

# SIGAR

Special Inspector General for  
Afghanistan Reconstruction

JULY 30  
2013

QUARTERLY REPORT TO THE UNITED STATES CONGRESS





## **The National Defense Authorization Act for FY 2008 (P.L. 110-181) established the Special Inspector General for Afghanistan Reconstruction (SIGAR).**

SIGAR's oversight mission, as defined by the legislation, is to provide for the independent and objective

- conduct and supervision of audits and investigations relating to the programs and operations funded with amounts appropriated or otherwise made available for the reconstruction of Afghanistan.
- leadership and coordination of, and recommendations on, policies designed to promote economy, efficiency, and effectiveness in the administration of the programs and operations, and to prevent and detect waste, fraud, and abuse in such programs and operations.
- means of keeping the Secretary of State and the Secretary of Defense fully and currently informed about problems and deficiencies relating to the administration of such programs and operation and the necessity for and progress on corrective action.

Afghanistan reconstruction includes any major contract, grant, agreement, or other funding mechanism entered into by any department or agency of the U.S. government that involves the use of amounts appropriated or otherwise made available for the reconstruction of Afghanistan.

Source: P.L. 110-181, "National Defense Authorization Act for FY 2008," 1/28/2008.

(For a list of the congressionally mandated contents of this report, see Section 3.)

### **Cover photo:**

Tilted columns and sagging reinforcing rods at the Justice Center Court House construction project in Parwan Province, Afghanistan. SIGAR is launching an examination of the project. (SIGAR photo)





SPECIAL INSPECTOR GENERAL FOR  
AFGHANISTAN RECONSTRUCTION

I am pleased to submit this quarter's report on the status of the U.S. reconstruction effort in Afghanistan. This is my fourth quarterly report and marks the first year anniversary of my appointment by President Obama.

When I accepted the position as the Special Inspector General for Afghanistan Reconstruction, I promised the White House and Congress quicker, smarter, and more aggressive oversight of the billions of dollars provided to rebuild Afghanistan. With this renewed dedication to the critical oversight mission in Afghanistan, SIGAR had the most productive quarter since Congress created the agency in 2008. We issued more than 30 audits, inspections, alert letters, and other reports.

Over the last year, SIGAR augmented its staff, and we posted more of our workforce in Afghanistan. SIGAR maintains the largest international oversight force in Afghanistan because there is no substitute for in-person oversight of U.S.-funded reconstruction programs. Having skilled oversight staff on-scene will be the best way to protect the approximately \$20 billion of reconstruction funding that has yet to be disbursed.

Thanks to SIGAR's experienced oversight professionals, we are now viewed as the key player in combating corruption and ferreting out contract-related criminal activity in the reconstruction effort. SIGAR's investigators, auditors, and inspectors continually find serious problems that threaten reconstruction goals. For example, during this quarter, SIGAR's audits questioned more than \$2 billion in spending and costs. SIGAR investigations led to two arrests, two indictments, two criminal informations, two court-martial convictions, and two guilty pleas. SIGAR's ongoing investigations of fuel thefts in Afghanistan saved taxpayers approximately \$800,000 during this reporting period.

These investigations, along with SIGAR's audits, inspections, and special projects, highlight serious shortcomings in U.S. oversight of contracts: poor planning, delayed or inadequate inspections, insufficient documentation, dubious decisions, and—perhaps most troubling—a pervasive lack of accountability.

Federal agencies have taken many of SIGAR's concerns and recommendations to heart and are trying to protect the taxpayer, but more can be done to make contract oversight a priority. In particular, SIGAR has a growing concern about the possible disconnect between overall U.S. policy and its field implementation. There appears to be a growing gap between the policy objectives of Washington and the reality of achieving them in Afghanistan, especially when the government must hire and oversee contractors to perform its mission.

I believe the United States cannot achieve its objectives unless the execution of its policies receives at least as much attention as the intent behind them. For example, the policy objective of creating a robust Afghan army that will provide national security in lieu of Coalition forces, while admirable, will remain hollow unless Washington pays equal attention to proper contracting and procurement activities to sustain those forces. SIGAR is well aware of the wartime environment in which contractors are operating in Afghanistan, but this can neither explain the disconnect nor excuse the failure.

During my quarterly trips to Afghanistan, I have seen this disconnect first hand. These trips provide a ground-level view of reconstruction efforts outside the U.S. Embassy and military compounds in Kabul, which can at times also be isolated from activities and problems in the rest of the country. On my last trip, my staff and I attended more than 50 meetings and traveled to Bagram, Herat, Mazar-e-Sharif, Hairatan, Camp Leatherneck, and Kajaki Dam, in addition to numerous events in and around Kabul. In particular, my visits to the Kajaki Dam and Hairatan provided further evidence that contract oversight must become a top priority to policy planners or else we will repeat the mistakes of the past and waste taxpayer money.

The hydroelectric power plant at Kajaki is emblematic of the U.S.-Afghan relationship and the historical commitment our country has made to the people of Afghanistan. Unfortunately, it is also proof of the serious problems we have encountered in reconstruction. Built by American engineers in the 1950s, the dam finally had two turbines installed in the mid-1970s to provide electricity to southern Afghanistan. The project, which included a planned third turbine and improved irrigation capabilities, was abandoned after the Soviet invasion in 1979; however, U.S. engineers restarted the effort after the United States returned to Afghanistan in 2001. Unfortunately, after using multiple contractors and subcontractors, spending tens of millions of dollars, and losing scores of U.S. and Coalition lives, the work is still not complete. As some wryly note, the ancient Egyptians took less time—about 20–25 years—to complete the Great Pyramid at Giza.

This year, the United States unexpectedly dropped a plan to have a U.S. Agency for International Development (USAID) contractor install a third turbine and bring electricity to the city of Kandahar. Instead, it has agreed to pay the Afghan state-run electric utility, Da Afghanistan Breshna Sherkat (DABS), \$75 million to finally accomplish what the United States, its Coalition partners, and experienced U.S. and international contractors failed to do.

The United States will fund DABS's work using direct assistance, which is government-to-government assistance provided through multilateral trust funds and bilateral agreements. These funds can be used for a wide variety of purposes, from paying Afghan government employee salaries to hiring development contractors. The U.S. government is committed to providing billions of dollars of aid using direct assistance. SIGAR's prior work has raised concerns about the readiness of the Afghan government to handle direct assistance, which is why we remain concerned about the prospects of success at Kajaki.

To ensure that U.S. taxpayer dollars are not wasted, this quarter SIGAR launched a special project to examine how USAID will handle the direct assistance provided to DABS. SIGAR intends to keep you fully informed about every aspect of the new plan to convey to Afghanistan millions of U.S. taxpayer dollars to complete the Kajaki Dam project.

We uncovered another serious contracting issue during our visit to Hairatan, on the border with Uzbekistan. Hairatan is a major border crossing with a rail link. There we observed numerous rail tank cars crowding the local siding and were told by U.S. officials and contractors that fuel to the U.S. military was being held illegally at the border because of a tax dispute with the Afghan Ministry of Finance. This is just one example of a larger issue dealing with taxes and duties on reconstruction and military assistance that needs to be addressed in the Bilateral Security Agreement currently being negotiated between the Afghan and U.S. governments.

SIGAR published an audit this quarter documenting nearly \$1 billion in business taxes and penalties the Afghan government has charged contractors supporting U.S. operations in Afghanistan, despite formal agreements designed to help prevent the taxation of U.S.-funded contractors. In this case, the U.S. government seemed unable to provide a definitive

and unified response to the contractors who had turned to it for help. The lack of clarity on these tax issues resulted in arrests of some personnel working on U.S. contracts, increased costs to U.S. government contracts, and may have interrupted contractor support to U.S. military operations and U.S. reconstruction efforts.

Other SIGAR audits issued this quarter raised additional concerns about contracting and procurement in Afghanistan:

- The Defense Department is moving forward with a \$771.8 million purchase of aircraft the Afghan National Army cannot operate or maintain.
- USAID's main stabilization program has suffered from repeated delays and is failing to meet critical contract objectives.
- The State Department and USAID need stronger authority to terminate contracts when enemy affiliations are identified.
- Because the Afghan Public Protection Force (APPF) has a monopoly on providing security service, USAID implementing partners that require armed security have no choice but to pay the APPF's often inconsistent and inappropriate fees, and we determined that USAID has trouble reviewing these fees to ensure that the APPF only charges for the services it provides.

During this reporting period, SIGAR also completed 11 financial audits of U.S.-funded reconstruction contracts and found more than \$49 million in questioned costs that U.S. government contracting officers must review to ensure the amounts billed by various contractors are justified. SIGAR launched its financial audit program in 2012 after Congress and the oversight community expressed concern about the growing backlog and oversight gaps of incurred cost audits for contracts and grants awarded in support of overseas contingency operations

As part of our effort to help U.S. agencies and their contracting staff become more effective in protecting the taxpayer and learn from the issues raised in this quarterly report, SIGAR plans to launch a new initiative, the "SIGAR High-Risk List." It will call attention to programs, projects, and practices in Afghanistan that SIGAR finds especially vulnerable to waste, fraud, and abuse, or which may be otherwise seriously detrimental to the U.S. government's reconstruction objectives.

Despite the pending U.S. troop drawdown and Afghanistan's political and security transitions being less than a year away, the reconstruction continues and billions remain at risk due to contracting and procurement challenges. Federal agencies have requested more than \$10.7 billion for Afghanistan reconstruction programs in the Fiscal Year 2014 budget, and the United States has pledged to provide many billions more for years to come. Much of these funds will be awarded to contractors, and unless the U.S. government improves its contract-oversight policies and practices, far too much will be wasted. As SIGAR proceeds with its audits, inspections, investigations, and special projects in Afghanistan, we will be vigilant in calling out poor management and inadequate contract oversight, and in suggesting ways that accountability might be improved.

In conclusion, I would also like to reiterate the concerns I raised in our last report about the Army's refusal to act on SIGAR's recommendations to prevent supporters of the insurgency, including supporters of the Taliban, the Haqqani network, and al-Qaeda, from receiving government contracts. SIGAR referred 43 such cases to the Army recommending suspension and debarment, based on detailed supporting information demonstrating that these individuals and companies are providing material support to the insurgency in Afghanistan. But the Army rejected all 43 cases. The Army Suspension and Debarment Office appears to believe that suspension or debarment of these individuals and companies

would be a violation of their due process rights if based on classified information or if based on findings by the Department of Commerce.

I am deeply troubled that the U.S. military can pursue, attack, and even kill terrorists and their supporters, but that some in the U.S. government believe we cannot prevent these same people from receiving a government contract. I feel such a position is not only legally wrong, it is contrary to good public policy and contrary to our national security goals in Afghanistan. I continue to urge you to change this faulty policy and enforce the rule of common sense in the Army's suspension and debarment program.

My staff and I look forward to working with Congress and the Administration to improve the reconstruction mission in Afghanistan and protect the interests of U.S. taxpayers. Now, more than ever, as we approach the new elections in Afghanistan and complete the transfer of day-to-day security responsibilities to the Afghan government, we need to ensure robust and independent oversight of our more than 10-year reconstruction effort.

Respectfully,

A handwritten signature in black ink, appearing to read 'John F. Sopko', with a long horizontal flourish extending to the right.

John F. Sopko  
Special Inspector General for Afghanistan Reconstruction

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“Our Inspectors General are the eyes and ears of taxpayers within each federal agency—they’re the ones protecting our tax dollars from waste, and they’re the ones to call out federal officials for abuse of power. Their work is what can give the American people confidence that their government is functioning the way it should.”

—*Senator Claire McCaskill*

# 1 CONTRACT OVERSIGHT



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SIGAR team boards a helicopter for a series of reconstruction site visits in Afghanistan, May 2013. (SIGAR photo)

## CONTRACT OVERSIGHT: A LONG-STANDING CHALLENGE COMPOUNDED BY TRANSITION

A U.S.-funded school in Sheberghan, Afghanistan, trains aspiring Afghan teachers—and provides lessons to Americans on the need for effective contract oversight.

SIGAR inspectors found staff and students busy at their work, but in a setting of wasted money, lost time, dysfunctional oversight, weak accountability, and potential threats to their health and safety.

The Sheberghan school was built under a multi-million dollar contract, a small part of the massive effort by the United States and other international donors to reconstruct and develop a poor, largely illiterate, isolated, and war-ravaged country.

A large part of the U.S. reconstruction campaign launched in 2002 takes the form of written agreements. These commitments range from major programs to equip and train Afghan security forces, to small-scale endeavors to build schools and clinics or train court staff. Whether administered as contracts, grants, or cooperative agreements (this discussion will use “contracts” as a generic term for all three) the undertakings constitute a huge effort. Total contract obligations run into tens of billions of dollars. Because no U.S. agency has yet compiled a definitive number, SIGAR is working to clarify the data.<sup>1</sup>

Effective oversight of reconstruction contracts in Afghanistan is a critical issue to support U.S. political, security, humanitarian, and development goals for that country. The drawdown of U.S. military and civilian personnel already under way can only make contract work more difficult to manage and oversee. SIGAR is therefore devoting increasing attention to contract issues through performance and financial audits, inspections, and special projects. The aim is to provide actionable information to Congress on oversight challenges while there is still time to make a difference, and before taking corrective measures in the field gets even more complicated.

Sheberghan, a northern city of about 150,000 people, sits beside the Safid River in Jowzjan Province, bordering Turkmenistan, and is the provincial

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**Students studying** in an unlit classroom in the Sheberghan teacher-training school. (SIGAR photo)

capital. The city is about two hours' drive west of Mazar-e-Sharif and 10 hours from Kabul.<sup>2</sup> The province was active in the ancient Silk Road trade, is now connected to the modern Ring Road, and is proposed for railroad and natural-gas development.<sup>3</sup> But, as in the rest of Afghanistan, about two-thirds of the province's people are illiterate.<sup>4</sup> So teacher training is an important aspect of the country's reconstruction and future development

In May 2008, the U.S. Agency for International Development (USAID) and the U.S. Army Corps of Engineers (USACE) agreed that USACE would provide contract administration, construction management, and related services to design and build three education facilities at institutes of higher learning in Afghanistan, including teacher-training schools in Sheberghan and two other cities. In February 2009, USACE awarded the Iraqi firm Mercury Development a \$2.9 million contract to build a two-story, 10-classroom building, with library and administration office, in each location by January 12, 2010. After nine modifications, the contract value had risen to \$3.4 million and the completion date had crept out to June 2011.<sup>5</sup>

Unlike some facilities the United States has built in Afghanistan, the Sheberghan teachers school is actually in use for its intended purpose. But more than four years from the start of construction, it is still not finished or fully functional.

Visiting the school during a cold spell, SIGAR inspectors found students attending class in their coats because there was no heat, relying on light from the windows because there was no electricity, and unable to use the school's bathrooms because there was no running water.

An electrical generator was on site, but it was not running. That was just as well. The SIGAR inspectors determined that the school's electrical wiring was not up to contractually specified code requirements, and that someone had made potentially dangerous taps into electrical junction boxes, creating fire and electrocution hazards. USACE had also recognized the problem and disconnected the generator so it could not feed current into the sub-standard electrical circuits. Meanwhile, school staff said the generator's batteries and control panel had been stolen. If the generator were running, the school's tenants would like the United States to pay the estimated monthly fuel cost of \$50,000 because the Afghan government is not obliged to pay operating costs until the school is transferred.

The SIGAR inspectors also learned that no resolution had been achieved for USACE's concern that sewer lines might be built too close to the school's well for drinking water.<sup>6</sup>

## CONTRACTORS AND LIABILITY, BOTH GONE

To its credit, USACE had sent 62 letters to Mercury Development, starting in June 2009, voicing concerns with the contractor's performance, as well as noting safety violations, non-payment to subcontractors, use of

# CONTRACT OVERSIGHT

window glass from Iran, inflated worker counts, and other issues. Mercury abandoned work on the school projects in September 2011 after collecting \$3.1 million of payments courtesy of U.S. taxpayers.

Not at all to its credit, USACE closed out the contract as complete on November 19, 2011, and released Mercury from any further liability. Although the school remains unfinished to this day, the close-out documents said all issues had been resolved. USACE officials told SIGAR investigators they had no explanation for the close-out decision and the liability release.<sup>7</sup>

Following Mercury's departure, USACE contracted with the Afghan company Zafarkhaliq Construction to finish the work at Sheberghan, awarding it a \$153,000 contract in January 2012 to correct electrical faults and complete the facility within 30 days. But eight months later, Zafarkhaliq had completed less than two-thirds of its work without correcting the code violations in the school's electrical system.

USACE terminated that contract in December 2012 after paying the new contractor over \$130,000 and releasing it—as Mercury had been released—from further contractual liability. A third contract arrangement is in prospect. USACE, however, is no longer managing the project; that responsibility has reverted to USAID.

Meanwhile, the U.S. government remains responsible for the Sheberghan school's operation and maintenance costs because the lack of completion prevents USAID from transferring it to the Afghan government.<sup>8</sup>

## AT BATHKHAK, A ROOF THAT COULD KILL

The Sheberghan story is striking, but not unique. U.S. Forces-Afghanistan (USFOR-A) awarded the Emaar Emarat Construction Company a contract for nearly \$263,000 in August 2012 to build a 10-classroom addition to a school in Bathkhak in Kabul Province. SIGAR inspectors found that the



**A school in Bathkhak province**, built with wood windows and brick walls instead of the more durable vinyl and stronger cinderblock required by contract. (SIGAR photo)

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contractor had built two smaller buildings rather than the one required, had used brick rather than the specified concrete blocks for the walls, and wood- rather than vinyl-framed windows. They also noted that the project was behind schedule, had its first site visit six months into the construction process, and was incompletely documented.

More troubling, given the school's location in an earthquake zone, the contractor had installed a concrete-slab roof instead of the required wood-truss roof. Citing that unauthorized change and problems like exposed reinforcing rods, poorly mixed and crumbling concrete, and wooden form boards left to rot in the concrete and create weak spots, the inspectors concluded that "The new Bathkhak school has serious design and construction flaws and could be a disaster waiting to happen."<sup>9</sup>

Both Bathkhak and Sheberghan reveal shortcomings in U.S. oversight of contract performance, including delayed or inadequate inspections, poor documentation, dubious decisions, and lack of accountability. These are not isolated instances. The Government Accountability Office (GAO), for example, "has found systemic weaknesses in USAID's oversight and monitoring of project and program performance in Afghanistan."<sup>10</sup>

The USAID examples are instructive, but the bulk of contracting activity in Afghanistan has been under the aegis of DOD—which also acknowledges problems. In April 2013, DOD released an action plan for operational contract support that listed among 10 "critical capability gaps" this one:

The joint force lacks sufficient capacity to effectively administer, oversee, and close contracts to ensure contractor performance is properly tracked and accessible and desired outcomes are achieved.<sup>11</sup>

That is a troubling admission for at least two reasons. First, reflecting the massive scope of the contracting effort, DOD contractors outnumber troops in Afghanistan by nearly two to one. U.S. Central Command data for March 2013 showed 107,796 contractors and 65,700 U.S. troops.<sup>12</sup> Second, despite a number of widely reported improvements, DOD contract management has been on the GAO's list of "high-risk" programs since 1992.<sup>13</sup>

## **OVERSIGHT PROBLEMS: WIDESPREAD AND TROUBLING**

Recent work by SIGAR offers many other examples of deficient oversight.

For example, SIGAR has found it impossible to confirm the number of contracts issued for culvert-denial bars or gratings in Afghanistan, and have concluded that for about 2,500 locations, documentation does not reveal whether the devices were actually and properly installed. That is troubling, because the \$32 million committed to road work since 2009 includes culvert-denial requirements to block an easy way for Afghan insurgents to plant explosive charges under roads.<sup>14</sup>

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**Mi-17 undergoing maintenance** at a SMW hanger in Kabul. (SIGAR photo)



**Destroyed Afghan National Police vehicles** in the Gardez regional maintenance center. (SIGAR photo)

A recent SIGAR audit of a \$772 million project to provide new aircraft for the Afghan Special Forces' Special Mission Wing (SMW) to help with counternarcotics and counterterrorism operations concluded that "The Afghans lack the capacity—in both personnel numbers and expertise—to operate and maintain the existing and planned SMW fleets." The audit also noted that key task orders lacked performance metrics, that contractors failed to account properly for maintenance hours and misrepresented readiness, and that DOD personnel in Kabul lacked the authority and experience to provide effective oversight of contractor performance.<sup>15</sup>

Oversight issues also surfaced in SIGAR's audit of the Combined Security Transition Command-Afghanistan's (CSTC-A) contract with Automotive Management Services FZE to maintain U.S.-purchased vehicles for the Afghan National Police. CSTC-A had unnecessarily paid out more than \$6 million in 2011–2012 because no one had purged vehicle lists of 7,324 vehicles that had been destroyed or out of service for more than a year. The auditors also found that 121 of 453 required contracting officer representative reports were missing from files, and that another 121 were based on phone calls or emails rather than site visits. Some of the remote-oversight activity reflected logistical and security constraints, but "many reports lacked support for why an audit [by CTSTC-A personnel] could not be performed." CSTC-A concurred with SIGAR's various recommendations.<sup>16</sup>

Financial audits by SIGAR staff have found other problems in Afghanistan contracts, including poor record keeping and retention, failure to observe procedures, misstated or unreasonable costs, and lack of tracking systems for equipment and spare parts.

