical for USAID programs, like SIKA, to ensure that they align with Afghan government initiatives and work within Afghan structures.

USAID partially concurred with our second recommendation. USAID committed to modifying the SIKA West contract to add language on NABDP and the Kandahar Model consistent with the language used in the other SIKA contracts, and it set a target date of September 2013 to do so. We appreciate USAID’s intent in changing the language of the SIKA West contract to match the other three SIKA contracts. However, USAID already made this change through a modification to the SIKA West contract in September 2012. Furthermore, the point of our recommendation was that the current references to the Kandahar Model in the SIKA contracts do not ensure the consistent implementation of community contracting and the Kandahar Model across the SIKA programs because it does not specifically identify key steps that should be integrated into the identification of projects and the execution and management of grants.

USAID did not concur with our third recommendation because it believes that providing instructions to contracting officer's representatives on consistent application of community contracting and the Kandahar Model under NABDP would be redundant to processes already in place. We disagree and maintain that the variation in the approaches of the regional SIKAs outlined in the report demonstrate that the contracting officer's representatives are not ensuring that AECOM and DAI apply community contracting and the Kandahar Model in the four regional SIKAs programs.

USAID also provided technical comments, which we incorporated into our report, as appropriate. USAID's comments and our responses to them are presented in appendix II.

APPENDIX I - SCOPE AND METHODOLOGY

In February 2013, the Special Inspector General for Afghanistan Reconstruction (SIGAR) initiated an audit of the U.S. Agency for International Development's (USAID) Stability in Key Areas (SIKA) Programs—SIKA East, SIKA West, SIKA South, and SIKA North. We initially planned to assess USAID's implementation, management, and oversight of SIKA grants under contract. However, it was not possible to conduct our original audit as planned because none of the SIKA programs had implemented grants under contract. This report (1) describes USAID's progress in expending funds under the four SIKA programs, and (2) examines the challenges USAID experienced in expending funds and implementing the SIKA programs.

To describe USAID's progress in expending funds under the four SIKA programs, we reviewed contract documentation and SIKA funding data from USAID, Quarterly Reports, and Quarterly Financials and Workdays Reports from the contractors covering the period between December 2011 and March 2013. We performed data reliability tests to determine the accuracy and completeness of the computer-processed data in the report by comparing SIKA funding data provided by USAID to contractor-reported data in the Quarterly Financials. We also compared USAID and contractor disbursement and obligation data with SIKA contract and modification documentation. We determined that the data were sufficiently reliable for the purposes of the audit objectives.

To examine the challenges USAID experienced in expending funds and implementing the SIKA programs, we reviewed contract documentation, and deliverables such as Quarterly Reports, Monthly Reports, Grants Manuals, Work Plans, and Performance Management Plans. Additionally, we reviewed the SIKA Implementation Letter between the USAID Mission Director for Afghanistan, the Director General of the Afghan Independent Directorate for Local Governance, and the Afghan Ministers of Finance and Rural Rehabilitation and Development. Finally, because the process for the Kandahar Model for community contracting was not clearly articulated in a single SIKA document, we analyzed documents from the United Nations Development Programme, including a 2010 Independent Management Review of the NABDP, and 2009 and 2010 versions of a brochure on the Kandahar Model from the Afghan Ministry of Rural Rehabilitation and Development to determine both the theory and practice of NABDP. We then compared our understanding of the Kandahar Model approach to the processes for grants under contract in the four SIKA programs.

For both objectives, we interviewed officials at the USAID Mission Afghanistan's Stabilization Unit and Office of Acquisition and Assistance, and the contracting officer's representatives or alternate contracting officer's representatives for the four contracts. We also interviewed the chiefs of party or deputy chiefs of party for the four contracts.

We considered the impact of compliance with laws and fraud risk. With respect to assessing internal controls, we reviewed compliance with requirements of the SIKA contracts. The results of our assessment are included in the body of this report.

We conducted work in Washington, DC from February 2013 through July 2013, in accordance with generally accepted government auditing standards. These 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. SIGAR conducted this audit under the authority of Pub. L. No. 110-181, as amended, and the Inspector General Act of 1978, as amended.