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For example, a SIGAR financial audit of a \$17.2 million portion of spending under the U.S. Department of Agriculture’s contract with Volunteers for Economic Growth Alliance found \$720,501 in unsupported costs—not necessarily illegitimate, but not properly documented.<sup>17</sup> Another contractor, Afghan Integrated Support Services (AISS), holds a DOD contract to provide vehicle maintenance, training, and capacity building for the Afghan army. SIGAR engaged an auditing firm to examine nearly \$32 million of AISS expenditures. The auditors found four internal-control deficiencies, five cases of non-compliance, and more than \$2.8 million in questioned costs, including \$217,643 in costs that were ineligible under the contract.<sup>18</sup> Other financial audits show similar results.

A SIGAR Alert in June 2013 advised Ambassador James B. Cunningham and senior USAID officials of its observations from examining a nearly \$70 million USAID cooperative agreement with International Relief and Development Inc. (IRD) for projects to promote agriculture, reduce instability, and “improve the confidence of Afghans in their government.” The alert letter noted that USAID did not review and approve IRD’s work plan until four months into its execution, when about \$44 million had already been obligated. The alert letter summarized the issue:

Robust oversight by funding agencies—in this case USAID—is the first line of defense when U.S. government dollars are on the line. In environments such as Afghanistan, strong oversight is especially important. However, in the case of the [IRD-run] program, USAID did not exercise oversight as effectively as it could and should have. As a result, equipment was purchased that may be left unused or stolen; inflated prices for agricultural products were potentially paid; and unnecessary costs for storing, disassembling, and distributing unneeded [water] pumps were incurred.<sup>19</sup>

## OTHER AGENCIES HAVE DOCUMENTED OVERSIGHT DEFICIENCIES

SIGAR is not alone in finding deficiencies in contract oversight, or in the related oversight grants and cooperative agreements that USAID typically employs.

A sampling of recent work by the inspector general of the U.S. Department of Defense, for example, includes findings such as these:

- USACE accepted a contractor-built detention facility in Parwan, Afghanistan, “although major deficiencies existed.” USACE officials “did not provide adequate oversight ... and did not comply with their internal policies regarding oversight of the contractor’s warranty.”<sup>20</sup>
- The Air Force Center for Engineering and the Environment (AFCEE) “did not provide effective oversight of [four] military construction projects in Afghanistan” valued at \$36.9 million. “AFCEE officials stated that this

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occurred because they relied completely on the technical expertise of their contractor personnel.” [Emphasis added.] The DOD IG found “conflicting electrical standards” in one contract and “incorrect fire protection standards” in two contracts, failure to identify “significant deficient work,” and creation of “serious increased hazards to the life and safety of coalition forces who occupy two of the four facilities reviewed.”<sup>21</sup>

- The U.S. Army, NATO, CSTC-A, and the Defense Contract Management Agency “did not implement adequate oversight” of a \$1.2 billion contract for training the Afghan National Police. Oversight procedures were not coordinated, quality-assurance (QA) requirements were not implemented, and contracting officer representatives (CORs) were not adequately trained or their work reviewed.<sup>22</sup>
- In overseeing four military construction projects valued at nearly \$50 million at Bagram Airfield, USACE QA personnel “did not properly monitor contractor performance.” Among the failings: the USACE personnel did not approve contractor QA plans before work started, did not maintain documentation of QA activities, and did not request technical specialists to perform technical inspections. Personnel told the DOD IG they had not been given adequate training and guidance.<sup>23</sup>

USAID’s Office of Inspector General and the Department of State’s IG have likewise recorded deficiencies in oversight of contracts, grants, or cooperative agreements. For example:

- A 2012 sampling review of USAID/Afghanistan’s monitoring and evaluation system—used to track 95 active projects valued at \$4.5 billion—found that the USAID Mission had issued no guidance orders on monitoring projects or on-budget assistance to the Afghan



**ANP cadets** receive instructions before departing for advanced training courses. (U.S. Air Force photo)

# CONTRACT OVERSIGHT

government, had not issued approvals for all projects as required, had not provided refresher training for technical officers, had not ensured that implementing partners were recording performance in the Afghan Info database, and had not consistently validated data reported to them.<sup>24</sup>

- An audit of USAID’s five-year, \$150 million Incentives Driving Economic Alternatives for the North, East, and West found no documentary evidence that USAID Mission staff had visited work sites supporting the effort to give Afghan farmers legal and viable alternatives to growing opium poppy. Auditors also found that because the agreement officer’s representative (the equivalent of a COR) was neither analyzing nor confirming the accuracy of progress reports, errors and inconsistencies were going undetected.<sup>25</sup>

GAO has taken note of various agency steps to improve contract oversight with revised policies, more and better trained acquisition personnel, and more effective data systems. Nonetheless, in February 2013, GAO reported to Congress that, among other things:

- “DOD, State, and USAID face contract management and oversight challenges in Afghanistan, and their oversight of U.S. contracts requires additional improvement.”
- “The three agencies continue to experience difficulty in reporting reliable information on their contracts and contractor personnel in Afghanistan.”
- “DOD oversight personnel in Afghanistan did not always receive adequate training and ... DOD continued to lack a sufficient number of oversight personnel.”
- “Individual offices within State and USAID often made case-by-case decisions on using contractors to support grant or contract administration, and risks, such as possible conflicts of interest or insufficient oversight, were not always addressed.”<sup>26</sup>

Recently, the Special Inspector General for Iraq Reconstruction published “Seven Final Lessons from Iraq” after 220 audits and 170 inspections over nine years’ work. Two lessons on stability and reconstruction operations (SRO) are pertinent here:

- Establish uniform contracting, personnel, and information management systems that all SRO participants use.
- Require robust oversight of SRO activities from the operation’s inception.<sup>27</sup>

Incomplete and incompatible data systems, shortages of acquisition personnel, insufficient training, delayed selection and overloading of contracting officer representatives, short tours of duty that impede gaining and transmitting local knowledge, tardiness in launching oversight activities, scarcity of technical experts, inattention to regulations and policy, and

reluctance to use enforcement tools like suspension and debarment have all drawn official attention in reviews of contracting in Iraq and Afghanistan. Floating above all these shortcomings is the meta-concern of institutional culture. As the federal Commission on Wartime Contracting in Iraq and Afghanistan said in its 2011 final report to Congress:

Cultural change affecting acquisition is needed at the strategic and operational levels of Defense, State, and USAID. ... The past decade has demonstrated that failure to recognize the importance of acquisition and failure to elevate it within each agency perpetuates poor planning, aggravates the shortage of trained professionals, and contributes to runaway costs through inattention and poor and inconsistent decision making.<sup>28</sup>

Almost two years since that commission report and more than 11 years since the start of U.S. military operations in Afghanistan, it seems clear that federal institutional culture still fails to plan and execute contracting with the seriousness that its mission criticality and cost deserve, and fails to connect departmental policy and rules effectively with the day-to-day details of oversight in the field.

## COMPOUNDING THE CHALLENGE

Contractors—and repeated demonstrations of the need to oversee them effectively—have been important features of every American war since the Revolution, and of many joint operations such as the recent years’ relief operations for the Haiti earthquake, the Southeast Asia tsunami, and the Japanese earthquake/tsunami.<sup>29</sup>

Contractors can offer specialized expertise, meet temporary demands that exceed the capacity of the federal workforce, provide managers with staffing flexibility, and otherwise add value to government operations. But as experience has shown, contracting can introduce its own problems. Effective oversight is imperative not only to avoid wasting taxpayers’ money, but to ensure that troops and federal civilian missions are getting the goods and services they need, that operational goals are being supported, and that U.S. image and credibility are not undermined.<sup>30</sup>

The dangers, hardships, and everyday difficulties of operating in places like Afghanistan or Iraq must not be minimized. Both U.S. military and civilian employees, and their contract support and implementing partners, take on considerable burdens beyond normal job descriptions in such places. Several features of the U.S. involvement in Afghanistan and of domestic politics appear likely to magnify the existing difficulties of contract oversight:

- U.S. military forces are being steadily withdrawn from the country and their bases closed, both of which constrict the “security bubble” for relatively safe travel within range of quick-response forces and helicopter medevac missions.

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- The “Afghan First” policy of steering more acquisition dollars to Afghan vendors for purchases and contracts—40,314 or 37% of DOD contract personnel in Afghanistan as of March 2013 were local nationals<sup>31</sup>—piles new issues of visibility, vetting, verification, and accountability onto the traditional barriers to good oversight.
- The policy commitment to providing more funds as direct assistance to Afghan ministries presents new challenges to U.S. oversight. As the State Department’s deputy IG recently told Congress, “Corruption and complexity are fundamental challenges to any international assistance program, specifically those operations based on government-to-government transfers of funds to countries with unstable political climates.”<sup>32</sup>
- Budget cuts or sequestration impacts like furloughs could impair the ability of federal acquisition personnel to provide timely and effective contract oversight, even if their numbers are not reduced, as has often happened in post-conflict and budget-constrained settings.

Yet the specific challenges of overseas contingency operations must not be seen as a free pass for agencies to tolerate lax oversight of contracts. And contract-oversight difficulties in Afghanistan must not be seen as a unique case or a limited problem. Contract oversight is a long-standing and widespread problem for the U.S. government, whether the setting is peaceable or hostile, overseas or domestic, military or civilian.

As previously noted, GAO has listed DOD contract management on its “high-risk list” since 1992. But that list also includes the U.S. Department of Energy (DOE) contract management by its National Nuclear Security Administration and its Office of Environmental Management. GAO reports significant improvements, but has kept DOE contract management on the high-risk list since 1990. GAO notes that most of DOE’s budget is spent on contracts and large capital-asset projects, so “DOE’s record of inadequate management and oversight of contractors has left the department vulnerable to fraud, waste, abuse and mismanagement.”<sup>33</sup>

## WHAT TO DO?

Federal commissions, non-governmental bodies, and oversight agencies like SIGAR have made literally hundreds of recommendations over the years to improve contract oversight. They include improving data systems and compatibility standards, augmenting personnel numbers and training, strengthening policies and practices, creating better metrics and assessing them more carefully, and establishing dedicated cadres of management and oversight professionals that could be deployed at the outset of a contingency operation.<sup>34</sup>

To their credit, federal agencies have taken many of these concerns and recommendations to heart and are adapting to the exigencies of the Afghan

# CONTRACT OVERSIGHT

theater. DOD, for example, says that when lack of armed escort repeatedly prevents CORs from visiting points of execution of contracts, “The program manager and the [Regional Support Command] look to move the COR, descope that portion of a contract, or assume the performance risk of not directly providing oversight on the contract.”<sup>35</sup>

USAID, while noting that “Afghanistan is unique amongst USAID Missions in having a field presence at all”—68 to 70 CORs over the past year—says it is taking steps to deal with the changing environment there. “To mitigate any decreased monitoring capability, USAID/Afghanistan is in the process of procuring contracts with the express purposes of being able to provide a remote monitoring capability,” while also increasing the role of host-country or third-country nationals in monitoring.<sup>36</sup>

Yet beefing up personnel numbers, employing new technologies, promulgating new rules and regulations, and taking other commonly recommended actions will not address one of the fundamental problems in contract oversight: people’s failure to do what they are supposed to be doing.

The audits and inspections cited in this essay, and many others, recount incidents of U.S. contract-management and contract-oversight officials failing to inspect work, failing to insist on corrections, failing to confirm performance before closing contracts, failing to make or file proper records, failing to secure technical experts to assess specialized work, and in other ways simply not doing their jobs or not doing them properly. In a spring 2013 audit—not focused on Afghanistan, but revealing—the DOD IG looked at Air Force contracting personnel’s compliance with an interim Federal Acquisition Regulation (FAR) rule tightening standards for use of cost-reimbursable contracts.

Cost-reimbursable contracts are basically pass-through arrangements in which the government pays the costs the contractor submits, subject to contract limits and to review for qualification and accuracy. The federal Office of Management and Budget (OMB) considers them a form of “high-risk contracting” with increased risk of waste and cost overruns. “This is especially true for cost-reimbursement contracting,” OMB says, “which in terms of issues such as finance, accounting, cost and price analysis, and industrial engineering, demands a higher level and broader range of skills than is required for competitively awarded fixed-price contracts.”<sup>37</sup>

Yet when the DOD IG examined 156 cost-reimbursable contracts, it found that “Air Force contracting personnel did not consistently implement the interim [FAR] rule” for 75 contracts representing about \$8.8 billion of the total \$10.5 billion value in the sample.<sup>38</sup> Why?

... because they were unaware of the rule, assumed it did not apply to task or delivery orders when the basic contract was issued before the rule, or did not document actions taken to conform to the rule. As a result, Air Force contracting personnel may increase the Air Force’s risk because cost-reimbursable contracts provide less incentive for contractors to control costs.<sup>39</sup>

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Exhortation, directives, and training are by themselves unlikely to produce fully effective oversight if the assigned implementers forget or simply neglect to act, decide that other tasks are more pressing, or act but never document their results. It is clear that in contract oversight, sins of omission are common. What is not clear is whether the offending parties consistently face any actual and substantive personal or programmatic consequences for their failures—other, that is, than the ephemeral, rhetorical consequence of receiving an official chiding in an audit or inspection report.

As Congress considers oversight reports and lessons learned from Afghanistan to enhance outcomes there in the “decade of transformation” ahead and to improve contracting oversight in future operations, it may wish to enquire whether implementing agencies broadly and consistently impose accountability, including genuine consequences, for personnel who fail to display proper diligence in carrying out their contract-oversight tasks. One way to systematize such scrutiny might be to require department and agency heads to report regularly on their accountability policies and practices, to assess lessons learned that require changes, and to summarize actual consequences imposed after reviews.

In raising this issue, SIGAR recognizes the difficulty of distinguishing decisions that seemed reasonable at the time, given the known imperatives, information, and risks, from decisions that were clearly unreasonable or culpable at the time they were made. We also recognize that vital mission objectives, urgency, security threats, or travel constraints can force trade-offs and compromises in the level of oversight applied in some settings. We recognize the danger that organizations may be tempted to cover institutional or procedural shortcomings by scapegoating unlucky or unpopular individuals. Those are all reasonable caveats, but they are not an excuse for tolerating present practice.

SIGAR’s work and that of other oversight bodies makes it clear that strict and enforced personal accountability for reckless, thoughtless, lazy, or uninformed decisions is not a conspicuous feature of federal management culture—but it needs to be if we expect better performance from federal contracts. Taxpayers and national missions deserve no less. As SIGAR proceeds with audits, inspections, investigations, and special projects in Afghanistan, we will be vigilant in calling out poor management and oversight in contracting, and in suggesting ways that accountability might be improved.

SIGAR does not expect perfect execution of a complicated job and does not contemplate ex post facto back-seat driving. But we firmly believe that more rigorous accountability can improve future judgments and decisions, thereby preventing many costly oversight blunders.

Imposing effective oversight on operational contract support is but a new chapter in a long struggle. In 1784, Thomas Jefferson wrote to the temporarily

# CONTRACT OVERSIGHT

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retired George Washington to urge on him the “superintendence” of proposed navigation improvements on the Ohio and Potomac Rivers.

Jefferson thought Washington’s towering reputation and stern oversight might mitigate “a most powerful objection” to such new projects: “Public undertakings are carelessly managed and much money spent to little purpose.”<sup>40</sup>

Washington, busy with other matters, politely deflected the proposal. But more than two centuries later and half a world away, Jefferson’s concern lives on.

“You’ve got to go kick the tires. You’ve got to make certain someone we trust goes out and makes certain the money is spent the way it was intended. You’ve got to verify that the money you gave to buy fuel bought the fuel.”

—*Special Inspector General John F. Sopko*

# 2 SIGAR OVERSIGHT



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**Photo on previous page**

The Special IG and staff meet with the Monitoring and Evaluation Committee,  
May 2013. (SIGAR photo)

## SIGAR OVERSIGHT ACTIVITIES

This was SIGAR's most productive quarter since Congress created the agency in 2008. SIGAR issued 30 audits, inspections, alert letters, and other reports. This included six audits, 11 financial audits of costs incurred on contracts, two inspections, nine management and safety alert letters, and one Special Project report. Most of this work focused on contracting issues and program management. It identified poor planning, project delays, weak accountability, and deficient oversight. It also found significant waste, shoddy construction, and potential threats to health and safety.

Ongoing SIGAR investigations of fuel thefts in Afghanistan also saved the U.S. government approximately \$800,000 during this reporting period. In addition, SIGAR investigations led to two arrests, two indictments, two criminal informations, two court-martial convictions, and two guilty pleas.

The six audits SIGAR published this quarter reviewed Department of Defense (DOD), State Department, and U.S. Agency for International Development (USAID) programs to develop the Afghan security forces, improve governance, and promote economic and social development. One audit showed that DOD is moving forward with a \$771.8 million purchase of aircraft the Afghan National Army (ANA) cannot operate or maintain. Another revealed that USAID's main stabilization program has suffered repeated delays and is failing to meet critical contract objectives. SIGAR also found that State and USAID need stronger authority to terminate contracts when enemy affiliations are identified. In addition, SIGAR raised concerns about the capabilities and costs of the Afghan Public Protection Force (APPF), which U.S.-funded contractors must now rely on for security services. Finally, SIGAR discovered that State's reconstruction grants and cooperative agreements have gone largely unaudited. SIGAR's financial audits of contracts valued at about \$942 million identified over \$49 million in questioned costs.

SIGAR inspections of education facilities found such shoddy construction that the buildings pose a safety threat to teachers and students. In addition, SIGAR alert letters informed DOD and USAID about significant waste of U.S. funds. For example, SIGAR reported on the construction of a 64,000-square-foot building that may never be used and an agricultural program that suffered from poor planning and inadequate oversight.

### AUDIT ALERT LETTERS

- Alert 13-2: Southern Regional Agricultural Development Program
- Alert 13-3: Fines, Fees, and Penalties Levied by Afghan Government
- Alert 13-4: Camp Leatherneck Incinerators and Burn Pits
- Alert 13-5: Chemonics International
- Alert 13-6: State Agreement with International Development Law Organization

### COMPLETED AUDITS

- Audit 13-8: Business Taxes on Contractors in Afghanistan
- Audit 13-12: State Department Assistance Awards
- Audit 13-13: Afghan Special Mission Wing
- Audit 13-14: Contracting with the Enemy
- Audit 13-15: Afghan Public Protection Force Concerns
- Audit 13-16: Stability in Key Areas Programs

### COMPLETED INSPECTIONS

- Inspection 13-9: Sheberghan Teaching Training Facility
- Inspection 13-10: Bathkhak School

### COMPLETED SPECIAL PROJECT REPORTS

- Special Project 13-8: Culvert Denial Systems

### SPECIAL PROJECT ALERT LETTERS

- Management Alert 13-4: Subcontractor Nonpayment Issues
- Safety Alert 13-5: Bathkhak School
- Safety Alert 13-6: Sheberghan Teacher Training Facility
- Management Alert 13-7: Command and Control Facility at Camp Leatherneck

During this reporting period, SIGAR also provided a special briefing to the House Committee on Oversight and Government Reform on the Kabul Bank crisis, requested implementing agencies to provide an analysis of their best performing projects, and conducted a peer review.

In addition to identifying and deterring waste, fraud, and abuse, SIGAR seeks to make recommendations to U.S. government agencies and the Congress to improve the efficiency and effectiveness of the nearly \$97 billion U.S. reconstruction effort. This quarter, members of Congress drew on SIGAR's work for proposed legislation.

## PROPOSED LEGISLATION INCORPORATES SIGAR RECOMMENDATIONS

During this reporting period, the House and Senate each incorporated SIGAR findings and recommendations into their drafts of the National Defense Authorization Act (NDAA) for fiscal year (FY) 2014. The House, which passed its version of the FY 2014 NDAA on June 14, 2013, would expand Section 841, which calls on the U.S. Central Command (CENTCOM) commander to take steps to prevent contracting with the enemy and authorizes DOD to terminate contracts it has determined are providing funding to active insurgent elements and opponents of U.S. or Coalition forces.