APPENDIX II - COMMENTS FROM THE U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT



MEMORANDUM

July 18, 2013

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

FROM: Sarah Wines, Acting Mission Director
Sarah Wines

SUBJECT: Draft SIGAR Report, "Stability in Key Areas (SIKA)
Programs: 16 Months after USAID Awarded the First
Contract, Its Contractors Have Not Executed Any
Community-Implemented Grant Projects"
(SIGAR Audit 13-16)

REF: SIGAR Transmittal email dated 06/29/2013

Thank you for providing USAID with the opportunity to review the subject draft audit report. Discussed below are our comments.

GENERAL COMMENTS

The title of SIGAR's report, "*Stability in Key Areas (SIKA) Programs: 16 Months after USAID Awarded the First Contract, Its Contractors Have Not Executed Any Community-Implemented Grant Projects*", suggests a fundamental misunderstanding of SIKA's purpose in that the implementation of grants is portrayed as the most important element of the program. SIGAR makes only a brief mention of the other three components of the project on pages 6 and 9 and fails to acknowledge their importance or that they are intended to take place before grants are implemented. Additionally, as of July 1, 2013, significant progress has been made in executing community-implemented grant projects. Overall, the pace of implementation has been accelerating with major progress in the first three components of the program. We believe this necessitates SIGAR re-examining the appropriateness of the title of the audit report.

SIGAR
Comment 1

It is misleading to use the phrase "*16 months after USAID awarded the first contract*" both in the title and throughout the report. While SIKA-East was awarded in December 2011, SIKA-South was not awarded until five months later, in April 2012. While SIGAR notes this on page 6, this

SIGAR
Comment 2

U.S. Agency for International Development
Great Massoud Road
Kabul, Afghanistan

Tel: 202 216-6288 / 0700 108-001
Email: kabul.usaidinformation@usaid.gov
<http://afghanistan.usaid.gov>

is not made consistently clear in the report. Each SIKA contract has its own timeline for implementation, and to suggest otherwise is misleading to the reader.

COMMENTS ON SIGAR's FINDINGS

A. Community Grants (Pages 7 -10)

SIGAR states on page 7, paragraph 1 that *"the four SIKA contracts identify grants execution as essential to achieving the overall strategy and expected results of SIKA"*.

USAID Response: As earlier noted, the title misconstrues the objectives and approach of the four SIKA contracts. The work accomplished under three of the four project components and the quality of the engagements with communities and district entities are far more important than the total number of grants awarded.

Indeed, a major challenge for SIKA has been to make clear that this is not a grants program where USAID provides discretionary funds for communities to simply fund locally-identified projects. This is why the contract contains four project components, only one of which is for grants. In some cases, as a result of the work accomplished in the other three components of the project, SIKA identifies a more appropriate funding solution from an alternate source to address the identified source of instability, as opposed to SIKA simply carrying out the project.

SIGAR
Comment 3

As of July 1, 2013, significant progress has been made in awarding grants which we request is reflected in the report:

SIKA-East: 54 grants approved for \$2,164,458 and a pipeline of 157 grants for approval for \$4,942,768. 41 grants are currently underway and \$164,868 has been disbursed.

SIGAR
Comment 4

SIKA-North: 82 grants approved for \$1,745,187 and a pipeline of five grants for approval for \$112,941. 49 grants are currently underway and \$10,399 has been disbursed.

SIKA-West: 48 grants approved for \$953,924 and a pipeline of 195 grants for approval for \$3,798,285. 29 grants are currently underway and \$109,927 has been disbursed.

SIKA-South: Pipeline of 40 grants for approval for \$1,558,443.

B. Lack of an Agreement with the Afghan Government and USAID's Failure to Communicate Key Program Concepts Contributed to Delayed Grants Execution (pages 9 - 11)

On pages 9 - 10 of the report, SIGAR states that *"USAID did not secure a formal agreement with key Afghan government partners until 9 months after awarding the first SIKA contract to AECOM and almost 22 months after issuing the first requests for proposal. The delay in signing the agreement meant that USAID could not be assured of Afghan government participation in SIKA implementation."*

USAID RESPONSE: While we agree that the lack of an agreement with the Afghan Government contributed to delays, this is an oversimplification. The Ministry of Rural Rehabilitation and Development (MRRD), our primary partner on SIKA, was involved in every stage of the design and award of the program. Unfortunately, a change in leadership at MRRD around the time of the SIKA awards necessitated a further review of the program to ensure it aligned with the new leadership team's vision for the Ministry. This is standard practice in USAID's work worldwide which emphasizes host-country ownership over speed.