Other provisions of the bill would require DOD to report on measures to ensure that U.S. financial assistance to the Afghan security forces is not used to purchase fuel from Iran in violation of U.S. sanctions, require DOD to recoup taxes assessed by the Afghan government, and require DOD to provide information on the capability of the Afghan security forces to operate and maintain their infrastructure after January 1, 2015. These provisions drew on recommendations from four SIGAR reports:

- *Contracting with the Enemy: DOD Has Limited Assurance that Contractors with Links to Enemy Groups Are Identified and Their Contracts Terminated* (Audit 13-6)
- *Afghan National Security Forces: Limited Visibility Over Fuel Imports Increases the Risk that U.S.-Funded Fuel Purchases Could Violate U.S. Economic Sanctions against Iran* (Special Project Report 13-2)
- *Taxes: Afghan Government Has Levied Nearly a Billion Dollars in Business Taxes on Contractors Supporting U.S. Government Efforts in Afghanistan* (Audit 13-8)
- *Afghan National Security Forces Facilities: Concerns with Funding, Oversight, and Sustainability for Operations and Maintenance* (Audit 13-1)

The Senate Armed Services Committee, which reported its version of the FY 2014 NDAA on June 20, 2013, would also expand Section 841. As SIGAR has recommended, the Committee would direct the Secretary of Defense to report to Congress on efforts to reduce reliance on open-pit burning

of waste at operating bases in Afghanistan. The Committee drew on two SIGAR reports:

- *Contracting with the Enemy: DOD Has Limited Assurance that Contractors with Links to Enemy Groups Are Identified and Their Contracts Terminated* (Audit 13-6)
- *Forward Operating Base Salerno: Inadequate Planning Resulted in \$5 Million Spent for Unused Incinerators and the Continued Use of Potentially Hazardous Open-Air Burn Pit Operations* (Inspection 13-8)

## SENATORS URGE DOD TO IMPLEMENT SIGAR RECOMMENDATIONS

After the publication this quarter of SIGAR's audit of U.S. efforts to support the Afghan Special Mission Wing (SMW), a bipartisan group of nine senators urged Secretary of Defense Chuck Hagel to reconsider DOD's planned purchase of 48 Russian helicopters. The Afghan government established the SMW to provide critical air support for the Afghan National Army (ANA) Special Operations Forces whose primary mission is to combat the narcotics trade and terrorism. The United States awarded contracts totaling \$771 million to purchase 48 new aircraft, and plans to spend hundreds of millions more for oversight, maintenance, training, and logistical support. SIGAR's audit found that the SMW lacks the capacity to operate and maintain the aircraft and recommended that DOD suspend all activity under the contracts awarded for the 48 new aircraft for the SMW until certain conditions were met. For a full summary of this audit see page 30.

Several members of Congress also urged the Secretary of Defense to halt the use of open-air burn pits in response to a SIGAR letter alerting DOD and Congress about the military's continued use of open-air burn pits in Afghanistan. They noted that the use of open-air burn pits potentially endanger the health of U.S. military and civilian personnel supporting Operation Enduring Freedom in Afghanistan. The alert letter is summarized on page 21 of this report.

## SIGAR CONDUCTS PEER REVIEW

The public office of Inspector General carries with it a responsibility to apply a high standard of professionalism and integrity, and above all, foster good governance to promote the public's trust. As part of this responsibility, the Council of the Inspectors General on Integrity and Efficiency (CIGIE) requested that SIGAR conduct an external peer review of the Pension Benefit Guaranty Corporation, Office of the Inspector General (PBGC-OIG). SIGAR's responsibility was to express an opinion about PBGC-OIG's quality control system and its compliance with generally accepted government auditing standards (GAGAS).

After completing its review this quarter, SIGAR concluded that PBGC-OIG deserved a rating of pass with deficiencies. SIGAR identified deficiencies in audit planning, reporting audit results, and its quality control and assurance program. These deficiencies must be addressed to ensure PBGC-OIG provides reliable and objective information to the public.

PBGC-OIG rejected SIGAR's rating. Its response raised additional concerns about the potential lack of independence in the PBGC-OIG audit reports. In a letter to the PBGC Inspector General, Senator Charles Grassley wrote, "I would like to remind you that independence is the heart and soul of the IG Act and audit oversight." He requested that the PBGC Inspector General clarify comments related to IG independence and provide information on how the agency intends to address and resolve the issues identified in the peer review.

## AUDITS

This quarter SIGAR issued six performance audit reports, 11 financial audits of contracts, and five audit alert letters that identified problems with planning, contract oversight, and accountability as well as serious safety issues. SIGAR announced seven new audits, including two financial audits of costs incurred under U.S.-funded awards for Afghanistan reconstruction activities.

### Alert Letters

With the security, political, and economic transitions looming, U.S. military commanders and civilian officials have asked SIGAR to provide them with real-time information to prevent waste and increase the effectiveness of U.S. reconstruction programs. One of SIGAR's main goals is to provide implementing agencies and Congress with actionable information while there is still time to make a difference. During this reporting period, SIGAR sent nine alert letters to inform DOD, State, and USAID about important audit findings requiring urgent attention. The Audits and Inspections Directorate sent five of these letters, drawing agency attention to waste and mismanagement in a \$70 million USAID agriculture program, nearly \$1 billion in taxes levied by the Afghan government on U.S.-funded contractors, and accountability issues related to two contracts. SIGAR's Special Projects Office also sent four management and safety alert letters. See pages 53–56 for a summary of these letters.

#### **Alert 13-2: Southern Regional Agricultural Development Program Had Poor Coordination, Waste, and Management**

On June 27, 2013, SIGAR informed U.S. officials in Kabul that it had found major waste and mismanagement of a USAID-funded agricultural program. SIGAR initiated a review after receiving a series of complaints

### AUDIT ALERT LETTERS

- Alert 13-2: Southern Regional Agricultural Development Program Had Poor Coordination, Waste, and Mismanagement
- Alert 13-3: Afghan Government Levying Additional Fines, Fees, and Penalties that May Cost U.S. Government Millions of Dollars
- Alert 13-4: Camp Leatherneck Incinerators, Burn Pit Being Used
- Alert 13-5: Concerns with Chemonics International, Inc. Meeting Its Responsibilities Under a Federal Contract
- Alert 13-6: Serious Deficiencies Noted in State Agreement with the International Development Law Organization

# SIGAR OVERSIGHT

about the \$70 million cooperative agreement with International Relief and Development Inc. (IRD) to implement USAID's Southern Regional Agricultural Development (S-RAD) program. The S-RAD program, which began in 2011, was intended to (1) reduce regional instability, (2) increase agricultural employment and income opportunities, (3) assist with the regional transition to a prosperous and sustainable agricultural economy, and (4) improve the confidence of Afghans in their government. To achieve these objectives, the program provided equipment, agricultural supplies, and training to Afghan farmers and agricultural cooperatives in 17 districts in Helmand and Kandahar provinces.

SIGAR identified a number of problems in the implementation of this program:

- IRD did not effectively coordinate and execute the S-RAD project activities SIGAR reviewed.
- IRD deviated from its work plan by distributing items—tractors, solar panels, and agricultural supplies—that were either more expensive than those called for in the plan or were not called for under the plan.
- USAID did not provide effective oversight of the program.

The original work plan called for two-wheel tractors, but IRD purchased 95 four-wheel tractors for a total cost of \$1.68 million. IRD officials told SIGAR they made the decision to switch to four-wheel tractors because some Afghan officials said they did not want any more two-wheel tractors distributed to farm cooperatives. However, the two-wheel tractors would have been more appropriate in the small plots with tight spaces. A subsequent study found that at least one-third of the 95 tractors that were distributed in Kandahar could not be located.

U.S. officials and Afghan officials repeatedly raised questions about the high cost and questionable value of IRD's approach to the distribution of solar panels and agriculture supplies. IRD expanded its purchase of solar panels despite objections from U.S. officials who cited the risk of theft, resale, or misuse. U.S. and Afghan officials reported that IRD's approach to the distribution of seeds, saplings, and fertilizers provided opportunities for corruption, distorted market prices, and were potentially destabilizing factors in the critical areas the program was supposed to help stabilize.

Although the program has ended, SIGAR shared its findings in an alert letter so that USAID could immediately take action to prevent such problems in future agricultural development programs.

### **Alert 13-3: Afghan Government Levying Additional Fines, Fees, and Penalties that May Cost U.S. Government Millions of Dollars**

On June 28, 2013, in a follow-up letter to an audit published earlier this quarter, SIGAR informed Congress that it had identified additional



**Unused water pumps** from a USAID agricultural-improvement project sit in outdoor storage. (SIGAR photo)

costs—including various fees, fines, and penalties—that the Afghan government was imposing on U.S.-funded contractors. The audit identified nearly \$1 billion in business taxes and penalties imposed by the Afghan government on contractors supporting U.S. operations. (See Audit 13-8, *Taxes: Afghan Government Has Levied Nearly a Billion Dollars in Business Taxes on Contractors Supporting U.S. Government Efforts in Afghanistan*, which is summarized on page 27 of this report.)

The alert letter discussed four types of additional costs imposed on contractors: customs process fees, fines levied for delayed customs documentation, visa and work permit fees, and business license and registration fees. These additional fees, fines, and penalties may cost these contractors, and ultimately the U.S. government, hundreds of millions of dollars. Moreover, the actions taken by the Afghan government to enforce them may have an adverse effect on U.S. military operations.

U.S. government agencies, including DOD, have executed a number of international agreements with the Afghan government that clearly exempt goods imported into Afghanistan in support of the U.S. military mission from Afghan tariffs and customs duties. However the Afghan government is charging DOD commercial carriers customs process fees for every container of goods shipped into Afghanistan in support of U.S. military operations, even though the containers are supposed to be exempt.

In apparent violation of the Status of Forces Agreement between the United States and Afghan governments, the Afghan government has also charged fines for “late” or unprocessed customs declaration forms. As of May 2013, an official at the U.S. Army Military Surface Deployment and Distribution Command estimated that the Afghan government has levied more than \$150 million in improper fines for unprocessed customs declaration forms since 2009. In addition, the Afghan government has restricted the freedom of movement for commercial carriers to deliver their cargoes—such as foodstuffs destined for U.S. military and International Security Assistance Force (ISAF) personnel—resulting in serious consequences for the U.S. government’s combat mission and reconstruction effort in Afghanistan.

The Afghan government requires contractors to receive annual visas and work permits for each non-Afghan employee working in Afghanistan. While some bilateral agreements between various U.S. government agencies and the Afghan government may exempt certain U.S. personnel from requirements to obtain visas, other agreements are silent on the matter. SIGAR’s analysis of the visa and work permit process indicates that these costs amount to approximately \$1,138 per employee per year.

All contractors supporting the U.S. government in Afghanistan are required to register annually with the Afghanistan Investment Support Agency to obtain a business license. The fee associated with obtaining the required business license ranges from \$100 to \$1,000 per year, depending

on the industrial sector. In 2012, at least 1,138 companies operated in Afghanistan in support of U.S. operations.

As Congress considers future appropriations for Afghanistan, SIGAR believes it prudent to consider these costs and their impact on U.S. operations.

### **Alert 13-4: Observations on Solid Waste Disposal Methods in Use at Camp Leatherneck**

In July, SIGAR alerted the commanders of CENTCOM and U.S. Forces-Afghanistan (USFOR-A) to the health dangers posed by the continuing use of open-air burn pit operations to dispose of daily waste at Camp Leatherneck in Helmand province. The toxic smoke from burning solid waste each day increases the long-term health risks for camp personnel.

The camp, which currently houses 13,500 U.S. civilian and military personnel, uses a combination of incineration and open-air burn pit operations to dispose of about 54 tons of solid waste produced every day. Although Camp Leatherneck spent \$11.5 million to purchase and install two 12-ton and two 24-ton capacity incinerators, SIGAR inspectors found that the 12-ton incinerators were not being used to full capacity and the 24-ton incinerators were not being used at all because a contract for their operation had not been awarded. Consequently, in apparent violation of DOD guidance, Camp Leatherneck relies heavily on open-air burn pit operations to dispose of its solid waste.

Camp officials advised SIGAR that a contract was about to be awarded for the operation and maintenance of the 24-ton incinerators and that a \$1.1 million contract for hauling trash off-site to a local landfill should be in place by the end of July 2013. SIGAR's analysis indicates that making efficient and effective use of the incinerators should enable the camp to terminate open-air burn pits operations and possibly eliminate the need for a contract to haul trash off-site.



**Open-air burn pit** smoke at Camp Leatherneck. (SIGAR photo)

SIGAR urged the military commanders to ensure the incinerators are used to full capacity and reevaluate the need for the contract to haul solid waste to a local landfill.

## **Alert 13-5: Financial Audit of Chemonics International, Inc**

On July 2, 2013, SIGAR sent USAID a letter highlighting the refusal of U.S. contractor Chemonics International, Inc. (Chemonics) to provide auditors with all the information they requested during the course of a financial audit. SIGAR urged USAID to take special care in reviewing about \$13.5 million questioned costs, remind Chemonics about its responsibility to fully cooperate with federal audits, and consider the issues identified in the financial audit in evaluating future awards and award modifications involving Chemonics. See page 41 for a summary of the financial audit of Chemonics.

## **Alert 13-6: Serious Deficiencies Noted in State Agreement with International Development Law Organization**

SIGAR alerted the Secretary of State to serious deficiencies related to the Afghanistan Justice Training Transition Program (JTTP) which is being administered by State's Bureau of International Narcotics and Law Enforcement Affairs (INL). In its ongoing audit of State's rule of law programs, SIGAR learned that INL had awarded a sole source agreement to the International Development Law Organization (IDLO) to provide justice sector training services in Afghanistan. This award does not appear to contain basic provisions that would allow INL to ensure proper monitoring and evaluation of a project expected to cost U.S. taxpayers nearly \$50 million. Moreover, preliminary information gathered by SIGAR auditors suggests that IDLO is ill-prepared to manage and account for how U.S.-taxpayer funds will be spent on the JTTP.

SIGAR recommended that State address the oversight deficiencies in INL's agreement with IDLO and review the circumstances that led to awarding IDLO an agreement to implement part of the JTTP. In addition, SIGAR recommended that State review all similar contracts, grants, and other agreements related to Afghanistan reconstruction to ensure that arrangements have been made for appropriate oversight.

## **Audit Reports Published**

This quarter, SIGAR completed six audit reports that reviewed Afghan government taxes on contractors, State's oversight of grants and cooperative agreements, State and USAID efforts to prevent contracting with the enemy, DOD's program to build an Afghan SMW to support counternarcotics and counterterrorism efforts, the status of the APPF, and a USAID stabilization program.

### **COMPLETED AUDITS**

- Audit 13-8: Taxes: Afghan Government Has Levied Nearly a Billion Dollars in Business Taxes on Contractors Supporting U.S. Government Efforts in Afghanistan
- Audit 13-12: Department of State's Assistance Awards for Afghanistan Reconstruction Activities Are Largely Unaudited
- Audit 13-13: Afghan Special Mission Wing: DOD Moving Forward with \$771.8 Million Purchase of Aircraft that the Afghans Cannot Operate and Maintain
- Audit 13-14: Contracting with the Enemy: State and USAID Need Stronger Authority to Terminate Contracts When Enemy Affiliations Are Identified
- Audit 13-15: Afghanistan Public Protection Force: Concerns Remain about Force's Capabilities and Cost
- Audit 13-16: Stability in Key Areas (SIKA): After 16 Months and \$47 Million Spent, USAID Had Not Met Essential Program Objectives

## Audit 13-8: Taxes on Contractors

### Taxes: Afghan Government Has Levied Nearly a Billion Dollars in Business Taxes on Contractors Supporting U.S. Government Efforts in Afghanistan

U.S. government agencies, including DOD, Department of State, and USAID have executed agreements with the Afghan government that exempt their contracts from certain Afghan business taxes. Through these agreements, the United States seeks to limit the taxes that U.S.-funded contractors pay in order to reduce the cost of projects to the U.S. taxpayer. However, SIGAR found that since 2008, the Afghan government has levied taxes and tax-related penalties on contractors supporting U.S. government contracts in Afghanistan that should be exempt from such taxes under the negotiated agreements.

### FINDINGS

As shown in Table 2.1, since 2008, the Afghan Ministry of Finance (MOF) has levied over \$921 million in business taxes and associated penalties on 43 contractors that support U.S. government efforts in Afghanistan. Of this amount, \$93 million represented taxes levied on business receipts and annual corporate income—a tax category that both the U.S. government and the Afghan government agree should be exempt for contractors operating under covered agreements. SIGAR identified instances where contractors were taxed despite agreements between U.S. agencies and the Afghan government that provide exemptions for certain Afghan taxes.

U.S. and MOF officials disagree about the tax-exempt status of subcontractors, which has created confusion and interrupted of the U.S. effort in Afghanistan. MOF officials assert that the DOD and State agreements provide tax-exempt status only to prime contractors. U.S. government officials contend that the agreements provide tax exemption for all non-Afghan companies—both prime and subcontractors—supporting U.S.

TABLE 2.1

TAX ASSESSMENT ON CONTRACTORS SUPPORTING U.S. GOVERNMENT CONTRACTS					
Agency	Total Tax	Withholdings	Business Receipts & Annual Corporate Income Taxes	Undeterminable <sup>c</sup>	Number of Contractors
USAID	\$5,458,7138	\$5,223,048	\$235,665	\$0	7
DOD	\$92,875,298	\$8,671,298	\$62,704,000	\$21,500,000	17
State	\$19,095,672	\$5,238,000	\$1,200,000	\$12,657,672	8
Multiple Agencies <sup>a</sup>	\$803,967,530	\$25,677,833	\$29,300,000	\$748,989,697	11
<b>Total<sup>b</sup></b>	<b>\$921,397,213</b>	<b>\$44,810,180</b>	<b>\$93,439,665</b>	<b>\$783,147,368</b>	<b>43</b>

Notes:

<sup>a</sup> Multiple agency contractors are contractors that work under contracts for a combination of DOD, State, and USAID. No contractor in SIGAR's sample indicated that it had contracts with agencies other than DOD, State, and USAID.

<sup>b</sup> For figures presented to SIGAR in Afghanistan, SIGAR converted to U.S. Dollar exchange published by Da Afghanistan Bank on 9/18/2012. This table reflects paid and assessed amounts.

<sup>c</sup> Some taxes were undeterminable because the tax assessment issued by the Afghan government did not indicate the specific category of tax that was being assessed. However, based on SIGAR's analysis, SIGAR believes that much of this total amount is likely illegitimate.

Source: SIGAR analysis of contractor data.

government efforts. Given the ongoing disputes and the ambiguous nature of the MOF-issued assessments, the 43 contractors in SIGAR's sample have paid approximately \$67 million of the \$921 million in total tax assessments. Most of them still face unresolved assessments. As a result of the outstanding assessments, the MOF has placed restrictions on some contractors and refused to renew business licenses. The Afghan government has even arrested some contractor personnel.

SIGAR also found that DOD and State contracting officers do not fully understand Afghanistan's tax laws and, as a result, they have improperly reimbursed contractors for taxes paid to the Afghan government. While DOD, State, and USAID have taken some steps to help their prime contractors gain tax exemption, DOD and State have not taken sufficient steps to ensure that their subcontractors obtain the required tax exemption certificates.

## RECOMMENDATIONS

SIGAR recommended that the Secretary of State, among other things, develop a consistent, unified position on what the U.S. government deems appropriate taxation of contractors supporting U.S. government efforts in Afghanistan. SIGAR also recommends that State and USAID determine if reimbursed taxes were legitimate and recover any inappropriately reimbursed taxes. SIGAR also made three recommendations to State, USAID, U.S. Army Corps of Engineers (USACE), and the U.S. Central Command's Joint Theater Support Contracting Command (C-JTSCC) to develop procedures for contractors to obtain appropriate documentation of tax-exempt status with the Afghan government, issue guidance to properly identify taxes in contracts and invoices, and take steps to prevent the improper reimbursement of taxes to contractors. In addition SIGAR identified two matters for Congressional consideration to ensure that Congress has complete information on taxes levied by the Afghan government and to address any improper taxation by the Afghan government.

## AGENCY COMMENTS

In commenting on a draft of this report, C-JTSCC and USACE concurred with SIGAR's recommendations. State did not explicitly agree or disagree with SIGAR's recommendation to develop a consistent, unified position on what the U.S. government deems appropriate taxation of contractors; it argued that such a unified position already exists and that it is inappropriate to suggest that there are inter-agency differences. SIGAR disagrees. SIGAR's finding that contractors have failed to receive guidance on differing tax treatment by different federal agencies shows that inter-agency differences do, in fact, exist. Regarding SIGAR's recommendation to determine if reimbursed taxes were legitimate and to recover any inappropriately reimbursed taxes, State neither agreed nor disagreed but requested further details on SIGAR's analysis. SIGAR provided State with specific information on the

If approved, new provisions in the FY 2014 NDAA would require DOD to recoup taxes assessed by the Afghan government.

types of taxes it identified during an exit conference in January 2013. This information should be sufficient for State to implement SIGAR's recommendation. Although SIGAR is willing to provide additional information on its analysis, SIGAR notes that it is State's responsibility to ensure that the taxes it reimburses are legitimate and to recover any inappropriately reimbursed taxes. USAID neither agreed nor disagreed with SIGAR's recommendations, but instead stated that the recommendations made had already been implemented, were not applicable, or lacked detailed analysis for the agency to implement. SIGAR disagrees and believes its recommendations are well-supported and valid.

## **Audit 13-12: State Department Grants and Cooperative Agreements**

### **Department of State's Assistance Awards for Afghanistan Reconstruction Activities Are Largely Unaudited**

U.S. government regulations issued by the Office of Management and Budget (OMB) require that independent auditors examine the expenditures of non-federal entities expending federal funds. The regulations, outlined in OMB circular A-133, stipulate that nonprofit organizations spending more than \$500,000 a year in federal funds obtain a single or program-specific audit conducted by an independent auditor. Recognizing that financial audits play an important role in ensuring that funds are properly spent and accounted for, SIGAR initiated this audit to examine the extent to which funding grants and cooperative agreements have been audited.

## **FINDINGS**

According to State records, the department made 140 grant and cooperative agreement awards over \$1 million, with a total estimated value of \$315 million between FY 2002 and FY 2011. Only 41—or 29%—of these awards have been audited. The 99 unaudited awards had disbursed a combined total of \$191.6 million. Table 2.2 on the following page shows a breakdown of the types of organizations and the number of awards not audited.

The reasons that financial audits were not conducted varied by award recipient type:

- 50 of 65 awards to foreign organizations were not audited because State has not established a department-wide policy requiring that these organizations' awards be audited. Rather, individual bureaus have established their own policies, leading to inconsistent audit requirements within the agency.
- 42 of 68 awards to U.S. nonprofit organizations were not audited because they were not considered "major programs." Moreover, three organizations receiving three separate awards did not have A-133 audits conducted because State did not provide clear guidance to the awardees.

# SIGAR OVERSIGHT

TABLE 2.2

<b>STATE ASSISTANCE AWARDS FOR AFGHAN RECONSTRUCTION, 2002-2011</b>				
<b>Type of Organization</b>	<b>Total Awards</b>	<b>Total Value of Awards (\$ Millions)<sup>a</sup></b>	<b>Awards Not Audited</b>	<b>Amount Disbursed Not Audited (\$ Millions)<sup>b</sup></b>
Foreign organizations	65	\$161.3	50	\$103.0
U.S. nonprofit organizations	68	\$136.4	42	\$75.3
U.S. for-profit companies	4	\$9.4	4	\$6.7
Public international organizations	3	\$8.3	3	\$6.6
<b>Total</b>	<b>140</b>	<b>\$315.4</b>	<b>99</b>	<b>\$191.6</b>

Notes: Numbers have been rounded.

<sup>a</sup> Total value as of August 20, 2012; updated with amendments from the Public Affairs Section of U.S. Embassy Kabul as of December 10, 2012.

<sup>b</sup> Disbursement amounts were obtained from several different bureaus and offices dating from October to December 2012. For seven awards missing disbursement data, SIGAR estimated disbursement amounts to be equal to obligated amounts.

Source: SIGAR Audit 13-12, *Department of State's Assistance Awards for Afghanistan Reconstruction Activities Are Largely Unaudited*.

- 4 awards to for-profit companies were not audited because State has not clearly articulated whether these awards are required to be audited.
- 3 awards to public international organizations were not audited because the decision to audit rests with the recipient organizations, none of whom requested audits of these particular awards.

As part of its oversight mandate, SIGAR has initiated a number of financial audits of contracts, grants, and cooperative agreements funded by State, DOD, USAID, and the Department of Agriculture (USDA). Of the 99 awards that State has not audited, SIGAR is conducting financial audits on eight awards to two foreign organizations. The total value of these awards is \$27 million.

## RECOMMENDATIONS

SIGAR made four recommendations to the U.S. Secretary of State to improve accountability over its assistance awards for Afghanistan reconstruction. These included establishing a policy requiring audits of assistance awards to foreign organizations and clarifying guidance to ensure that audit requirements are clear and consistent.

## AGENCY COMMENTS

In its comments on the draft of the report, State generally agreed with SIGAR's recommendations and noted that the report highlighted the need for State to enhance the oversight of federal assistance in the overseas environment.

### Audit 13-13: Afghan Special Mission Wing

#### Afghan Special Mission Wing: DOD Moving Forward with \$771.8 million Purchase of Aircraft that the Afghans Cannot Operate and Maintain

In July 2012, the Afghan government established the Afghan Special Mission Wing (SMW) to provide critical air support for the ANA Special Operations

# SIGAR OVERSIGHT

Forces whose primary mission is to combat the narcotics trade and terrorism. Since then, DOD has obligated nearly \$122 million to develop the SMW, awarded additional contracts totaling \$771 million to purchase 48 new aircraft, and plans to spend hundreds of millions more for oversight, maintenance, training, and logistical support. This audit examined (1) the extent to which the SMW has the capacity to operate and maintain its current and planned fleet, and (2) the effectiveness of U.S. government oversight of two task orders valued at \$772 million to provide ongoing maintenance, logistics, and supply support to the SMW.

## FINDINGS

SIGAR found the Afghans lack the capacity—in both personnel numbers and expertise—to operate and maintain the existing and planned SMW fleets. For example, as of January 23, 2013, the SMW had just 180 personnel—less than one-quarter of the personnel needed to reach full strength. DOD and the NATO Training Mission-Afghanistan (NTM-A) lack a plan that identifies milestones and final dates for achieving full SMW personnel force strength to justify the approved fleet. Moreover, ongoing recruiting and training challenges have slowed SMW growth. These challenges include finding Afghan recruits who are literate and can pass the strict, 18- to 20-month U.S. vetting process which attempts to eliminate candidates that have associations with criminal or insurgent networks. The lack of agreement between the Afghan Ministry of Defense (MOD) and Ministry of Interior (MOI) on the command and control structure of the SMW is also having a negative impact on SMW growth and capacity.

DOD has not developed a plan for transferring maintenance and logistics management functions to the Afghans. DOD contractors perform 50% of the maintenance and repairs to the SMW's current fleet of 30 Mi-17 helicopters and 70% of critical maintenance and logistics management, as well as procurement of spare parts and material.

The SMW relies heavily on DOD to fulfill its counterterrorism responsibilities, a key part of its mission. As of January 16, 2013, only 7 of the 47 pilots assigned to the SMW were fully qualified to fly with night vision goggles, a requirement for executing most counterterrorism missions.

Despite these problems, DOD has moved forward to purchase 48 new aircraft for the SMW. In October 2012, DOD awarded a \$218 million contract to Sierra Nevada Corporation for 18 PC-12 fixed-wing aircraft, and in June 2013, DOD awarded a \$553.8 million contract modification to Rosoboronexport for 30 Mi-17 helicopters.

In addition to the challenges related to SMW capacity to operate and maintain its current or planned fleet, SIGAR found that two key DOD task orders—ones which provide ongoing maintenance, logistics, and supply services to support the SMW—lack performance metrics and DOD oversight has been inadequate. Poor oversight by DOD's Non-Standard Rotary Wing



**SIGAR auditors join SMW flight crews** as they prepare for a training mission in Kabul. (SIGAR photo)

# SIGAR OVERSIGHT

Aircraft Contracting Division resulted in the contractor failing to properly account for certain aircraft hours in depot maintenance and a misrepresentation of readiness. The task orders lack quality assurance surveillance plans and, at the time of the audit, DOD did not have the personnel in Kabul with the right authority and requisite experience to effectively oversee U.S. contractor performance.

## **RECOMMENDATIONS**

SIGAR recommended that the Under Secretary of Defense for Acquisition, Technology, and Logistics suspend all activity under the contracts awarded for the 48 new aircraft for the SMW until the memorandum of understanding between the MOI and MOD is completed and signed. Provided the memorandum of understanding between the MOI and MOD is completed and signed, SIGAR recommended setting clear personnel, maintenance, and logistics support milestones for the SMW and tying the acquisition and delivery of the new aircraft to successful completion of these milestones.

SIGAR also recommended that DOD develop a plan for transferring maintenance and logistics management to Afghans and incorporate the performance metrics and milestones into a proposed statement of work for the new maintenance and logistics contract.

Finally, SIGAR recommended that the DOD contracting authorities modify the two key task orders to incorporate performance metrics and appropriate quality assurance surveillance plans; ensure that the new contract/task order contains these metrics and plans; and deploy Contracting Officer Representatives to Afghanistan with the appropriate level of authority and requisite experience to effectively oversee contractor support for the SMW.

## **AGENCY COMMENTS**

SIGAR received formal comments on the draft of this report from the Office of the Secretary of Defense (OSD), the North Atlantic Treaty Organization Training Mission-Afghanistan/Combined Security Transition Command-Afghanistan (NTM-A/CSTC-A), U.S. Army Materiel Command, and the NSRWA Contracting Division. OSD and NTM-A/CSTC-A did not concur with SIGAR's recommendation to suspend plans to acquire new aircraft for the SMW. Both stated that contracting actions have already been awarded and that ISAF is engaging the Afghan government to formulate a charter that would accomplish the same purpose as the planned memorandum of understanding between MOI and MOD. However, SIGAR maintains that moving forward with the acquisition of these aircraft is highly imprudent until an agreement between the ministries is reached. SIGAR also notes that, prior to awarding the contract for the 30 Mi-17s on June 16, 2013, DOD received a draft of this report containing a recommendation to suspend plans to purchase new aircraft for the SMW. OSD and NTM-A/CSTC-A concurred

with the other six recommendations in the report. The U.S. Army Materiel Command responded to the three recommendations addressed to it and concurred with each. The NSRWA Project Office concurred with the two recommendations addressed to it.

## **Audit 13-14: Contracting with the Enemy**

### **Contracting with the Enemy: State and USAID Need Stronger Authority to Terminate Contracts When Enemy Affiliations Are Identified**

In April 2013, SIGAR reported on the process DOD established to comply with Section 841—Prohibition on Contracting with the Enemy in the United States Central Command Theater of Operations—of the FY 2012 NDAA and ways to strengthen the legislation. The report noted that Section 841 does not provide State and USAID the legal authority to restrict, terminate, or void contracts with persons or entities opposing the United States or coalition forces.

In a follow up to SIGAR's earlier report, this audit (1) describes the processes State and USAID have established to prevent contracting with persons that actively support insurgencies or oppose U.S. or coalition forces in Afghanistan, and (2) discusses the potential impact of State and USAID not having Section 841 contracting authority.

## **FINDINGS**

To prevent U.S. funds from supporting enemy combatants, both State and USAID have established processes for vetting non-U.S. contractors in Afghanistan.

Since October 2012, State has vetted all non-U.S. companies competing for U.S.-funded contracts. State's Office of Risk Analysis and Management compares the information provided by the contractor against various databases to determine whether derogatory information—which may include information about ties to enemy groups—on the company or its key officials exists. The assistant secretary of the office funding the activity makes the final decision on whether a contractor is eligible to receive a State-funded contract. If a contractor is deemed eligible, the determination is valid for one year, unless there are changes in the company's key officials.

USAID vets all non-U.S. prime contractors, along with their subcontractors, that are in the competitive range to receive contracts valued over \$25,000. The Vetting Support Unit in USAID's mission in Afghanistan reviews an information package from the contractor for completeness and accuracy. If it identifies no problems, the USAID mission forwards the package to the agency's Office of Security in Washington, DC for additional scrutiny. The USAID security office submits a recommendation of eligibility for the contractor if it does not find any derogatory information. The USAID Senior Deputy Mission Director makes the final determination on whether to declare a contractor eligible for a contract.

**Section 841 of the FY 2012 NDAA calls on the CENTCOM commander to take steps to prevent contracting with the enemy and authorizes DOD to terminate contracts it has determined are providing funding to active insurgent elements and opponents of U.S. or Coalition forces.**

DOD has provided State and USAID with information on its Section 841 designees since November 2012. Although the agencies take this information into consideration during their vetting processes, neither relies exclusively on this information when making contracting decisions.

Because State and USAID are not subject to Section 841, they are not prohibited from contracting with persons or entities identified as supporting an insurgency or otherwise opposing U.S. or Coalition forces. In addition, the agencies lack the authorities provided by Section 841 to terminate, restrict, or void a contract awarded to a person or entity identified as supporting the enemy or opposing U.S. forces. Although neither State nor USAID has active prime contracts with current Section 841 designees, under existing law the agencies would likely have to pay up to the full cost of any contract to complete a termination with a future Section 841 designee.

### MATTER FOR CONGRESSIONAL CONSIDERATION

Congress may wish to consider expanding Section 841 authority to State and USAID to allow senior procurement executives to void, terminate for default, or restrict future awards to persons or entities identified as enemies of the United States.

### AGENCY COMMENTS

State and USAID commented that they would welcome the authority provided by Section 841, but both expressed concern with proposals that would indiscriminately expand DOD-specific contracting provisions to them.

### Audit 13-15: Security Transition

#### Afghanistan Public Protection Force: Concerns Remain about Force's Capabilities and Costs

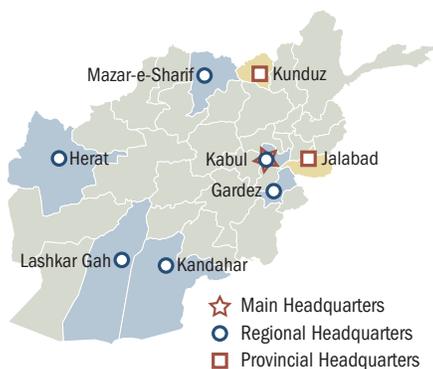
In 2012, the Afghan government required nongovernmental organizations and private companies implementing USAID's reconstruction and assistance programs in Afghanistan to transition their security services from private security companies to the state-run APPF. This report, which follows up on SIGAR's June 2012 audit that outlined concerns about the APPF, examined the effect of the transition on security provided for USAID projects, the costs of the transition to the APPF, and USAID's mechanisms to review the costs of security services. A map of APPF locations is shown in Figure 2.1.

### FINDINGS

The effect of the transition to the APPF has been minimal on the projects in SIGAR's sample, but only because implementing partners hired risk management companies (RMCs) to fill APPF capacity gaps and perform critical functions. The Afghan government allowed contractors to hire RMCs to provide security advisory services. These services include advice on logistics, transportation of goods and equipment, and contract management of

FIGURE 2.1

#### MAP OF APPF LOCATIONS



Source: SIGAR Audit 13-15.

the APPF. In addition the RMCs can provide training to the APPF guards hired by an implementing partner. Although some RMC personnel may be lightly armed for personal protection, Afghan government regulations bar RMCs from providing armed security and other guard services. SIGAR found that without RMCs, the APPF would be unable to provide the full range of security services needed by USAID implementing partners.

Contracted security costs decreased for more than half the projects in SIGAR's sample following the transition to the APPF because implementing partners reassessed security needs and renegotiated expatriate labor rates or contracts. The apparent ease with which implementing partners revised their approach to providing security raises concern that previous security requirements and costs were unnecessarily high.

Ultimately, relying on the APPF as the sole provider of security services raises concerns for future unrestrained cost increases. The APPF has a monopoly on the provision of security services and can unilaterally establish its rates. As a result, USAID's mechanisms to review the proposed costs associated with an implementing partner's use of the APPF do not ensure that the APPF only charges implementing partners for the services it provides. For example, SIGAR found that the APPF billed each implementing partner for some services and items actually provided by the RMCs. Implementing partners that require armed security have no choice but to pay the APPF's often inconsistent and inappropriate fees. Although the contracted security costs for the majority of projects reviewed by SIGAR decreased, the average rate for armed local guard services increased by as much as 47% for projects under the APPF.

Finally, USAID's continuing inability to ensure that its implementing partners adhere to Afghan government regulations for the proper use of RMCs may result in Afghan government intervention to disband RMCs without a valid license. Should the Afghan government intervene in this way, USAID's implementing partners would be left without the security services required to continue operations.

## **RECOMMENDATIONS**

To ensure that USAID implementing partners use RMCs in accordance with Afghan government regulations, SIGAR recommended that the USAID Mission Director for Afghanistan (1) determine why a formal process requiring implementing partners to submit RMC licenses as part of their requests to enter into subcontracts with RMCs was never created, (2) establish and implement the necessary processes requiring implementing partners to submit RMC licenses, (3) develop policy guidance for implementing partners regarding the proper use of RMCs, (4) clarify the ratio of RMC guards to APPF guards cited in RMC regulations, and (5) establish a formal process to ensure that implementing partners do not exceed the RMC ratio.

## **AGENCY COMMENTS**

At the time this publication went to press, USAID was finalizing formal comments on a draft of the report. The final audit report, including USAID's comments, can be found on SIGAR's web site at [www.sigar.mil](http://www.sigar.mil).

## **Audit 13-16: Stability in Key Areas**

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

Over the past decade, USAID has overseen a series of stabilization programs aimed at improving security and extending the reach and legitimacy of the Afghan government. SIGAR's April 2012 audit of one of these programs highlighted a number of problems, including high contractor operating costs, difficulties setting and measuring program outcomes, and mixed program results.

USAID currently administers the Stability in Key Areas (SIKA) programs throughout Afghanistan, as shown in Figure 2.2. USAID created four regional SIKA programs in the north, south, east, and west through separate contracts with a total value of more than \$203 million. AECOM International Development Inc. (AECOM) received the contracts for SIKA East, SIKA West, and SIKA South. Development Alternatives Inc. (DAI) won the contract for SIKA North. Each of the contracts has an 18-month base period with the possibility of additional 18-month option periods. USAID extended the performance period for SIKA East, SIKA West, and SIKA North before the 18-month base period expired, and signed a new contract for SIKA South with a new 18-month base period in March 2013.

SIGAR conducted this audit 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.

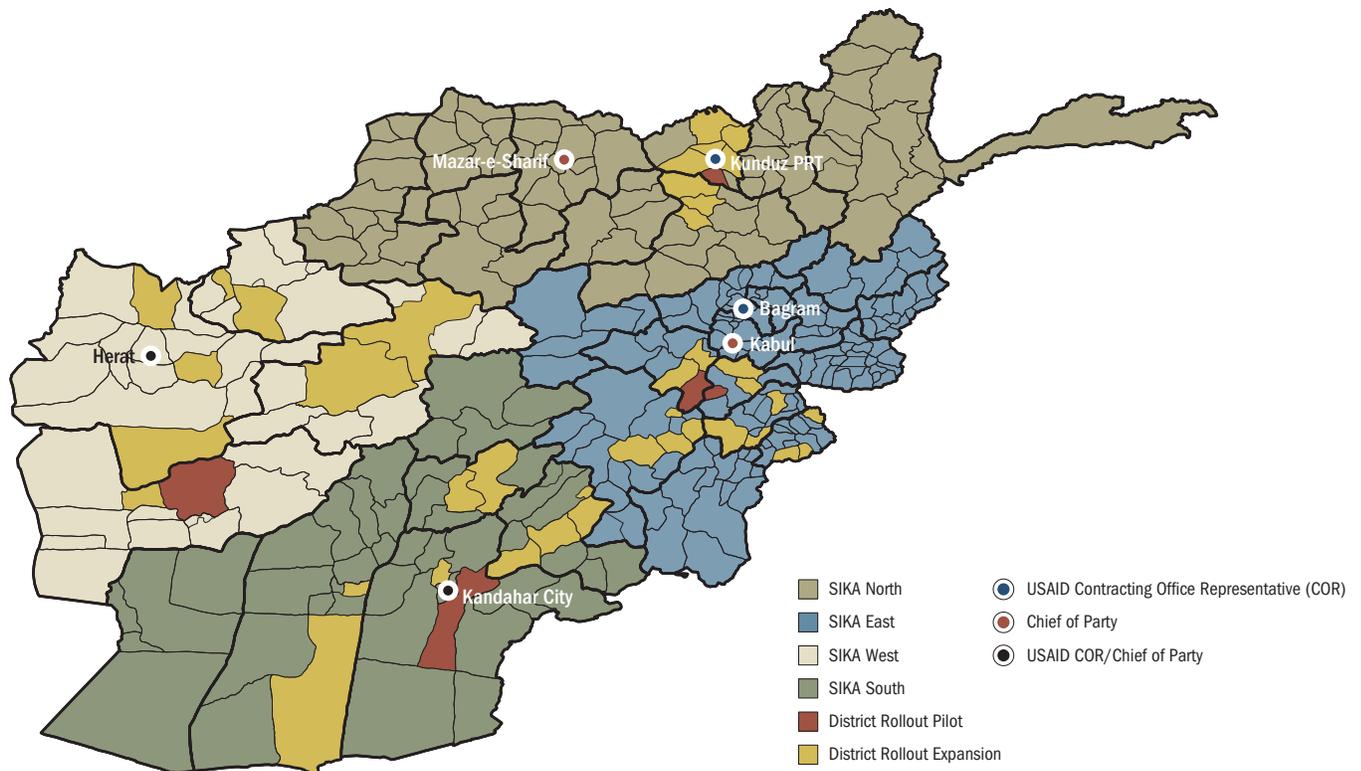
## **FINDINGS**

The SIKA contracts called for the award of grants to district entities to address sources of instability identified by local communities. Although USAID had disbursed approximately \$47 million for the four SIKA contracts as of March 31, 2013, none of these funds have gone to fund the "labor intensive or productive infrastructure projects" called for in the contracts. Moreover, 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, neither contractor had awarded grants to eligible district entities. Although none of the programs had implemented grants, all four reported meetings and training sessions to identify sources of instability and potential solutions, increase local awareness of Afghan government and nongovernment organization services, and improve communication between provincial and

# SIGAR OVERSIGHT

FIGURE 2.2

SIKA COVERAGE AND EXPANSION, AS OF MARCH 31, 2013



Source: SIGAR analysis of USAID data.

district entities. However, 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.