SIGAR
Comment 5

Furthermore, SIGAR states on page 10 that *"the overall delay in awarding grants appears to have created participant dissatisfaction with the programs."* We believe that is a broad generalization not supported by facts in the report. It is not substantiated beyond one vague example. There is no evidence presented in the report or discussed in the methodology to indicate that any sort of participant survey was conducted.

SIGAR
Comment 6

Additionally, the report states on page 11 that *"such disappointment may actually result in further destabilization and disaffection towards the Afghan government."* This claim is not supported by evidence and fails to look at SIKA's work beyond grants execution. There is insufficient acknowledgement of the significant efforts made in the first three intermediate results, many of which have been very successful and valued by the participants.

C. Lack of Clarity and Understanding of Key Program Concepts Undercut Program Objectives (pages 11 -14)

SIGAR states on page 11, paragraph 1 that *"In addition to delays caused by the absence of an agreement with key Afghan government partners, a lack of clarity in USAID's presentation of the Kandahar Model in the SIKA contracts and inconsistencies in AECOM and DAI's application of it has undercut SIKA's strategic and program objectives and further delayed grant-funded project implementation."*

USAID RESPONSE: We believe there is sufficient clarity in both USAID's and our implementing partners' understanding of the Kandahar Model. The Kandahar Model is a well-known component of the National Area-Based Development Program (NABDP), and a public document on the model drafted in 2009 is posted on MRRD's website. Additionally, the application of the Kandahar Model is detailed extensively in the grants manuals for each of the regional SIKA programs. For example, the Kandahar Model is specifically referenced at least nine times in the SIKA-West grants manual, including a full three pages (pages 63-65). It is also discussed frequently with implementing partners and MRRD at both the national and regional levels and has been documented in minutes of meetings between USAID, MRRD, and SIKA implementing partners.

SIGAR
Comment 7

It is appropriate that regional SIKA programs have the flexibility to adapt the Kandahar Model in ways suitable to local conditions; in fact this was a key reason in developing four regional programs instead of a single nationwide program. In addition, the SIKA Unit based at MRRD headquarters provides guidance and oversight from the national level. The model ultimately promotes flexibility, which supports the inclusion of provincial entities in the process – reflecting how sub-national government policy is supposed to work. If SIKA implemented the Kandahar Model without regard to provincial considerations, it would be circumventing established systems and cause confusion. For example, page 15 of the SIKA-South contract states that "The focus of SIKA-South is therefore to assist district level government (through coordination at the provincial level) in responding to the population's needs and concerns to better instill confidence and build stability." The structures at the provincial level provide a necessary linkage between the district and the Afghan government line ministries.

SIGAR
Comment 8

We do not agree that SIKA's use of the Kandahar Model delayed project implementation. The delays in project implementation were primarily caused by the lack of an implementation letter with the Afghan government due to a change in MRRD's leadership. The Minister of MRRD was replaced in March, 2012 and the new Minister and Deputy Minister put the implementation of SIKA on hold while they re-evaluated

SIGAR
Comment 9

SIKA in terms of different MRRD priorities. The resulting changes were incorporated in the implementation letter signed on September 3, 2003.

There are other factors that also slowed implementation. In some cases, weak community and government structures necessitated a lengthier engagement process. These structures need to function effectively for SIKA to deconflict projects with other programs and to reinforce existing systems. A key premise of SIKA is to take the extra time when needed and increase local capacity, a process that can increase the time needed for project implementation. As community and government capacity increases, we expect the implementation of grants to accelerate.

SIGAR
Comment 10

Furthermore, on page 13, SIGAR states that *“the use of in-kind grants does not meet a key requirement of the SIKA programs, namely, that Afghan district entities are directly responsible for project implementation. This approach shows different interpretations that do not fit community contracting through the Kandahar Model.”*

USAID Response: SIGAR is incorrect that the use of in-kind grants by SIKA-North do not meet a key requirement of SIKA or that in-kind grants are inconsistent with the Kandahar Model. In-kind grants are allowed under the SIKA contracts and SIGAR’s own depiction (Figure 3 on page 11) shows that complicated projects requiring a private contractor are one type of activity under the Kandahar Model. In-kind and fixed-obligation grants both require a bottom-up approach involving communities, Community Development Councils (CDCs,) District Development Assemblies (DDAs), and District Governors in identifying sources of instability (SOIs) and designing activities that mitigate the SOI.