Contractors for the four regional SIKa programs cited the lack of an agreement with the Afghan government as one of the reasons for significant delays in program implementation. The SIKa contracts stressed the importance of working with and through Afghan government partners so that the programs were seen as an extension of the Afghan government. However, USAID did not secure a formal agreement with key Afghan government partners until nine months after it signed the first SIKa contract.

The contracts also required that the SIKa programs adhere to a model in which the community is responsible for project conception, implementation, and financial management. However, USAID's failure to clearly

present the model led to inconsistencies in how the contractors applied the model. This undercut the SIKA objectives and further delayed project implementation.

The program delays led USAID to extend the performance periods for each of the contracts, even though the contractors had not executed any grants. The overall delay in awarding grants appears to have created participant dissatisfaction with the program, particularly in the east and the south. There is a risk that disappointment in the program may undermine the SIKA goals and result in further destabilization and alienation from the Afghan government.

## **RECOMMENDATIONS**

SIGAR recommends that the USAID Mission Director for Afghanistan 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 instruct 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 of community contracting—in which the community is responsible for grant project conception, implementation, and financial management—and instruct the Contracting Officer's Representatives for each of the contracts to ensure that this approach is applied in the regional SIKA programs.

## **AGENCY COMMENTS**

USAID believed that the first recommendation to require documentation of Afghan government agreement on future programs that align with Afghan government initiatives, has been met and requested it be removed. However, after reviewing the documentation provided by USAID, SIGAR determined that the intent of the recommendation had not been addressed and retained the recommendation in the report. USAID partially concurred with the second recommendation, stating that it planned to modify the SIKA West contract to add language on the Kandahar Model consistent with that used in the other SIKA contracts. However, including references to the Kandahar Model in the contracts does not meet the intent of the recommendation in articulating a consistent plan for community contracting and implementing the model. USAID did not concur with the third recommendation to instruct the Contracting Officer's Representatives for each of the contracts to ensure that this approach is consistently applied in the regional SIKA programs because it considered it 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. SIGAR therefore believes the recommended action is still necessary.

## New Audits Announced This Quarter

This quarter, SIGAR initiated five new performance audits and two new financial audits, bringing the total number of ongoing audits to 27. Three new performance audits will focus on U.S. efforts in two areas critical to Afghanistan economy: banking and revenue collection. Two will look at U.S. programs to support the Afghan security forces. Other ongoing audits are assessing U.S. transition planning, programs to develop the Afghan security forces, projects to develop Afghanistan's water resources, the capacity of the Afghan government to verify payrolls, and the training of justice sector personnel. For a full list of ongoing performance audits, see Appendix C of this quarterly report.

### **Accountability of Weapons and Equipment Provided to The Afghan National Security Forces (ANSF)**

Since 2009, DOD has provided more than 714,000 weapons worth approximately \$1.5 billion to the ANSF. The drawdown of U.S. and Coalition forces and the transition of security responsibilities to the ANSF pose risks relating to the accountability of these weapons. CSTC-A bears primary responsibility for the training and equipping of the ANSF. It uses the Foreign Military Sales (FMS) process, which is administered by the Defense Security Cooperation Agency, to purchase most of the weapons.

Both GAO and DOD OIG conducted audits on weapons accountability for the ANSF in 2009. SIGAR will examine the action CSTC-A has taken to respond to those reports. The audit will evaluate (1) the procedures for the accountability of defense materiel and weapons procured by DOD to arm the ANSF, and (2) the visibility and controls in place for the oversight of defense materials and weapons after they have been provided to the ANSF.

### **U.S. Efforts to Develop and Strengthen the Capacity of Afghanistan's Central Bank**

The near collapse of the Kabul Bank in September 2010 raised major concerns among the U.S. and other international donor agencies regarding the capacity of Afghanistan's central bank, Da Afghanistan Bank (DAB), to regulate Afghanistan's commercial banks. Recent increased efforts by U.S. government agencies to provide direct assistance funds to Afghan ministries have raised concerns about the ability of the Afghan banking sector to process these funds. This audit will evaluate the steps taken by various U.S. agencies to strengthen the oversight and regulatory capacity of DAB, the process by which U.S. agencies provide direct assistance funds to the Afghan government, and the internal controls put in place to safeguard these funds while deposited in Afghan banks.

## NEW AUDITS

- Accountability of Weapons and Equipment Provided to the Afghan National Security Forces (ANSF)
- U.S. Efforts to Develop and Strengthen the Capacity of Afghanistan's Central Bank
- U.S. Agency for International Development (USAID) and Department of Homeland Security Customs and Border Protection (CBP) Efforts to Develop and Strengthen Afghanistan's Capacity to Assess and Collect Customs Revenue
- Wire Transfer Fees Associated with Department of Defense Payments to Afghan Contractors
- Mobile Strike Force Vehicles for the Afghan National Army

## **USAID and Department of Homeland Security Customs and Border Protection (CBP) Efforts to Develop and Strengthen Afghanistan's Capacity to Assess and Collect Customs Revenue**

Improving the Afghan government's ability to generate domestic revenues by improving international trade and transit conditions is an important goal of the U.S. reconstruction effort. USAID and the Department of Homeland Security's CBP have programs to help the Afghan government reform customs laws, establish procedures, improve customs and border operations, and increase revenue collection. This audit will review USAID and CBP programs to develop and strengthen Afghanistan's capacity to assess and collect customs revenue. It will evaluate the extent to which USAID and CBP programs designed to reform Afghanistan's customs processes, procedures, and laws have achieved intended outcomes and contributed to the fiscal sustainability of the Afghan government.

## **Wire Transfer Fees Associated with DOD Payments to Afghan Contractors**

DOD, through the Defense Finance Accounting Services, uses multiple U.S., international, and Afghan banks to execute wire transfers for payments to its Afghan contractors. These banks charge fees for processing wire transfers. The Afghan banks that ultimately receive funds through the final wire transfer are responsible for releasing those funds to the contractors. This audit will review how DOD uses wire transfers to pay its Afghan contractors and determine (1) the amount of wire transfer fees that DOD, or other U.S. government entities acting on behalf of DOD, paid between January 1, 2010, and January 1, 2013, and (2) the extent to which those fees are appropriate and reasonable based on applicable law, contracts, regulations, and standards.

## **Mobile Strike Force Vehicles for the Afghan National Army**

In January 2011, CSTC-A began ordering Mobile Strike Force Vehicles (MSFV) to give the ANA a vehicle capable of providing protection similar to that of the Mine Resistant Ambush Protected vehicles used by the International Security Assistance Force. MSFVs are procured through DOD's Foreign Military Sales (FMS) process. Since January 2011, obligations on these contracts have totaled more than \$630 million for 634 MSFVs, spare parts, maintenance, and training. To date, more than 300 MSFVs have been delivered and are either in use by ANA battalions or fielded as part of an in-country vehicle logistics support and operator training program. The contractor is scheduled to deliver all remaining MSFVs by February 2014. This audit will (1) evaluate the effectiveness of U.S. government oversight of contracts to procure, operate, and maintain MSFVs for the ANA; and (2) determine the extent to which the ANA has the capacity to operate and maintain its current and planned MSFVs.

## Financial Audits

This quarter SIGAR completed 11 financial audits of U.S.-funded contracts, grants, and cooperative agreements to rebuild Afghanistan. The awards—with a combined value of about \$942 million—supported U.S. efforts to build Afghan security forces, improve governance, and foster economic development. These financial audits identified about \$49.4 million in questioned costs as a result of internal control deficiencies and noncompliance issues. These deficiencies and noncompliance issues included, among other things, poor record retention, lack of supporting documentation, failure to adhere to procurement procedures, misstatements of costs, indirect costs that could not be evaluated, unreasonable costs, improper processes, and lack of tracking systems for equipment and spare parts. SIGAR has provided the audit findings to the implementing agencies, which are responsible for making the final determination on questioned costs.

SIGAR also announced two new financial audits of USAID-funded contracts with a combined value of \$410 million, bringing the total number of ongoing financial audits to 13, with a combined value of nearly \$1.5 billion.

SIGAR launched its financial audit program in 2012 after Congress and the oversight community expressed concern about oversight gaps and the growing backlog of incurred cost audits for contracts and grants awarded in support of overseas contingency operations. SIGAR competitively selected independent accounting firms to conduct the financial audits. SIGAR ensures that the audit work is performed in accordance with U.S. government auditing standards and coordinates closely with the federal inspector general community to avoid potential duplication of effort. A list of new and ongoing financial audits can be found in Appendix C of this quarterly report.

The following is summary of each of the financial audits released this quarter, their findings, and SIGAR recommendations.

### **Financial Audit 13-1: Audit of Costs Incurred by Chemonics International, Inc. in Support of USAID’s Alternative Livelihoods Program-Southern Region**

Chemonics International Inc. (Chemonics) expended more than \$165 million from February 2005 through October 2009 on a USAID contract to provide short-term employment and assist in the development and expansion of licit agriculture production that would provide an alternative to growing poppies in Afghanistan’s southern region. Activities focused on physical infrastructure construction, small and medium enterprise development, and agricultural and agribusiness assistance. The accounting firm Crowe Horwath, under contract with SIGAR to conduct financial audits, issued a disclaimer of opinion on the Fund Accountability Statement because Chemonics refused to provide support necessary to demonstrate that the indirect costs charged to the contract were accurate. The audit firm also observed instances of noncompliance with the terms and conditions

## COMPLETED FINANCIAL AUDITS

- Financial Audit 13-1: Audit of Costs Incurred by Chemonics International Inc. in Support of USAID’s Alternative Livelihoods Program-Southern Region
- Financial Audit 13-2: Audit of Costs Incurred by Cardno Emerging Markets Group LTD. in Support of USAID’s Afghanistan State-Owned Enterprises Privatization, Excess Land Privatization, and Land Titling Project
- Financial Audit 13-3: Audit of Costs Incurred by Futures Group International LLC in Support of USAID’s Project for Expanding Access to Private Sector Health Products and Services in Afghanistan
- Financial Audit 13-4: USAID’s Technical Support to the Central and Provincial Ministry of Public Health Project: Audit of Costs Incurred by Management Sciences for Health
- Financial Audit 13-5: USAID’s Program to Support the Loya Jirga and Election Process in Afghanistan: Audit of Costs Incurred by The Asia Foundation
- Financial Audit 13-6: USDA’s Program to Help Advance the Revitalization of Afghanistan’s Agricultural Sector: Audit of Costs Incurred by Volunteers for Economic Growth Alliance
- Financial Audit 13-7: Department of Defense Program to Support the Afghan National Army’s Technical Equipment Maintenance Program: Audit of Costs Incurred by Afghan Integrated Support Services
- Financial Audit 13-8: USAID’s Human Resources and Logistical Support Program: Audit of Costs Incurred by International Relief and Development Inc.
- Financial Audit 13-9: USAID’s Alternative Development Project South/West: Audit of Costs Incurred by Tetra Tech ARD
- Financial Audit 13-10: USAID’s Alternative Livelihoods Program–Eastern Region: Audit of Costs Incurred by Development Alternatives Inc.
- Financial Audit 13-11: State Department’s Afghanistan Media Project: Audit of Costs Incurred by HUDA Development Organization Afghanistan

of the contract and applicable regulations that have a direct and material effect on amounts presented on the Fund Accountability Statement. Crowe Horwath reported two material weaknesses, six significant deficiencies in internal control over financial reporting, and 12 instances of noncompliance. As a result, the auditors questioned a total of more than \$13.5 million in costs. The questioned costs included about \$6.7 million in ineligible costs and \$6.8 million in unsupported costs.

SIGAR made three recommendations to the Mission Director of USAID/Afghanistan:

- Determine the allowability of and recover, as appropriate, more than \$13.5 million in questioned costs identified in the report.
- Advise Chemonics to address the eight internal control findings identified in the report.
- Advise Chemonics to address the twelve compliance findings identified in the report.

Chemonics disagreed with each of the audit firm's findings and all of the questioned costs.

This audit prompted SIGAR to also send an alert letter to USAID about the refusal of Chemonics to provide auditors with all the information they requested during the course of a financial audit. SIGAR urged USAID to take special care in reviewing about \$13.5 million questioned costs, remind Chemonics about its responsibility to fully cooperate with federal audits, and consider the issues identified in the financial audit in evaluating future awards and award modifications involving Chemonics.

## **Financial Audit 13-2: Audit of Costs Incurred by Cardno Emerging Markets Group LTD. in Support of USAID's Afghanistan State-Owned Enterprises Privatization, Excess Land Privatization, and Land Titling Project**

Cardno Emerging Markets Group LTD. (EMG) claimed total costs of nearly \$55.6 million on its contract with USAID to assist the Afghan government with securing property registration, simplifying land titling procedures, and clarifying the legal framework supporting property rights as well as reforming, restructuring, and rationalizing state-owned enterprises. Regis & Associates, under contract with SIGAR to conduct this financial audit, found that EMG's Fund Accountability Statement presented fairly, in all material respect, revenues received and costs incurred under the contract for the period September 15, 2004, through October 14, 2009. However, the auditors reported two internal control deficiencies and two instances of noncompliance, which prompted them to question \$93,423 in costs. This included \$19,501 in ineligible costs and \$73,922 in unsupported costs.

SIGAR made three recommendations to the Mission Director of USAID/Afghanistan:

- Determine allowability of and recover, as appropriate, \$93,423 in questioned costs identified in the report.
- Advise EMG to address the two internal control findings identified in the report prior to applying for additional awards with USAID.
- Advise EMG to address the two compliance findings identified in the report prior to applying for additional awards with USAID.

In its written response, EMG's management concurred with the findings and recommendations. However, EMG's management requested that USAID waive the unsupported amounts based on alternate supporting documentation provided during the audit field work phase. EMG's management also stated that it will request approval from USAID on the exceeded budget line item.

### **Financial Audit 13-3: Audit of Costs Incurred by Futures Group International LLC in Support of USAID's Project for Expanding Access to Private Sector Health Products and Services in Afghanistan**

USAID awarded Futures Group International LLC (Futures Group) a contract to assist the Afghanistan government with developing and supporting local health care solutions. From February 15, 2006, through May 12, 2012, the Futures Group received payments of approximately \$37.5 million. Regis & Associates, under contract with SIGAR to conduct this financial audit, found that the Futures Group's Fund Accountability Statement presented fairly, in all material respects, revenues received and costs incurred under the contract. However, the auditors found two internal control deficiencies and two areas of noncompliance. The audit also identified \$45,445 in questioned costs, including \$43,044 in unsupported costs and \$2,401 in ineligible costs.

SIGAR made one recommendation to the Mission Director of USAID/Afghanistan:

- Determine the allowability of and recover, as appropriate, \$45,445 in questioned costs identified in the report.

In its written response, Futures Group concurred with the findings and recommendations. Futures Group's management also stated that they will refund to USAID the ineligible costs and unsupported costs, to the extent that satisfactory transaction records are not identified for the unsupported costs.

### **Financial Audit 13-4: USAID's Technical Support to the Central and Provincial Ministry of Public Health Project: Audit of Costs Incurred by Management Sciences for Health**

In 2006, USAID awarded a cooperative agreement to Management Sciences for Health (MSH) to improve the capacity of the Afghan Ministry of Public Health to plan, manage, supervise, monitor, and evaluate the scale of public access to basic and hospital health services. Mayer Hoffman

McCann P.C. (MHM), under contract with SIGAR to conduct financial audits, examined about \$85.5 million in MSH expenditures from July 1, 2006, through December 31, 2012.

MHM found that MSH's Fund Accountability Statement presented fairly, in all material respects, revenues received and costs incurred under the agreement. MHM identified 14 recommendations from prior audits or assessments for follow-up or corrective action. MSH did not agree with USAID/Afghanistan's July 2012 Regulatory Review for vetting and procurement that corrective actions were necessary for 12 of the findings and stated that there was no opportunity to remediate the other two findings because the related sub-awards had ended. MHM reported one significant internal control deficiency and two instances of noncompliance which resulted in \$12,666 in questioned costs. These included \$6,345 in ineligible costs and \$6,321 in unsupported costs. The internal control deficiency was MSH's inability to provide documentation for three sampled local staff wages.

SIGAR made four recommendations to the Mission Director of USAID/Afghanistan:

- Determine the allowability of and recover, as appropriate, \$12,666 in questioned costs identified in the report.
- Advise Management Sciences for Health to address the internal control finding identified in the report.
- Advise Management Sciences for Health to address the two compliance findings identified in the report.
- Resolve the 14 open recommendations to MSH from the July 7, 2012 USAID/Afghanistan's Regulatory Compliance Review for vetting and procurement.

In its written response, MSH generally concurred with the audit findings and noted that it had taken steps to address the deficiency and noncompliance issues.

### **Financial Audit 13-5: USAID's Program to Support the Loya Jirga and Election Process in Afghanistan: Audit of Costs Incurred by The Asia Foundation**

In 2003, USAID awarded a cooperative agreement to The Asia Foundation to support the election process managed by the Afghan Constitutional Loya Jirga, assist in the establishment of the High Office of Oversight for Anti-Corruption, and provide technical assistance to the Afghan government. From August 1, 2003, through April 30, 2010, The Asia Foundation expended nearly \$84.9 million.

Crowe Horwath, contracted by SIGAR to conduct financial audits, found that The Asia Foundation's Fund Accountability Statement presented fairly, in all material respects, revenues received and costs incurred under the contract. Nevertheless, Crowe Horwath reported five areas of internal

control deficiencies and instances of noncompliance, which led the auditors to question \$26,381 in costs. The questioned costs included \$5,457 in ineligible costs and \$20,924 in unsupported costs. In addition, the audit found that The Asia Foundation had not remitted an estimated \$110,333 in interest revenue earned on advances given by USAID.

SIGAR made four recommendations to the Mission Director of USAID/Afghanistan:

- Determine the allowability of and recover, as appropriate, \$26,381 in questioned costs identified in the report.
- Recover the estimated \$110,333 in interest revenue earned from advances provided.
- Advise The Asia Foundation to address the five internal control findings identified in the report.
- Advise The Asia Foundation to address the four compliance findings identified in the report.

In its written response, The Asia Foundation disagreed with three of the audit's findings, including that it owed any revenue on interest earned on USAID advances. It noted that it had many grants and cooperative agreements from USAID and they were all covered by a single Letter of Credit from 2003 to 2008. It provided a financial table to illustrate that it did not have excess balances. The Asia Foundation concurred with two of the findings and stated it was taking steps to develop an electronic archival system to maintain records.

### **Financial Audit 13-6: USDA's Program to Help Advance the Revitalization of Afghanistan's Agricultural Sector: Audit of Costs Incurred by Volunteers for Economic Growth Alliance**

The U.S. Department of Agriculture (USDA) awarded a cooperative agreement to Volunteers for Economic Growth Alliance (VEGA) to enhance the capability and effectiveness of the Afghan Ministry of Agriculture, Irrigation, and Livestock. MHM, under contract with SIGAR to conduct financial audits, examined about \$17.2 million in VEGA expenditures from November 24, 2010, through December 31, 2012. MHM found that except for the possible effects of (1) not being able to review accounting records from November and December 2012, totaling more than \$2.6 million in costs and (2) questioning \$720,501 in unsupported costs, VEGA's Fund Accountability Statement presented fairly, in all material respects, revenues received and costs incurred under the cooperative agreement.

SIGAR made three recommendations to the USDA:

- Determine the allowability of and recover, as appropriate, \$720,501 in questioned costs identified in the report.
- Advise VEGA to address the five internal control findings identified in the report.

- Advise VEGA to address the two compliance findings identified in the report.

In a written response, VEGA disagreed with the audit's findings, particularly concerning the two main deficiencies—timekeeping weaknesses and lack of adherence to procurement procedures—that accounted for the bulk of unsupported costs. VEGA also noted that the internal weaknesses identified by the audit team have been corrected.

### **Financial Audit 13-7: Department of Defense Program to Support the Afghan National Army's Technical Equipment Maintenance Program: Audit of Costs Incurred by Afghan Integrated Support Services**

In December 2010, DOD awarded a contract to Afghan Integrated Support Services (AISS) to support the ANA's Technical Equipment Maintenance Program by providing maintenance services, training Afghans in vehicle maintenance, and building the capacity of Afghans in the areas of management, administration, and leadership. MHM, under contract with SIGAR to conduct financial audits, examined nearly \$32 million in AISS expenditures.

MHM issued a disclaimer of opinion on the fair presentation of the Fund Accountability Statement because AISS refused to provide the required management representations indicating that it had made available all information relevant to the audit. In addition, MHM reported four internal control deficiencies and five instances of noncompliance, which prompted the auditors to question a total of more than \$2.8 million in questioned costs. These included \$217,643 in ineligible costs and more than \$2.6 million in unsupported costs.

SIGAR made three recommendations to the Contracting Officer:

- Determine the allowability of and recover, as appropriate, \$2,869,307 in questioned costs identified in the report.
- Advise AISS to address the four internal control findings identified in the report.
- Advise AISS to address the five compliance findings identified in the report.

AISS disagreed with all the audit findings, including the more than \$2.8 million in questioned costs.

### **Financial Audit 13-8: USAID's Human Resources and Logistical Support Program: Audit of Costs Incurred by International Relief and Development Inc.**

USAID awarded International Relief and Development Inc. (IRD) a task order to provide qualified professionals and technicians to support USAID activities in Afghanistan. Crowe Horwath, contracted by SIGAR to conduct financial audits, reviewed more than \$81 million in IRD expenditures from March 2006–April 2011.

Crowe Horwath reported that IRD's Fund Accountability Statement presented fairly, in all material respects, revenues received and costs incurred under the contract. Nevertheless, Crowe Horwath reported three significant deficiencies in internal control and six findings pertaining to matters of non-compliance. The audit firm identified nearly \$1.5 million in questioned costs.

SIGAR made three recommendations to the USAID Mission Director/Afghanistan:

- Determine the allowability of and recover, as appropriate, questioned costs identified in the report.
- Advise IRD to address the three internal control findings identified in the report.
- Advise IRD to address the six compliance findings identified in the report.

Although IRD agreed with some of the audit's findings, it did not concur with most of the questioned costs.

### **Financial Audit 13-9: USAID's Alternative Development Project South/West: Audit of Costs Incurred by Tetra Tech ARD**

USAID awarded a contract to Tetra Tech ARD to implement the Alternative Development Project South/West to reduce dependence on opium production in Afghanistan's southern and western regions. The \$75 million program sought to increase agriculture productivity, build relationships between farmers and the market, strengthen the capabilities of the Ministry of Agriculture, Irrigation, and Livestock, and rebuild agriculture infrastructure.

MHM, contracted by SIGAR to conduct financial audits, reported four internal control deficiencies and three instances of noncompliance. The audit firm identified more than \$3 million in questioned costs which included almost \$2.1 million in ineligible costs and \$961,013 in unsupported costs. MHM reported that, except for more than \$3 million in questioned costs, the Fund Accountability Statement presented fairly the revenues received and costs incurred under the contract.

SIGAR made three recommendations to the contracting officer:

- Determine the allowability of and recover, as appropriate, the questioned costs identified in the report.
- Advise ARD to address the four internal control findings identified in the report.
- Advise ARD to address the three compliance findings identified in the report.

ARD disagreed with all of the findings resulting in questioned costs.

### **Financial Audit 13-10: USAID's Alternative Livelihoods Program—Eastern Region: Audit of Costs Incurred by Development Alternatives Inc.**

In 2005, USAID awarded a task order to Development Alternatives Inc. (DAI) to implement the Alternative Livelihood Program for the eastern region in the provinces of Kunar, Laghman, and Nangarhar. At the time

these provinces accounted for almost a third of Afghanistan's poppy production. The \$118.4 million program sought to accelerate broad-based, sustainable regional economic development by supporting legal activities and providing an immediate alternative source of income to poor households whose livelihoods depended, directly or indirectly, on the opium economy.

MHM, contracted by SIGAR to conduct financial audits, reported four internal control findings and one instance of noncompliance. The audit firm identified more than \$25 million in questioned costs. This included nearly \$24 million in unsupported costs and another \$1.4 million in costs incurred by a subcontractor that filed for bankruptcy. DAI had not obtained support for the expenses incurred by this subcontractor. MHM reported that except for questioned costs identified, the Fund Accountability Statement presented fairly the revenues received and costs incurred under the task order.

SIGAR made three recommendations to the USAID Mission Director in Afghanistan:

- Determine the allowability of and recover, as appropriate, the questioned costs identified in the report.
- Advise DAI to address the four internal control findings identified in the report.
- Advise DAI to address the compliance finding identified in the report.

DAI disagreed with all the audit findings.

## **Financial Audit 13-11: State Department's Afghanistan Media Project: Audit of Costs Incurred by HUDA Development Organization Afghanistan**

State provided three grants to HUDA Development Organization Afghanistan (HUDA) to promote independent journalism through the Afghan Media Project. HUDA was to provide the journalism departments of the universities with the ability to produce stories for the print, radio, and television media in both Dari and Pashto. HUDA claimed total costs of nearly \$7.1 million from July 15, 2010, through December 31, 2012.

MHM, contracted by SIGAR to conduct financial audits, reported fifteen internal control deficiencies and six instances of noncompliance, which prompted them to question \$2,405,102 in costs. This included \$173,469 in ineligible costs and about \$2.2 million in unsupported costs. MHM reported that, except for questioned costs identified, HUDA's Fund Accountability Statement presented fairly revenues received and costs incurred under the grants.

SIGAR made three recommendations to State's grant agreement officer:

- Determine the allowability of and recover, as appropriate, the questioned costs identified in the report.
- Advise HUDA to address the fifteen internal control findings identified in the report prior to applying for additional awards with State.

- Advise HUDA to address the six compliance findings identified in the report prior to applying for additional awards with State.

In its written response, HUDA's management concurred with three of the fifteen internal control and noncompliance findings and recommendations. However, HUDA's management did not concur with any of the questioned costs findings and recommendations, stating that (1) they followed relevant standards for competitive process in awarding the subcontracts, and (2) they located and provided supporting documents subsequent to the audit fieldwork.

## INSPECTIONS

This quarter, SIGAR published two inspection reports and two safety alert letters resulting from the inspections, which highlighted a number of construction deficiencies, risks to health and safety, and ongoing problems with contract oversight of infrastructure projects.

In addition to ongoing work, SIGAR also initiated an inspection of the Justice Center Court House construction project in Parwan, pictured on the cover of this report, to determine whether the project complies with construction requirements and adheres to key contract terms and conditions.

### **Inspection 13-9: Sheberghan Teaching Training Facility: U.S. Army Corps of Engineers Paid Contractors and Released them from Contractual Obligations Before Construction Was Completed and Without Resolving Serious Health and Safety Hazards**

In 2008, USAID and the U.S. Army Corps of Engineers (USACE) agreed to build educational facilities in Afghanistan. In February 2009, USACE-Afghanistan Engineer District North (USACE-TAN) awarded a \$2.9 million contract to build three teacher training facilities in northern Afghanistan to Mercury Development, an Iraqi company. One of these facilities was to be located in Sheberghan in Jawzjan Province and completed in December 2010. USACE extended the contract to June 2011 and increased its value to \$3.4 million.

SIGAR assessed whether the construction was completed in accordance with the contract and whether the facilities were being used as intended and maintained.

## FINDINGS

After four years and two separate contracts, the Sheberghan training facility remains incomplete. Water, sewage, and electrical systems have not been finished. The lack of electricity prevented SIGAR from testing the lighting, heating and cooling, water, and other systems. However, SIGAR found the wiring in the facility does not meet U.S. electric codes. Moreover, an

## COMPLETED INSPECTIONS

- Inspection 13-9: Sheberghan Teaching Training Facility: U.S. Army Corps of Engineers Paid Contractors and Released them from Contractual Obligations before Construction Was Completed and Without Resolving Serious Health and Safety Hazards
- Inspection 13-10: Bathkhak School: Unauthorized Contract Design Changes and Poor Construction Could Compromise Structural Integrity



**Improper electrical wiring** and overloaded electrical circuits (circled in red) demonstrate the risk of fire and electrical shock to Sheberghan school occupants. (SIGAR photo)

improper “tap” into the system presents a serious safety hazard. In addition, the water well may have been placed too close to the facility’s sewage system, raising potential health issues. SIGAR issued a safety alert letter highlighting this issue. See page 55 for details on the alert letter.

Despite the contractor’s failure to complete construction and resolve health and safety issues, USACE-TAN closed out the contract in late 2011. Having paid Mercury Development \$3.1 million of the contract’s \$3.4 million for work completed at three teacher training facilities, USACE-TAN released the contractor from further liability. In January 2012, USACE-TAN awarded a \$153,000 contract to an Afghan company to complete the facility within 30 days. Almost a year later, USACE-TAN terminated this contract because of the contractor’s failure to complete the project. USACE-TAN also released the second contractor from further liability. USACE-TAN plans to hire a third contractor to finish the work. SIGAR noted a disturbing trend where USACE fails to hold contractors accountable for completing the work they were paid to perform. In January 2013, USAID terminated the agreement with USACE and is now taking steps to award a new contract to complete the facility, remediate problems, and formally transfer the facility to the Afghan government.

Afghan teachers and students are using the unfinished Sheberghan facilities despite the lack of working systems and the health and safety issues. The U.S. government remains responsible for operations and maintenance because it has not yet transferred the facility to the Afghan government. The facility’s occupants have asked the U.S. government to fund an estimated \$50,000 per month in fuel costs for the electrical generator.

## **RECOMMENDATIONS**

SIGAR made five recommendations to address the problems identified in this inspection. SIGAR recommended that the Commanding General, USACE direct USACE-TAN to determine, and report the results to SIGAR, on the reasons why two contractors were released from their contractual obligations and liabilities despite poor performance, unfinished construction, and electrical problems and determine disciplinary action may be appropriate. SIGAR also made four recommendations to the USAID Mission Director for Afghanistan determine whether sanitary sewer lines were improperly placed in relation to the water well, take measures to minimize the health and safety risks arising from faculty and students’ current unauthorized use of the facility, complete construction of the Sheberghan teacher training facility and expedite its turnover to the Afghan government, and provide adequate project oversight.

## **AGENCY COMMENTS**

USACE agreed to review the circumstances surrounding the contracts’ close-outs contracts and report its results to SIGAR. SIGAR initially directed its recommendations concerning sewer line placement and

addressing health and safety risks to USACE. However, USACE no longer has the authority to conduct work on the project or control the facility's usage. As a result, SIGAR directed these recommendations to the USAID Mission Director. In its comments, USAID concurred with the last two recommendations. USAID also provided information on its efforts and plans to award a contract to complete the project, provide oversight, and transfer the facility to the Afghan government.

### **Inspection 13-10: Bathkhak School: Unauthorized Contract Design Changes and Poor Construction Could Compromise Structural Integrity**

In August 2012, USFOR-A, through the Commander's Emergency Response Program, awarded a \$262,899 contract to build an addition and improve conditions at a school located in the village of Bathkhak in Kabul Province. The contract had a 150-day performance period and required construction of a single-story, 10-classroom building. The contractor was also supposed to build a structure to house the generator, repair the water wells, install an irrigation system, complete a brick wall around the compound, and upgrade the existing classroom building. SIGAR assessed whether construction was completed in accordance with contract requirements and whether construction deficiencies had been identified and corrected.

#### **FINDINGS**

SIGAR found that the contractor failed to meet contract design and material requirements. This, together with poor construction, jeopardizes the structural integrity of Bathkhak School.

Instead of building a single-story, 10-classroom building, the contractor is building two five-classroom buildings. Without U.S. government approval or knowledge, the contractor substituted building materials, using brick instead of cinderblock for the walls and a concrete slab for the roof instead of the wood-trussed framing system called for in the contract. The roof substitution raises serious safety concerns because the school sits in an area of high seismic activity. SIGAR issued a safety alert letter highlighting this issue. See page 55 for details on the alert letter.

SIGAR found a number of construction flaws including (1) large gaps between bricks in the walls that support the concrete ceiling and roof; (2) walls that did not appear to be reinforced; and (3) honeycombing, exposed rebar, and concrete form boards that remain in the roof. Each of these issues could compromise the building's structural integrity.

#### **RECOMMENDATIONS**

SIGAR recommended that the Commanding General of USFOR-A direct the appropriate USFOR-A units to (1) immediately conduct a thorough inspection of the two new school buildings to determine whether to certify their



**Construction deficiencies** found at Bathkhak school include large gaps between bricks in the wall that support the ceiling and roof. (SIGAR photo)

structural integrity, (2) require the contractor to correct the deficiencies, (3) review the product substitutions and determine whether the changes warrant a reduction in the overall cost of the contract, and (4) identify the contractor officer(s) responsible for initial oversight of the construction projects. SIGAR recommended that USFOR-A determine why no oversight visits were made during the first six months of construction, no contracting modifications were made approving the substitution of building materials, and no pricing determinations were made of the substituted materials. After making these determinations, SIGAR recommended that USFOR-A decide what, if any, disciplinary action should be taken against the contracting officer(s) responsible for not properly overseeing construction activities.

## **AGENCY COMMENTS**

In its written comments on a draft of this report, USFOR-A generally agreed with SIGAR's recommendations and noted that, as a result of SIGAR's report, it has implemented several new policies and re-inspected all recently completed infrastructure projects.

## **STATUS OF SIGAR RECOMMENDATIONS**

The Inspector General Act of 1978, as amended, requires SIGAR to report on the status of its recommendations. This quarter, SIGAR closed nine recommendations contained in Audit 11-5 which examined U.S. salary support for Afghan government employees and technical advisors.

From 2009 through June 2013, SIGAR published 85 reports and made a total of 291 recommendations to recover funds, improve agency oversight, and increase program effectiveness. To date, SIGAR has closed about 70% of these recommendations. Closing a recommendation generally indicates SIGAR's assessment that the audited agency has either implemented the recommendation or otherwise appropriately addressed the issue. In some cases, a closed recommendation will be the subject of follow-up audit work.

Corrective actions taken for the closed audit recommendations this period included the designation of a representative to serve as a focal point for requests for salary support and to monitor salary support provided to Afghan civil servants by U.S. agencies. SIGAR closed this audit but on condition that it would examine more recent U.S. efforts to support the Afghan civil service.

The Inspector General Act of 1978, as amended, also requires SIGAR to report on any significant recommendations from prior reports on which corrective action has not been completed. In this quarter, SIGAR continued to monitor agency actions on recommendations in 28 audit and inspection reports.

Currently, there is only one audit report over 12 months old that is pending resolution. Audit 11-13, *Limited Interagency Coordination and Insufficient Controls over U.S. Funds in Afghanistan Hamper U.S. Efforts to Develop the Afghan Financial Sector and Safeguard U.S. Cash*, was published on July 20, 2011. The audit, discussed in SIGAR's April 2013 quarterly report, contains

four recommendations. One was directed to the U.S. ambassador to improve interagency coordination on financial sector development programs; the other three were directed at the Secretaries of State and Defense to strengthen oversight over the flow of U.S. funds through the Afghan economy.

SIGAR considers the recommendations resolved for five other audit and inspection reports that have remained open over 12 months. SIGAR is waiting for the agencies to complete the agreed upon actions.

## SPECIAL PROJECTS

During this reporting period, SIGAR's Office of Special Projects issued a special report on contracts for culvert denial systems, two safety alert letters, and two management alert letters. SIGAR sent the alert letters to State, USAID and DOD to highlight urgent issues related to nonpayment of subcontractors, U.S. government waste, and school safety. It also provided a special briefing on the Kabul Bank crisis for the House Committee on Oversight and Government Reform. In addition, SIGAR continued its efforts to get implementing agencies to identify their ten best performing programs.

### **SP 13-8: Improvised Explosive Devices: Unclear Whether Culvert Denial Systems to Protect Troops Are Functioning Or Were Ever Installed**

Because of the serious threat posed by the placement of improvised explosive devices (IEDs) in roadway culverts, DOD has funded a number of contracts to install systems to prevent insurgents from being able to access culverts. In 2012, A SIGAR investigation found that at least two Afghan companies in one province—with contracts valued at nearly \$1 million to install culvert denial systems—had either never installed the systems or had improperly installed them. The ongoing investigation is looking into whether this apparent failure to perform may have been a factor in the death and injury of several U.S. soldiers. To date, an Afghan contractor and his sub-contractor have both been arrested and charged with fraud and negligent homicide. SIGAR investigators are working with the Afghan Attorney General's Office to arrest the second contractor. SIGAR alerted DOD to the investigations findings earlier this year.

SIGAR initiated this review to identify the number of contracts DOD has awarded for culvert denial systems and the extent to which DOD is providing oversight of these important contracts.

SIGAR found insufficient evidence to determine the number of contracts that DOD has awarded to install culvert denial systems. SIGAR identified three reasons for the lack of visibility into where these systems have been installed and at what they have cost:

- The installation of culvert denial systems is often included as a requirement in a road construction contract rather than as a separate contract.

### COMPLETED SPECIAL PROJECT

- SIGAR SP 13-8: Improvised Explosive Devices: Unclear Whether Culvert Denial Systems to Protect Troops Are Functioning Or Were Ever Installed

# SIGAR OVERSIGHT



**Culvert-denial systems** like this grid of steel rods prevent insurgents from easily placing explosives beneath roads. (SIGAR photo)

- Military units generate very different requirements for these systems based on the threat levels in their areas.
- U.S. troops have also constructed and installed the systems.

In addition, SIGAR has serious concerns about contract oversight for the construction and the installation of these systems. Existing documentation did not show whether culvert denial systems paid for with U.S. government funds were ever installed or, if they were, that the systems were installed properly. The accuracy, completeness, and quality of the contract files demonstrated significant problems with quality control and quality assurance. Finally, SIGAR believes that it is important to know where culvert systems have been installed and what condition they are in to prevent any further loss of life from the placement of IEDs in roadside culverts. SIGAR made three recommendations to the commanders of USFOR-A and C-JTSCC to improve contract management and oversight:

- Ensure that specific requirements are included in all contracts for quality assurance and quality control to be performed and documented.
- Ensure that contracting officials are performing the required quality assurance and quality control for culvert denial systems prior to making payments.
- Ensure actions are taken to identify, to the extent possible, the locations of culvert denial systems throughout Afghanistan.

In its response to this report, C-JTSCC noted that it had taken a number of steps to improve the quality to its contract oversight. C-JTSCC also requested additional time to assemble and review all records associated with culvert denial contracts awarded by regional commands in order to identify locations of culvert denial systems throughout the military theater. SIGAR believes this is reasonable.

The IJC emphasized that, due to the drawdown of Coalition Forces over the coming months and years, they may have to use alternative measures to inspect and identify locations of culvert denial systems. SIGAR acknowledges that alternative measures, such as aerial observation, may be needed. However, SIGAR also believes that it is not acceptable to spend taxpayer money on a contract when the contracting officer has no way to verify that the contract has been fulfilled.