SIGAR
Comment 11

For a simple grant to a CDC or DDA, SIKA-North provides the grant resources for the district entities to implement and monitor the project. For an in-kind grant, SIKA-North negotiates with a supplier or service provider for the inputs the community uses in their project. An example would be for a road project that runs through multiple CDCs. In one case, SIKA-North negotiated a 33% reduction in the price of gravel for a cost savings that individual CDCs would have been unable to achieve. The CDCs still work with the community to select workers for the project and monitor the implementation. This is clearly stated in SIKA-North’s grants manual.

COMMENTS ON SIGAR’S RECOMMENDATIONS

To help ensure that future USAID programs do not face unnecessary delays in implementation, SIGAR recommends that the USAID Mission Director for Afghanistan:

1. Issue guidance requiring documentation of Afghan government agreement for future USAID program(s) that align with Afghan government initiatives. This agreement should be structured in a manner similar to the SIKA agreement that outlines the roles and responsibilities of each signatory in relation to the particular USAID program. Further, USAID should finalize such agreements prior to the start of the USAID program.

USAID COMMENTS: USAID believes this recommendation has already been met and should be deleted.

Subsequent to the creation of the SIKA programs, USAID/Afghanistan Mission Order Number 201.03 (Attachment 1) was issued on July 15, 2012, to establish uniform procedures and requirements for the approval of all Mission-funded activities, regardless of implementation approach and/or mechanism. The Mission Order already calls for reaching concurrence with the applicable ministry and the Ministry of Finance during the design stage of the program. The Mission Order states on page 7 that “all negotiations between the Mission and GIRA, inclusive of initial Conditions Precedent and Covenants, as well as other outstanding issues are to be resolved during the design of the Project Appraisal Document (PAD).”

SIGAR
Comment 12

As previously noted, a change in leadership at MRRD around the time of the SIKA awards necessitated a further review of the program to ensure it aligned with the new MRRD leadership team’s vision for the Ministry. Thus, even if an agreement had already been reached prior to award, it is likely program changes would have been necessary to align with the new leadership’s vision and would have resulted in the same delays. This is an inherent risk that any USAID program faces worldwide and can result in delays to program implementation despite the best efforts of USAID and the host country partner.

SIGAR
Comment 5

To help ensure that SIKA programs achieve identified strategic and program objectives, we recommend that the USAID Mission Director for Afghanistan instruct USAID Mission Afghanistan’s Office of Acquisition and Assistance and Stabilization Unit to:

2. Modify each of the SIKA contracts to clearly articulate a consistent plan for community contracting and implementing the Kandahar Model under the NABDP, including the roles of specific government and/or community entities and the processes to be followed in developing, approving, implementing, and monitoring community projects in support of SIKA program goals.

USAID COMMENTS: The Mission partially concurs with this recommendation.

The SIKA-West contract does not explicitly require the use of the Kandahar Model but the model was included in the Request for Proposal and is currently utilized, as SIGAR notes on page 12 Figure 4. We agree that the inadvertent omission referencing the Kandahar Model from the contract should be rectified and included in the award via a modification.

SIGAR
Comment 13

Each of the SIKA programs uses the Kandahar Model in slightly different ways. A bottom-up, community-based approach combined with flexibility at the local level is the essence of the Kandahar Model and mandating a strict adherence to any one particular approach would be contradictory to the model and inhibit progress in developing grants. The Kandahar Model does not preclude the inclusion of additional entities or processes, and we believe the Kandahar Model has been appropriately tailored to account for local conditions at the regional level. To require uniformity in the implementation of the Kandahar Model beyond what is already included in the awards would reduce its effectiveness by limiting the flexibility it is based on.

SIGAR
Comment 14

Each regional SIKA program has a grants manual, all of which incorporate the Kandahar Model and discuss the roles of government and community entities and the processes for developing, approving, implementing and monitoring community projects.

SIGAR
Comment 7

Finally, the Stabilization Unit's Monitoring and Evaluation program (Measuring the Impact of Stabilization Initiatives – MISTI) is in the process of developing best practices for a unified engagement model that will include the Kandahar Model. This approach has the support of MRRD and the Independent Directorate of Local Governance (IDLG) and will lead to a more consistent use of the model across the regional SIKA programs. It is important to note, however, that the regional programs must retain the flexibility to adapt the Kandahar Model to ensure it is appropriate to local conditions.

SIGAR
Comment 15

Action to be taken: To achieve consistency across SIKA contracts and to ensure the explicit use of the Kandahar Model, the Mission will modify the SIKA-West contract to add language on NABDP and the Kandahar Model consistent with that used in the other SIKA contracts.

SIGAR
Comment 13

Target date for completion: September 15, 2013

3. Instruct the Contracting Officer's Representatives for each of the contracts to ensure that this plan for community contracting and implementing the Kandahar Model under the NABDP is applied in the regional SIKA programs.

USAID COMMENTS: The Mission does not concur with this recommendation as it is considered redundant to processes already in place.

SIGAR
Comment 16

The Contracting Officer's Representative (COR) Designation letter clearly defines COR responsibilities, including "to monitor the contractor's performance and verify that it conforms to the technical requirements and quality standards agreed to in the terms and conditions of the contract." As utilizing the Kandahar Model is already part of the technical requirements of the three SIKA awards (North, South and East) and will be shortly incorporated in the SIKA-West award, the CORs are already tasked to ensure that the Kandahar Model is used in each of the regional SIKA programs as required in the award. As additional instructions would be redundant, we consider this recommendation no longer necessary.

SIGAR Response to U.S. Agency for International Development Comments

1. USAID's comment that the provision of grants is only one of four components of the SIKA programs misrepresents the critical importance of grant execution in achieving the intended outcomes of the SIKA programs. As our draft report noted, the programs' strategic objective is for Afghans to have increased confidence in their district government, with a secondary objective to assist district and provincial level Afghan government officials in responding to the local population's development and governance concerns. To achieve these objectives, USAID identified four "components"—which our draft report and USAID's contracts refer to as "intermediate results" that are required to achieve these objectives. These components are (1) provincial and district entities increasingly address sources of instability and take measures to respond to the population's development and governance concerns; (2) provincial and district entities understand what organizations and provincial line departments work within their geographic areas, what kind of services they provide, and how the population can access those services; (3) provincial authorities improve their ability to communicate with district entities to help them better understand their population's needs and prioritize basic service delivery interventions; and (4) provincial authorities are able to improve basic service delivery by using the Afghan government, Community Development Councils, District Development Assemblies, Afghanistan Social Outreach Program District Community Councils, which gain capacity to plan, design, implement and monitor projects, with a focus on labor-intensive projects or productive infrastructure.

Component number four on improving basic service delivery is achieved through the provision of grants and is the only component referred to in all four SIKA contracts as "essential to the activities of the Contractor in achieving the overall strategy and expected results of the program." Moreover, USAID modified three of the four contracts (for SIKA East, West, and North) to remove the requirement for the first three components to be completed prior to submission of the district project portfolios of grants applications for approval. As a result, we believe it is appropriate to refer to the grants component as the most important element of the program.

2. While we recognize that each of the SIKA programs has its own timeline for implementation (as demonstrated in figure 2 in the report), we determined it was appropriate to use 16 months as our benchmark because the first contract was awarded in December 2011. Further, even if we were to use the later date of April 2012, our concerns regarding the lack of progress in executing community grants and the lack of clarity in USAID's requirement for community contracting using the Kandahar Model would still be valid.
3. See SIGAR Comment 1. Additionally, because the SIKA programs are "required to work within the existing framework and methodology of [the National Area Based Development Program (NABDP)] and the Kandahar Model," the most appropriate funding solution from an alternate source would be the NABDP. However, USAID's Ministry of Rural Rehabilitation and Development (MRRD) assessment from February 2013 indicated that NABDP had been suspended from actual development work since at least April 2012 due to a lack of funding. Further, even if alternate funding sources were available for some projects, all four contracts still require the use of grants and none of the three SIKA programs with first-year targets for completing an established number of grants activities (East, West, and South) reported any progress toward meeting these targets as of March 31, 2013.
4. We modified the report to include USAID's data on its progress awarding grants. However, we note that the \$285,194 in cumulative disbursements for grants represents only 0.6 percent of the \$46.5 million designated for grants execution between the four contracts. Accordingly, we question whether this represents "significant progress" as USAID states in its comments.
5. In our view, USAID overstates the importance of the change in leadership at the MRRD. According to the SIKA program implementation letter, the formal agreement reached between USAID and key Afghan government partners, 9 months after awarding the first SIKA contract, documented the "understandings and agreement of the Government of the Islamic Republic of Afghanistan (the Government), as