## SPECIAL PROJECT ALERT LETTERS

- Management Alert SP 13-4: Subcontractor Nonpayment Issues
- Safety Alert SP 13-5: Bathkhak School
- Safety Alert SP 13-6: Sheberghan School
- Management Alert SP 13-7: Command and Control Facility and Camp Leatherneck

### **Management Alert SP 13-4: Subcontractor Nonpayment Issues**

SIGAR sent a management alert letter to DOD, State, and USAID to inform these agencies about the numerous complaints SIGAR has received relating to nonpayment of subcontractors. Nearly a quarter of SIGAR's hotline complaints from 2009 through 2012 have been related to Afghan prime contractor and subcontractor nonpayment issues. SIGAR has opened 52 investigations involving claims of \$69 million that had not been paid. SIGAR

views the failure of prime contractors to pay their Afghan subcontractors as a serious risk to the U.S. reconstruction effort. The potential risks to subcontractors include business disruption and failure, with severe consequences for the livelihoods of employees and their families. Prime contractors accused of failing to pay subcontractors also face considerable risk of work stoppages, denial of access to work sites, death and kidnapping threats. As a result, U.S.-funded projects may be delayed, left incomplete, or sabotaged.

SIGAR urged the U.S. senior civilian and military leadership to determine the extent of the problem in the contracts that DOD, State, and USAID have awarded for Afghanistan reconstruction projects and to (1) more aggressively oversee these contractors to ensure subcontractors are promptly paid for their work, and (2) ensure that contract payment disputes are resolved according to contract terms.

### **Safety Alert SP 13-5: Bathkhak School**

SIGAR alerted the USFOR-A Commander that shoddy construction undermined the structural integrity of the U.S.-funded additions to the Bathkhak School in the Bagami district of Kabul province. Among other things, SIGAR found that design and construction flaws in the walls and roof could compromise the building's structural integrity. SIGAR was concerned that the roof could collapse on school children if it was not fixed before the school opened. Therefore, SIGAR urged USFOR-A to take all necessary and appropriate measures to address the safety risks that SIGAR had identified. SIGAR also urged USFOR-A to delay transferring the Bathkhak School buildings to the Afghan government until it received the full inspection report and was able to take action to address all its concerns. The final inspection report and USFOR-A's response to SIGAR's report and recommendations are summarized on page 51, under the inspections subheading of this report.

### **Safety Alert SP 13-6: Sheberghan Teacher Training Facility**

SIGAR notified DOD and USAID about the safety risks it found during its inspection of the U.S.-funded teacher training facility in Sheberghan in Jawzjan province. SIGAR sent the alert letter, outlining structural issues as well as problems with the electrical, water, and sewage systems to enable the implementing agencies to correct the problems as quickly as possible. SIGAR inspectors had found problems with the electrical wiring that created potential electrocution risks and fire hazards for the building's occupants. Despite the fact that the building was still under construction, SIGAR found that Afghans were already using the building. SIGAR urged that USAID take all the appropriate measures to address the safety risks identified as soon as possible. The final inspection report and agency responses to the report and recommendations are summarized on page 49, under the inspections subheading of this report.



**A risk of collapse** exists at the Bathkhak School because the contractor installed a concrete-slab roof atop brick walls instead of the wood-framed roof atop concrete blocks as required by contract. (SIGAR photo)



**Despite water and sewage** system problems, as well as electrical concerns, the Sheberghan school is already in use by Afghans. (SIGAR photo)



**Cavernous and unneeded** by the U.S. military, a \$34 million command-and-control complex with an acre and a half of floor space sits idle in Helmand Province, with no current plans for alternative use. (SIGAR photo)

## **Management Alert SP 13-7: Command and Control Facility at Camp Leatherneck**

SIGAR alerted the Secretary of Defense, the CENTCOM Commander, and the USFOR-A Commander to its discovery that a \$34 million, 64,000 square-foot-building and related infrastructure at Camp Leatherneck may never be occupied. Documents provided to SIGAR indicated that as early as May 2010 military commanders in Afghanistan determined that the building, which was meant to serve as a command headquarters in Helmand to support the surge, was not needed. Nevertheless, the military still built the facility and continued to purchase equipment and make various improvements to the building through early 2013. In addition, SIGAR understands that U.S. military officials expect the building to be either demolished or turned over to the Afghan government as the U.S. military presence in Afghanistan declines and Camp Leatherneck is reduced in size.

To better understand why construction on this facility was not stopped after it became clear that it was not necessary, SIGAR requested DOD and the senior military leadership to provide detailed information about the decision to continue building the command headquarters. Those responses are due after this report went to press.

## **Top Ten Success and Failures**

Last quarter SIGAR wrote to the Secretaries of State and Defense, and the Administrator of USAID, asking that each of their agencies submit a list of their 10 most-successful and 10 least-successful projects or programs in the Afghanistan reconstruction effort, along with an explanation of the criteria used for assessment and selection.

Although the agencies responded, they did not submit top-10/bottom-10 lists. They said, among other things, that many projects were conducted in cooperation with other agencies, and that performance criteria were often project-specific. The agencies did, however, present general descriptions of their efforts and pointed to various indicators of overall progress in Afghanistan.

This quarter SIGAR replied, noting that they had not complied with the agency's request for information. After pointing out that 2012 Office of Management and Budget guidance for executive departments and agencies had specifically called for measures to facilitate project comparisons, SIGAR observed that some of the overall indicators the agencies cited were not prima facie evidence of program or project success. For example, the cited metric of percentage of population within an hour's walk of a health facility could partly reflect Afghanistan's increasing urbanization or even better roads and paths, as well as health-program success.

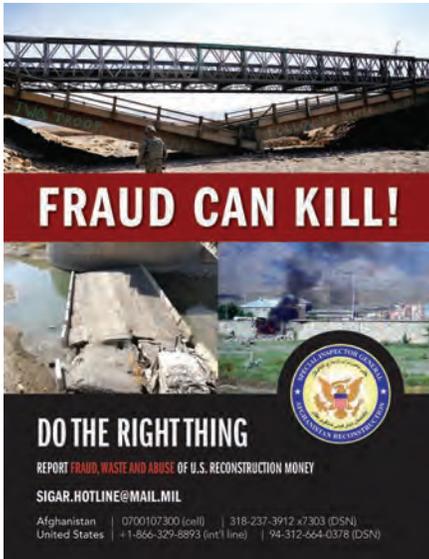
SIGAR also noted that the agency responses indicated some level of program evaluation was being conducted and asked why the agencies could not compare outcomes. SIGAR repeated its earlier request, but modified it to ask for three lists of 10 more- and 10 less-successful projects or programs to avoid imposing burdensome research tasks on agency personnel to compile an absolute ranking.

## **Congressional Briefing on Kabul Bank Crisis**

SIGAR briefed staff of the House Oversight and Government Reform Committee on its review of all the official reports related to the Kabul Bank crisis. When the bank collapsed in 2010, loans and advances to customers totaled about \$935 million and amounted to 70% of depositor funds at the bank. Customer deposits were the sole source of financing for the bank's activities. Afghanistan's central bank, Da Afghanistan Bank (DAB) covered the losses. As of July 2013, only \$173.2 million has been recovered.

SIGAR informed the Committee that it had found no evidence to suggest that any U.S. foreign assistance funds were directly lost in the Kabul Bank crisis. Although the U.S. government and international organizations used the bank to transfer salary payments for the Afghan security forces and Afghan civilian employees, it did not play a direct role in the establishment or development of the bank.

SIGAR is conducting an audit of U.S. efforts to develop and build the capacity of DAB. The audit will evaluate the steps taken by U.S. agencies to strengthen the oversight and regulatory capacity of DAB after the near collapse of the Kabul Bank. The audit will also assess the process by which U.S. agencies provide direct assistance funds to the Afghan government, and the internal controls put in place to safeguard these funds while they are in Afghan banks.



**Reporting fraud** is the goal of a SIGAR Investigations Directorate outreach campaign that includes advertisements and posters featuring the Fraud Hotline number and e-mail address. (SIGAR image)

**Indictment:** a formal, written accusation originating with a prosecutor and issued by a grand jury against a party charged with a crime. Its sole purpose is to identify the defendant's alleged offense, and is not evidence that the offense charged was committed and may not be considered as evidence in a subsequent trial.

**Criminal Information:** a written accusation made by a public prosecutor, without the participation of a grand jury. The function of an information is to inform the defendant of the nature of the charge made against him and the act constituting such charge so that he can prepare for trial and to prevent him from being tried again for the same offense. (Black's Law Dictionary)

## INVESTIGATIONS

During this reporting period, SIGAR's ongoing investigations related to fuel thefts saved the U.S. government approximately \$800,000. SIGAR investigations also resulted in two arrests, two **indictments**, two **criminal informations** and two guilty pleas in the United States as well as two court-martial convictions under the Uniform Code of Military Justice and two arrests under Afghan law. Criminal fines and restitutions amounted to over \$88,000. In addition, SIGAR's suspension and debarment program referred 27 individuals and 15 companies for suspension or debarment based on evidence developed as part of SIGAR's investigations.

During this reporting period, SIGAR initiated 33 new cases and closed 42, bringing the current number of active investigations to 289, of which SIGAR is the lead agency on 238, as shown in Figure 2.3.

## Criminal Information Filed Against U.S. Army Captain and Military Member Debarred

On May 28, 2013, the United States Attorney's Office in the Eastern District of North Carolina filed a criminal information against Captain Franklin Delano Rivera-Medina, charging him with one count of solicitation and acceptance of gratuities; a second count of bulk cash smuggling; and aiding and abetting the same. The criminal information is the result of a multi-agency investigation conducted by SIGAR, the Federal Bureau of Investigation (FBI), Defense Criminal Investigative Service (DCIS), and Army Criminal Investigation Command-Major Procurement Fraud Unit (CID-MPFU).

From April 2008 through February 2009, Rivera-Medina was deployed to Afghanistan with the Combined Joint Special Operations Task Force. As the Service Detachment Commander, Rivera was responsible for re-supplying 17 forward operating bases by contracting with local vendors for vehicles known in Afghanistan as "jingle trucks" that transport and deliver supplies. In collusion with another military member, Tonya Long, Rivera accepted cash gratuities, as well as large screen televisions, high-end electronics, and other gifts from Afghanistan trucking vendors in exchange for preferential treatment. He smuggled more than \$10,000 in currency back into the United States with the intent to evade currency-reporting requirements by concealing the money in gutted video players. Rivera has been ordered to forfeit all property and proceeds that resulted from his illegal activity.

Additionally, on June 6, 2013, the U.S. Army Legal Services Agency issued a letter advising Long, the second subject of this investigation, that she was debarred for a period of ten years. In September 2012, a criminal information was filed against Long charging her with one count of bulk cash smuggling and with aiding and abetting another in doing the same. Long smuggled approximately \$1 million from Afghanistan to North Carolina. In March 2013 she pled guilty to the charges and was sentenced to 60 months confinement and \$1 million in restitution.

## Investigation Results in Court-Martial Convictions for Theft, Bribery, and Drugs

In April 2013, a military judge sentenced two U.S. servicemen to be confined for 21 months and nine months respectively. The court-martial—which resulted from a SIGAR investigation of fuel theft, bribery and drugs on U.S. bases in Afghanistan—also reduced the ranks of the two men.

The investigation began when the 147th Financial Management Support Detachment at Forward Operating Base (FOB) Salerno contacted SIGAR in March this year and advised investigators that U.S. Army Private First Class Jesse Montel Anderson had been conducting unusual transactions using his Eagle Cash card, a debit card used by the military. From September 2012 until February 2013, Anderson had been assigned as a fuel technician to Combat Outpost Terazayi. From February 23 through March 9, 2013, Anderson made five transfers of cash to his Eagle Cash account in \$350 increments totaling \$1,750. In addition, on or about February 6, 2013, Anderson inquired about converting \$4,500 in denominations of \$100 to his Eagle Cash account. Anderson was informed that the limit for each transaction was \$350 and that no denomination larger than \$20 would be authorized.

SIGAR and Army CID agents interviewed Anderson and he admitted that while assigned to Terazayi he had taken money from two Afghan citizens in exchange for fuel. Anderson stated that an interpreter from Terazayi told him that he had purchased fuel from a soldier with the previous unit assigned to the outpost. Anderson told SIGAR agents that he sold the fuel to the interpreter and Noor Wali Khan, a local contractor, by allowing 400-500 gallons of fuel to remain in the trucks after they were unloaded. He said the interpreter and Noor paid him \$100 per 100 gallons of fuel on nine separate occasions totaling \$4,500. Anderson stated that Noor told him that he, the truck driver, and the fuel company would divide the profits from the sale of the fuel. Anderson also admitted to having deposited \$350 to his Eagle Cash account on five different occasions.

SIGAR and Army CID agents conducted a search of Anderson’s room on FOB Salerno. During the search, investigators seized 550 grams of hashish, \$4,500 in \$100 denominations, \$1,400 in \$20 denominations, and a notebook containing fuel records.

During a second interview, Anderson admitted to having exchanged \$900 of fuel for a kilogram of hashish from Noor on Terazayi. He stated that he had arranged for a transfer of the hashish via Facebook communications with a service member who was assigned to FOB Salerno, Specialist Keith Williams. Williams agreed to sell the hashish on FOB Salerno for Anderson and later divide the profits. Anderson granted SIGAR agents access to his Facebook account, which confirmed his statement.

Anderson also stated that he had provided some of the hashish to another service member assigned to Terazai, Specialist James Sellers.

FIGURE 2.3

SIGAR INVESTIGATIONS: NUMBER OF OPEN INVESTIGATIONS, AS OF JUNE 30, 2013



Source: SIGAR Investigations Directorate, 7/9/2013.



**Cash and drugs** derived from fuel theft and bribery and seized by SIGAR and Army investigators earned two Army enlisted men court-martial convictions and months of confinement. (SIGAR photo)

SIGAR agents interviewed Williams, who admitted that he had received the hashish from Anderson and that the two had discussed selling it on Facebook. Williams stated that a fourth service member, Specialist James Morris, actually sold the hashish on FOB Salerno. Williams said he collected and held the money from the sales for Anderson.

In subsequent interviews, Sellers admitted that he had used hashish obtained from Anderson. Morris admitted to using hashish given to him by Williams. Based on their confessions and corresponding co-defendant statements, Sellers and Morris were charged with possession and use of a controlled substance by U.S. Army JAG Office on FOB Salerno. They were both reduced in rank from E-4 to E-1, fined two months pay (\$1,516) and ordered to serve 45 days extra duty.

On April 30, 2013, Anderson was sentenced by court-martial to 21 months in confinement, a reduction in rank from Private First Class (E-3) to Private (E-1), forfeiture of all pay and allowances, and a bad conduct discharge. On April 29, 2013, Williams was sentenced by court martial to nine months confinement, a reduction in rank from specialist (E-4) to private (E-1), and a bad conduct discharge.

SIGAR agents identified the contractor, Noor, as an employee of Adrees Ekhlas Construction Company. On April 6, 2013, the U.S. military black-listed Khan due to his involvement in fuel theft and corruption. Khan is no longer allowed access to any U.S./NATO bases in Afghanistan.

## Investigation Identifies Fraudulent Fuel Invoices Resulting in Recovery of \$600,000

A SIGAR special agent learned from discussions with the staff at the General Support Contracting Command (GSCC) at Camp Phoenix that the command was accumulating invoices that might be indicative of fraud, theft, or government employee corruption.

SIGAR launched an investigation in April 2013. Agents reviewed discrepant delivery invoices for further investigative consideration. To date, 11 transportation movement requests (TMRs) have been determined to be fraudulent. The fabricated TMRs gave drivers the authorization to upload fuel from the fuel yard and subsequently, the drivers diverted the fuel for sale. Statements provided by military members confirmed that the deliveries were never completed and that the signatures on the delivery forms were forgeries.

Because of this investigation, the GSCC was able to bill the transport providers for the value of the fuel and deny them delivery charges. According to the GSCC, recovered fuel costs and averted delivery charges are estimated to amount to over \$600,000.

## SIGAR Thwarts \$150,000 Fuel Theft Scheme

On April 19, 2013, SIGAR and Army CID were notified that two forged TMRs had been discovered in connection to two 5,000 gallon fuel trucks

owned and operated by an Afghan company, Sheenz Varatis Logistics. The Afghan company was under contract to deliver 10,000 gallons of fuel to FOB Orgun-E. At the time the forged TMRs were discovered, the drivers and their two trucks were waiting at FOB Sharana for an escort before continuing on to FOB Orgun-E. After SIGAR and Army CID were notified of the forgeries, the trucks were held at FOB Sharana, pending an investigation. SIGAR investigators interviewed the Afghan transport company's program manager as well as the U.S. military personnel involved in documenting the initial order and the discovery of the forged TMRs. The investigation determined that two Afghan local nationals were involved in a \$20,000 bribery scheme to steal the fuel by falsifying TMRs to indicate the fuel had been delivered to FOB Orgun-E. The investigation resulted in the recovery and eventual return of the 10,000 gallons of fuel to the U.S. government inventory at Bagram Airfield on June 20, 2013. Based upon the U.S. Army calculation of \$15 per gallon, the recovered fuel amounted to \$150,000 cost savings to the U.S. government.

## Fuel Theft Investigation Results in Two Arrests and Cost Savings of \$90,000

On June 27, 2013, in response to complaints that Afghan fuel truck drivers were offering bribes to U.S. fuel point soldiers, SIGAR and Army CID initiated a "sting" operation at FOB Goode. The sting operation was designed to identify Afghan drivers who offered a bribe to a soldier in exchange for fuel. Two National Fuel Trucking Company trucks, each capable of holding 12,000 gallons of fuel, arrived at the FOB Goode fuel point for downloading. The first truck, driven by Mohammed Ameen, was unloaded and found to be 353 gallons short of fuel. When Ameen was informed of the shortage, he offered the soldiers a small quantity of hashish in return for modifying the paperwork to reflect that he had delivered the correct amount of fuel. The soldiers were allowed to accept the bribe as part of the sting operation. After conferring with the second truck driver, Khan Agha, Ameen gave the fuel point soldiers a bribe comprising \$95 and 8,500 afghanis in order to leave 6,000 gallons of fuel in Agha's truck. Ameen and Agha were then arrested by local Afghan authorities and turned over to Afghan local law enforcement officials for prosecution.

Based on the U.S. Army fuel contract price of \$15 per gallon, the 6,000 gallons of recovered fuel has a value of \$90,000.

## U.S. Soldier Indicted for Fuel Theft Scheme at FOB Fenty

On April 9, 2013, a federal grand jury in the District of Colorado returned a five-count indictment charging Specialist Stephanie Shankel-Charboneau with conspiracy, bribery, theft, money laundering, and structuring transactions to evade reporting requirements. That same day a summons was issued requiring Shankel-Charboneau to surrender to the U.S. Marshal Service and



**Checking fuel-pump meters** against delivery records helps detect and deter fuel theft, a multi-million-dollar problem in Afghanistan. (SIGAR photo)

appear in court on April 24, 2013. The charges came after a SIGAR investigation revealed that Shankel-Charboneau, Sergeant Christopher Weaver, and civilian Jonathon Hightower conspired in Afghanistan with Afghan nationals to facilitate the theft of fuel from FOB Fenty in exchange for cash. The Afghan nationals were subcontractors to Afghan American Army Services and Guzar Merbachakot Transportation (GMT).

Thirteen search warrants were executed for email and social media accounts. After reviewing the contents of the accounts, agents of SIGAR, Army CID, and DCIS developed probable cause to obtain and execute search warrants at the residences of Weaver and Shankel-Charboneau in Colorado as well as Hightower's residence in Houston, Texas. During the course of these searches, interviews were also conducted with Weaver, Shankel-Charboneau and Hightower, who all admitted to conspiring with an Afghan representative of GMT to facilitate the theft of fuel from FOB Fenty. In addition, Weaver and Hightower implicated another service member, Staff Sergeant Bilah Abdullah, in the scheme to steal fuel from FOB Fenty. Abdullah is the subject of a separate SIGAR investigation. As previously reported, Weaver and Hightower have already been prosecuted.

## **U.S. Contractor Employee Pleads Guilty to Conspiracy**

On May 2, 2013, in the Eastern District of Louisiana, U.S. contractor Elton Maurice McCabe III pled guilty to one count of conspiracy to commit wire fraud and receive illegal kickbacks. McCabe had been arrested in December 2012, following an investigation by SIGAR and other U.S. law enforcement agencies.

From June through December 2009, McCabe worked in Afghanistan for an American company while maintaining a residence in Slidell, Louisiana. During that time, McCabe was assigned to subcontract four construction projects at Kandahar Airfield, including one to build an apron between the runway and the hangars.

McCabe awarded the apron subcontract at a value of \$3.2 million. At the time of the award, he asked the subcontractor for what he called a \$60,000 "loan." Although McCabe called the payment a loan, he and the subcontractor established no repayment conditions or terms of interest.