represented by the Ministry of Finance (MoF), the Ministry of Rural Rehabilitation and Development (MRRD) and the Independent Directorate of Local Governance (IDLG), and the United States Agency for International Development (USAID).” Because the agreement was between USAID, the ministries, and the IDLG, rather than between individual ministers or the IDLG’s director general, a change in leadership within any of the three Afghan government parties would not automatically invalidate the agreement. In our view, the effect of the change in leadership at MRRD was relatively minor as the new minister had previously served as the Deputy Minister of Programs at MRRD since 2008. In any case, even if the change in leadership at MRRD necessitated further review of the SIKA programs, we would have expected to see the award and implementation of community-led grants in the five pilot districts where USAID’s contractors were instructed to work while USAID and the Afghan government parties negotiated the agreement.

6. Our statement that the overall delay in awarding grants has created participant dissatisfaction with the programs was based directly on information reported in the SIKA East and SIKA South quarterly reports to USAID, which we cite in the report. In addition, April 2013 mission reports from the recently hired MRRD regional coordinator for SIKA East noted, that in Logar, Wardak, and Paktya provinces, community members expressed doubt and suspicion about SIKA because they have not seen any “tangible output” or “physical projects” from the program.
7. USAID’s comments indicate that it believes sufficient clarity and an adequate understanding of the Kandahar Model is based simply on the number of times the phrase is used in its grants manuals and in meetings between USAID, MRRD, and its contractors. We disagree. References to the Kandahar Model cited in USAID’s comments did not specifically identify how key steps in the model were integrated into the identification of projects and the execution and management of grants. Rather, the SIKA West grants manual merely copied language verbatim from a 2009 four-page Kandahar Model brochure produced by MRRD.

In our view, a sufficient understanding of the appropriate application of the Kandahar Model requires an understanding beyond that provided by a four-page brochure. For example, we reviewed the following documents that could serve as additional resources for identifying key steps in the model, identifying projects, and guiding the awarding and execution of grants:

- Ministry of Rural Rehabilitation and Development of Afghanistan, *National Area Based Development Program (NABDP) Model (Brief)*, Afghanistan, February 2013.
- Ministry of Rural Rehabilitation and Development of Afghanistan, *National Area Based Development Program (NABDP) Operational Guidelines for Implementation of Community Projects*, August 2011.
- United Nations Development Programme, *Independent Management Review National Area Based Development Programme (NABDP) III Afghanistan*, December 2010.
- Ministry of Rural Rehabilitation and Development of Afghanistan, *Baseline Assessment of PRRD Capacity, Kandahar*, October 2010.
- Ministry of Rural Rehabilitation and Development of Afghanistan, *The Kandahar Model*, 2010.
- Ministry of Rural Rehabilitation and Development of Afghanistan, *National Area Based Development Program (NABDP) Operational Guidelines for Implementation of Community Projects*, June 2008.

These documents either discussed MRRD practices in Kandahar province specifically or how those practices applied to NABDP as a whole. We determined how each of the four regional programs planned to identify projects and execute and manage grants through detailed analysis of each program’s grants manual and work plan and through interviews with key USAID and contractor personnel. Although USAID stated that the Kandahar Model “is detailed extensively in the grants manuals for each of the regional SIKA programs,” our review of the four programs’ grants manuals found only references to the Kandahar Model rather than extensive detail on how the model functioned.

8. While we agree that flexibility to account for local conditions across the four SIKA regions is important, USAID only provided us a single SIKA variant of the Kandahar Model in response to our requests for information and this variant made no mention of flexibility across regional programs. In addition, the reason for the different approaches taken by each of the SIKA programs was not explained in any of the documentation provided by USAID over the course of our audit. Furthermore, USAID's statement that providing the SIKA programs flexibility to adapt the model in ways suitable to local conditions is contradicted by the fact that the language referencing the Kandahar Model in all four SIKA contracts is identical.
9. Contrary to USAID's assertion, we do not believe that the use of the Kandahar Model itself delayed project implementation. Rather, it was the lack of clarity in USAID's presentation of the model, and the resulting inconsistencies in its contractors' application of the model, that contributed to delays. As we described in the draft report, a clear example of this inconsistency is in SIKA South with the integration of Sector Working Groups and the Provincial Development Committee in the process of grant review. In its April 2013 quarterly report, USAID's contractor AECOM reported that the uncertain schedule of Kandahar provincial Sector Working Groups and the intervention of the provincial governor delayed project approval. In addition, the SIKA South contracting officer's representative told us that the main bottleneck in grant execution occurred at the provincial level, making specific reference to the Sector Working Groups. In our review of NABDP documentation and the grants manuals and work plans for the other three SIKA programs, we could not find references to required participation by either Sector Working Groups or the Provincial Development Committee in the grant process.
10. We recognize that extra time may be needed to ensure that program implementation is adequate and effective. Accordingly, it would have been appropriate for USAID, AECOM and DAI to treat operations in the pilot districts, where the contractors were instructed to work while USAID and the Afghan government parties negotiated the implementation letter, as true pilots to ensure the program worked properly by completing a full project cycle—from identifying sources of instability through implementing community grant projects—before expanding implementation to other districts. Further, according to USAID's presentation of the Kandahar Model in the four SIKA contracts, the model has been successfully implemented by MRRD since 2007, meaning that structures, systems, and local capacity should have existed to enable project implementation following community contracting through the Kandahar Model.
11. USAID commented that in-kind grants are allowed under the SIKA contracts and consistent with the Kandahar Model. However, according to the four SIKA contracts, "SIKA will provide grants under contract (also known by MRRD as community contracting) for community projects that are not available through other funding mechanisms." In the report, we point out that in-kind grants are grants of goods and services procured for the community by the SIKA contractors rather than by the community. Because in such a scenario, the community is not responsible for directly managing the funds itself, we do not agree that in-kind grants of goods and services for the community are the same as community contracting following the Kandahar Model. As we presented in figure 3, there are three types of projects contained within the Kandahar Model. However, only two of these project types (semi-complicated and simple) are contracted directly with and managed by Community Development Councils and District Development Assemblies. Community contracting under the Kandahar Model places responsibility on community leaders to directly manage grant finances and budgets, which is not the case with in-kind grants. In its June 2013 Kandahar Model document, USAID stated that "[p]rojects proposed should also be done directly, by the people of the [Community Development Councils] and [District Development Assemblies] without external subcontractors [as this] builds confidence among the local population and a sense of responsibility among local community members." All these factors lead us to believe that community contracting only refers to those projects directly managed by the community, and that this is the broader intent of the grants under contract component of the four SIKA programs. Although figure 3 acknowledges that complicated projects exist within the Kandahar Model, they do not constitute community contracting.

While we applaud SIKA North's interest in cost savings, bearing in mind that, as of March 31, 2013, it had not disbursed any of the \$4.5 million set aside for grants under contract in its budget, a cost-savings on bulk gravel seems to be a misplaced concern given SIKA's overall focus on community contracting. Additionally, road graveling projects are listed in NABDP documents as being semi-complicated and simple projects that are the very type of project that would be managed directly by the community. Further, there is a qualitative difference between grants implemented by the community and grants provided to the community, which, as we cited above, USAID acknowledged in its June 2013 Kandahar Model document. Further, while all four grants manuals refer to in-kind grants, the term is not included in USAID's *ADS Chapter 303, Grants and Cooperative Agreements to Nongovernmental Organizations*, so it is not clear on what basis in-kind grants are justified in the grants manuals. In its section on in-kind grants, the SIKA North grants manual references *ADS Chapter 308, Awards to Public International Organizations*, as the basis for its justification of the use of in-kind grants. It not clear, however, how ADS Chapter 308 applies to grants to communities or how this meets the larger intent of community contracting in the SIKA contracts.

12. Although USAID provided *Mission Order Number 201.03, Project Design and Approval Process* as evidence that the agency had already taken actions to address our recommendation to obtain documentation of the Afghan government's agreement on projects, after a review of the Order, we determined that it does not meet the intent of our recommendation. Specifically, the Mission Order does not call for written documentation of agreement by essential Afghan government partners prior to the start of the USAID program. The Mission Order explicitly references the role of Afghan government entities twice. First, when identifying the process for review of project concept papers, it states that the Project Development Officer will circulate project concept papers to interested donors, the Afghan Ministry of Finance, and any concerned line ministries, inviting these entities to identify issues for discussion. Second, when identifying the process for development and approval of the Project Appraisal Document, it states that all negotiations between the Mission and the Afghan government, as well as other outstanding issues are to be resolved during Project Appraisal Document design. Soliciting feedback from and conducting negotiations with the Afghan government is not the same as formally documenting the commitment of the Afghan government.

Having a written agreement laying out the roles and responsibilities of each signatory is particularly important to document buy-in from critical Afghan partners for programs that are to be seen as an extension of the Afghan government and work within Afghan structures. Even if the head of the Afghan ministry that signed the agreement leaves prior to or during program implementation, such a formal, signed agreement would serve as precedent for the Ministry's (not the individual Minister's) support for the program, and could be used as justification by USAID to secure continued support from the new Afghan leadership.

13. We do not believe that USAID needs to modify the SIKA West contract in the manner described in its comments. Modification 2 of the SIKA West contract, signed September 5, 2012, replaced Section C of the contract with the same language on the Kandahar Model and the requirement to work within the existing framework and methodology of NABDP and the Kandahar Model that the other three SIKA contracts contain.

Additionally, we disagree with USAID's statement that figure 4 shows that SIKA West is currently using the Kandahar Model. The sentence introducing figure 4 states that "each of the four SIKA programs established a different approach for project development, approval, and award, despite the contractual requirement that they follow the Kandahar Model and community contracting method." Additionally, in figure 4, the actual steps and participants in the SIKA West model do not match the steps and participants identified in the NABDP Kandahar Model. For example, figure 4 demonstrates that SIKA West is using a "District Stabilization Committee," although the term is not defined in the work plan and does not exist in the contract as an entity eligible to receive community grants.

14. We agree that the "essence" of the Kandahar Model is bottom-up and community based. It is, though, still a model that contains defined actors and processes. Further, the language referencing the Kandahar

Model in each of the contracts (and relevant subsequent modification) is identical. None of the documentation on the Kandahar Model provided by USAID states that the Kandahar Model is to be tailored by the SIKA contractors to local/regional conditions. Given that USAID's June 2013 Kandahar Model document presents the MRRD/NABDP Kandahar Model and only one SIKA variant of the Kandahar Model, it is not clear where this flexibility exists in the Kandahar Model or in the SIKA contracts.

15. We welcome USAID's report that the Measuring the Impact of Stabilization Initiatives program is in the process of developing best practices for a unified engagement model that will include the Kandahar Model, as this should help address the needs that we identified in our report. If the "Measuring the Impact of Stabilization Initiatives" program results in clearly identified key steps in the development, approval, and award of grants within the framework and methodologies of community contracting and the Kandahar Model, this should satisfy the intent of our recommendation.
16. USAID stated in its response that the contracting officer's representatives' responsibilities are "to monitor the contractor's performance and verify that it conforms to the technical requirements and quality standards agreed to in the terms and conditions of the contract." However, because USAID has not clearly articulated the specific entities and steps involved in developing, approving, implementing, and monitoring community grant projects using community contracting and the Kandahar Model, USAID's contracting officer's representatives have allowed AECOM and DAI to proceed with approaches that, as our analysis demonstrated, do not fit within the basic tenets of the model.

We maintain that the recommendation remains valid and important, given USAID's continued confusion regarding such critical terms as the "Kandahar Model" and "community contracting," as reflected in USAID's comments to our report. Throughout the audit process and, again, in its comments to our draft report, USAID has not provided a consistent, single variant of the model, has indicated that the model is simultaneously flexible and uniform, and has not presented assurances that deviations from the contractually mandated model are carefully weighed against the overarching objectives of the program.

APPENDIX III - ACKNOWLEDGMENTS

Matthew Dove, Senior Audit Manager

Julie E. Silvers, Senior Program Analyst

Daniel Weggeland, Senior Program Analyst

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Public Affairs Officer

- Phone: 703-545-5974
- Email: sigar.pentagon.ccr.mbx.public-affairs@mail.mil
- Mail: SIGAR Public Affairs
2530 Crystal Drive
Arlington, VA 22202