On July 18, 2009, the subcontractor gave McCabe \$7,000 cash. On July 22, 2009, the subcontractor wire-transferred an additional \$53,000 from Beirut, Lebanon to the bank account in Louisiana of McCabe's wife. "To buy a vehicle from McCabe's wife" was noted on the bank's transfer form.

On December 13, 2012, McCabe was arrested at his Louisiana residence by agents from SIGAR, DCIS, FBI, Air Force Office of Special Investigations, and Army CID. McCabe agreed to cooperate fully. His plea agreement includes a forfeiture of \$60,000, which represents the sum of money equal to the amount of proceeds derived from the conspiracy to commit wire fraud.

Sentencing is scheduled for August 2013.

## **Investigation Results in Guilty Plea of U.S. Military Member**

Christopher Chase Bradshaw pled guilty in the United States District Court for the Southern District of Mississippi on June 19, 2013, to one count of conspiracy to commit wire fraud and a second count of theft of government property. An Army Reservist who served as a finance office cashier at FOB Salerno in Afghanistan from April 2010 to March 2011, Bradshaw allegedly used his position to add stored cash value to his military debit card and to those of two co-conspirators. Bradshaw would add the stored value to the cards but fail to include those transactions in the daily transaction report, which was electronically submitted from Afghanistan to the Federal Reserve Bank in Boston every day. The Defense Finance and Accounting Service of the Department of Defense lost about \$32,300 which was the amount of stored cash value which Bradshaw added to the cards but failed to report.

Bradshaw is tentatively scheduled for sentencing in August 2013. SIGAR and Army CID-MPFU are continuing the investigation and will work together to bring the two co-conspirators to prosecution.

## **Bribery Investigation Results in Seizure of U.S. Soldier's Property**

After a multi-agency investigation, Special Forces member James Travis admitted to accepting bribe payments from Afghan trucking companies in exchange for preferential treatment in contract awards. Travis, who was deployed to Afghanistan, admitted to accepting \$95,000 in bribes. He also admitted to selling U.S. government-appropriated fuel to Afghan vendors. On March 28, 2013, a seizure warrant was issued that allowed U.S. authorities to take \$46,131 from the bank accounts of James and Marla Travis. Almost two months later, on May 17, 2013, a federal judge in the Eastern District of North Carolina issued another seizure warrant for a vehicle owned by James Travis. On May 20, 2013, agents from SIGAR, DCIS, and the FBI recovered the vehicle. It was later relinquished to the U.S. Marshals Service, where it will be sold at an auction. The current appraised value of the vehicle is estimated at approximately \$40,985.

## **U.S. Contractor Arrested for Bid-Rigging**

SIGAR and several other U.S. law enforcement agencies executed the arrest of a U.S. contractor, Keith Johnson, on May 1, 2013. SIGAR, DCIS, the FBI, and Army CID opened their investigation after a complainant alleged that Keith Johnson, an employee of PAE Government Services, which is a subsidiary of Lockheed Martin Corp, and his family members were steering supply contracts and rigging bids in order to award contracts to a company owned and operated by Johnson's wife and his mother-in-law. Johnson, the program manager for PAE, allegedly had his wife, Angela Johnson, establish a company called Military Logistics Support (MLS) and then positioned her as the sales manager. The complainant also alleged that close associates of the Johnsons had established other companies so that Johnson

could steer contracts to them as well. Johnson then received kickbacks through a shell company operated under the name of Johnson's daughter, Christine Hammer. Johnson awarded purchase orders to MLS in excess of \$10 million. Contracts awarded to Johnson's associates may have exceeded \$12 million in total. The investigation is continuing.

## **Former Soldier Arrested**

In early 2011, SIGAR launched an initiative to review and analyze postal money order purchases by U.S. personnel stationed in Afghanistan for indications of fraud. In February 2011, SIGAR identified two Army personnel, Staff Sergeant Phillip Wooten and Sergeant First Class Mauricio Espinoza, as having engaged in suspicious monetary transactions during their deployment.

Both Wooten and Espinoza were assigned to the 7th Special Forces Group based at Fort Bragg, North Carolina when they allegedly stole more than \$215,000 earmarked for reconstruction efforts in Kandahar, Afghanistan. According to his indictment, Espinoza was deployed to Afghanistan as a paying agent, while Wooten was responsible for contracting with local vendors. Between July 2009 and April 2010, the two allegedly conspired to inflate and falsify receipts to Afghan vendors, allowing them to steal the money and send it home.

As previously reported, Wooten pled guilty in December 2011 to a two-count criminal information of conspiracy and theft of government property. He is currently awaiting sentencing.

Espinoza was arrested on July 20, 2012, and released on bail. When he failed to appear in federal court on June 3, 2013, in the Eastern District of North Carolina, a federal bench warrant was issued for his arrest. On June 6, 2013, Espinoza was arrested in the state of California. He was subsequently transported by the U.S. Marshals Service to detention in the Pamlico County Jail in North Carolina. Following oral arguments by the defense and prosecution, the presiding judge in a federal court in New Bern, North Carolina, deemed him a flight risk and ordered that he be held in jail until the next scheduled court date of September 16, 2013.

## **Former State Employee Indicted for \$30,000 Bribe**

On April 2, 2013, Department of State employee Kenneth Michael Brophy was indicted in the District of Delaware for conspiracy, receipt of an illegal gratuity by a public official, and willful receipt of an illegal payment for assisting a contractor pursue a claim against USACE. SIGAR arrested Brophy on October 14, 2012, with assistance from the FBI and the State Department, Office of the Inspector General.

Brophy's alleged illegal activities occurred while serving as a personal service contract employee working for the Bureau of International Narcotics and Law Enforcement (INL) at the U.S. Embassy Kabul during 2009. He supervised construction contracts of police facilities, including the

renovation of the Pol-i-Charkhi Prison performed by an Afghan contractor. The contractor paid Brophy \$30,000 to lobby USACE to re-instate a contract previously terminated due to unsatisfactory performance. Brophy assisted company officers in drafting documents for submission to the USACE, provided general advice regarding the Afghan company's communications with the USACE, and personally lobbied a USACE official to re-instate the contract. Brophy initially provided false statements to federal officials about the gratuity payment, claiming the cash payment was "slipped" into his coat pocket and that he "did not notice the money" until he returned to his billet in the U.S. Embassy.

Brophy's trial is scheduled for September 2013.

## **American Contractor Blacklisted; Marijuana Valued at \$276,000 Seized**

Lawrence Tucker, an American contractor, was blacklisted from access to any military installation in Afghanistan after an investigation by SIGAR and other law enforcement agencies. On June 20, 2013, the Army CID at FOB Salerno seized 921 marijuana plants in a plot near the perimeter of a storage yard managed by a U.S. contractor, AC First. Investigators also recovered containers of Miracle Grow and empty water bottles in the plot. Officials identified Lawrence Tucker, a resident of Houston, Texas, as the individual responsible for growing the marijuana. Army CID agents on FOB Salerno asked SIGAR for assistance as Tucker was a contractor employed by a U.S. company. As a result of the seizure, AC First fired Tucker and he returned to the United States. SIGAR and Army CID presented the facts of the investigation to the FOB Salerno JAG office and Tucker was subsequently blacklisted. SIGAR submitted the same information to the Regional Security Office, Kabul, in order to ensure that the State Department bars him from access to any contracts.

The Drug Enforcement Administration (DEA) estimates that a mature marijuana plant will produce a pound of processed ingestible substance. DEA estimates the value of a pound of processed marijuana in Afghanistan at \$300. The value of 921 plants at maturity and after processing is \$276,300.

## **Suspensions and Debarments**

This quarter, SIGAR's suspension and debarment program referred 27 individuals and 15 companies for suspension or debarment based on evidence developed as part of investigations conducted by SIGAR in Afghanistan and the United States. To be suspended and debarred means to be excluded from receiving federal contracts or assistance because of misconduct. Of these 42 contractors, 14 individuals, and 10 companies were referred for debarment based on allegations that they engaged in fraud and non-performance as part of six contracts valued at \$5,344,982. An additional 18 individuals were referred for suspension or final debarment based on

# SIGAR OVERSIGHT

criminal allegations of theft from coalition forces, acceptance of bribes, bulk cash smuggling into the United States, or final criminal convictions in U.S. District Court. These 42 referrals bring the total number of such referrals made by SIGAR since 2008 to 327—180 individuals and 135 companies to date, as shown in Figure 2.4.

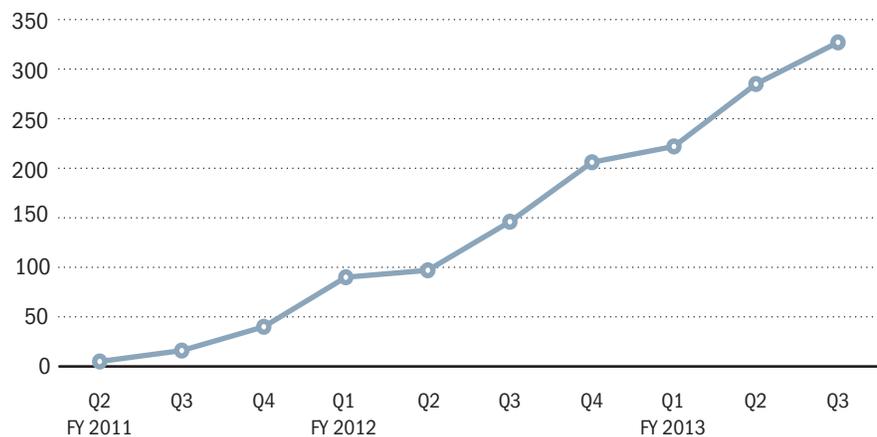
As of the end of June 2013, these referrals have resulted in a total of 59 suspensions and 68 finalized debarments of individuals and companies engaged in U.S. funded reconstruction projects. For a complete list, please see Appendix C.

A continuing problem is the Army's refusal to act on SIGAR's recommendations to suspend or debar individuals who are supporters of the insurgency, including the Taliban, the Haqqani Network, and al-Qaeda. The Army suspension and debarment official has taken the position that suspension or debarment of such individuals and entities would be a violation of their due process rights if based on classified information or if based on findings by the Department of Commerce which placed them on the Entities List. SIGAR has referred 43 such cases to the Army, and all have been rejected, despite detailed supporting information demonstrating that these individuals and entities are providing material support to the insurgency in Afghanistan. In other words, they may be enemies of the United States, but that is not enough to keep them from getting government contracts.

Suspensions and debarments are an important tool for ensuring that U.S. agencies award contracts only to responsible entities. SIGAR's program addresses three challenges posed by U.S. policy and the contingency contracting environment in Afghanistan: the need to act quickly, the limited

FIGURE 2.4

**SIGAR INVESTIGATIONS: CUMULATIVE REFERRALS FOR SUSPENSION AND DEBARMENT, Q2 FY 2011 – Q3 FY 2013**



Source: SIGAR Investigations Directorate, 7/11/2013.

U.S. jurisdiction over Afghan nationals and Afghan companies, and the vetting challenges inherent in the use of multiple tiers of subcontractors. SIGAR continues to look for ways to enhance the U.S. government's responses to these difficulties through the innovative use of information resources and investigative assets both in Afghanistan and the United States. SIGAR makes referrals for suspensions and debarments based on completed investigations that SIGAR participates in. In most cases, SIGAR makes its referrals in cases where there is no possibility of criminal prosecution or remedial action by a contracting office. In such cases, suspensions and debarments are the primary remedy to address contractor misconduct. In making referrals to agencies, SIGAR provides the basis for a suspension or debarment decision as well as all of the supporting documentation needed for an agency to support that decision should it be challenged by the contractor at issue.

SIGAR's increasing emphasis on suspension and debarment is exemplified by the fact that of the 327 referrals for suspension and debarment that have been made by the agency to date, 291 have been made since the second quarter of 2011. Beginning in July 2012, SIGAR accelerated its suspension and debarment program, referring 103 individuals and companies for exclusion from contracting to suspension and debarment officials in implementing agencies. SIGAR's referrals over this nine month period represent allegations of theft, fraud, poor performance, financial support to insurgents, and mismanagement in reconstruction contracts having a value of \$165,326,264.

## **Proposed Debarment of Mesopotamia Group**

On May 7, 2013, following up on SIGAR's recommendation from last quarter, the Army proposed debaring Mesopotamia Group and three of its officers. As a result the company is temporarily excluded from contracting. A final debarment decision is currently pending with the Army.

Last quarter, SIGAR proposed the debarment of Mesopotamia Group and three of its officers based upon the company making false claims of approximately \$5 million as part of a U.S. Army contract to provide medical equipment maintenance to Afghan National Army hospitals. SIGAR's investigation found that Mesopotamia Group had provided inadequately trained personnel, substandard repairs to equipment, and maintained inadequate records all in violation of the contract's requirements. This poor performance was illustrated by the inability of staff at the Dawood National Military Hospital to use any of its ventilators to aid victims of an October 2007 suicide bomb attack on a Kabul bus that resulted in the deaths of 13 Afghans. It was also shown by a second incident at Herat Provincial ANA Hospital in which an improperly attached regulator prevented hospital staff from using a breathing incubator during surgery, contributing to the death of an Afghan soldier.

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On repeated occasions, Mesopotamia Group allegedly refused to provide its staff with the resources to address these problems while billing the entire amount the contract allowed, regardless of whether the work was actually completed according to the terms of the contract.

## **Debarment of Afghan Local National**

In July 2012, a SIGAR special agent received information from Task Force 2010 that employees of an Afghan business, 77 Construction Company, were stealing U.S. military property at Camp Leatherneck and selling it to other companies operating within Camp Leatherneck. The investigation revealed that Zikrullah Shahim, a translator for 77 Construction, had stolen five generators. Shahim was interviewed and subsequently arrested by the Afghan Attorney General's Office. On May 7, 2013, the Department of the Army Legal Services Office issued a Notice of Proposed Debarment to Shahim effective May 7, 2013.

## **SIGAR BUDGET**

Congress appropriated \$49.9 million for SIGAR's operating expenses through Fiscal Year 2013 in the Full Year Continuing Appropriations Act 2013 (P.L. 113-6). SIGAR's Fiscal Year 2013 annual funding was then reduced, in accordance with Office of Management and Budget direction on the implementation of sequestration, to \$48.0 million.

Since SIGAR was established in 2008, Congress has appropriated a total of \$164 million for SIGAR through 2013. Recently, the Office of Management and Budget released the President's Fiscal Year 2014 Budget, which includes SIGAR's request for \$49.7 million to continue critical oversight operations of reconstruction funds.

## **SIGAR STAFF**

Since its last report to Congress, SIGAR increased its staff from 182 to 185 federal employees. During this reporting period, SIGAR welcomed 17 new employees and lost 14. SIGAR has extended offers of employment that will bring the number of full-time staff to 194 by the end of August 2013. SIGAR is on target to begin FY 2014 at its assigned strength of 205.

As a temporary agency with a demanding mission, SIGAR faces challenges recruiting and retaining professional staff, but continues to attract highly qualified auditors, investigators, and analysts. SIGAR is authorized 57 billets in Afghanistan. SIGAR expects to fill all 57 billets next quarter.

This quarter, SIGAR had 32 authorized personnel at the U.S. Embassy Kabul and 14 authorized at locations outside the U.S. Embassy. SIGAR has staff members stationed at six locations across the country, including Kandahar and Bagram airfields, Mazar-e-Sharif, Camp Leatherneck,

# SIGAR OVERSIGHT



**The Special IG**, center, and some stateside staff gather with SIGAR's forward team at the U.S. Embassy in Kabul. (SIGAR photo)

USFOR-A headquarters in Kabul, and the U.S. Consulate in Herat. SIGAR employs three local Afghans in its Kabul office to support investigations and audits. In addition, SIGAR supports its work with staff assigned to short-term temporary duty in Afghanistan. This quarter, SIGAR had 18 personnel on temporary duty in Afghanistan for a total of 282 days.

“While the nature of our relationship is changing, the commitment of the international community to the people of Afghanistan remains resolute and enduring.”

—*General Joseph Dunford Jr., USMC  
Commander, ISAF and USFOR-A*

# 3 RECONSTRUCTION UPDATE



## RECONSTRUCTION UPDATE CONTENTS

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<b>Status of Funds</b>	<b>77</b>
<b>Security</b>	<b>91</b>
<b>Governance</b>	<b>119</b>
<b>Economic and Social Development</b>	<b>143</b>

**Photo on previous page**

Children look on as a soldier of the U.S. 101st Airborne Division patrols with Afghan police in Khowst Province, July 2013. (DOD photo)

## OVERVIEW

Section 3 presents updates on accomplishments, challenges, and initiatives in Afghanistan reconstruction to provide context for oversight. Sidebars identify SIGAR audits, completed and ongoing, relating to those efforts. Cross-references to Section 1 point to more detail.

SIGAR presents the data in this section in compliance with Public Law 110-181, which mandates that each of SIGAR's quarterly reports to Congress on reconstruction activities in Afghanistan include, among other things:

- obligations and expenditures of appropriated funds
- discussions of U.S. government entities' contracts, grants, agreements, or other mechanisms
- funds provided by foreign nations or international organizations to programs and projects funded by U.S. government entities

## TOPICS

This section has four subsections: Status of Funds, Security, Governance, and Economic and Social Development.

The **Status of Funds** subsection describes monies appropriated, obligated, and disbursed for Afghanistan reconstruction, including U.S. funds and international contributions.

The organization of the other three subsections mirrors the three pillars in the Prioritization and Implementation Plan developed in an international conference in July 2010 and announced by the Afghan government.

The **Security** subsection describes U.S. efforts to bolster the Afghan National Security Forces (the Army and Police), the transition away from private security contracting, and the battle against the narcotics trade.

The **Governance** subsection provides an overview of the Afghan government's progress toward good governance through capacity-building efforts, rule of law initiatives, and human rights recognition. This subsection also describes the status of reconciliation and reintegration, Afghan government control in various provinces, and initiatives to combat corruption.

The **Economic and Social Development** subsection looks at reconstruction activities by sectors like energy, mining, and health. It provides a snapshot

of the state of the economy and updates on progress in regulating financial networks, achieving fiscal sustainability, and delivering essential services.

## **METHODOLOGY**

Section 3 was compiled from open-source and U.S. agency data. Attributions appear in endnotes or notes to tables and figures. Multiple organizations provide data, so numbers may conflict. SIGAR has not verified data other than that in its own audits or investigations. Information from other sources does not necessarily reflect SIGAR's opinion. For details on SIGAR audits and investigations this quarter, see Section 2.

## **Data Call**

The data call is a series of questions directed to U.S. agencies about their contributions and involvement in reconstruction programming, and the state of affairs in Afghanistan. U.S. agencies responding to the latest data call include the Departments of State, Defense, Transportation, and Treasury, and the U.S. Agency for International Development. Responding agencies received a preliminary draft of this section so they could verify and comment on specific data they provided for this quarterly report.

## **Open-Source Research**

Open-source research draws on the most current, publicly available data from reputable sources. Sources used include the U.S. agencies represented in the data call, the International Security Assistance Force, the United Nations (and relevant branches), the International Monetary Fund, the World Bank, and Afghan ministries and other government organizations.

# GRAPHICS KEY

## UNDERSTANDING THE GRAPHICS AND DATA TERMS

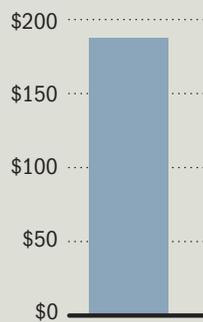
All figures and tables report data for this quarter, except where identified in titles or notes.

### BAR CHARTS

This report discusses many funds and projects with dollar values ranging from millions to billions. To provide an accurate graphical representation of these numbers, some bar graphs appear with a break (a wavy line) to indicate a jump between zero and a larger number.



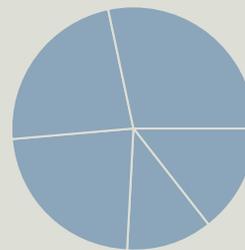
Bar chart with a break in scale



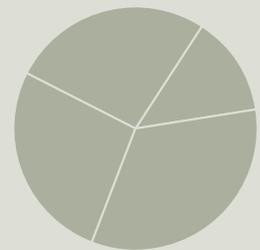
Bar chart without a break in scale

### UNITS IN BILLIONS AND MILLIONS

Because this report details funding in both billions and millions of dollars, it uses a visual cue to distinguish the two measurement units. Dollars reported in billions are represented in blue, and dollars reported in millions are depicted in green.



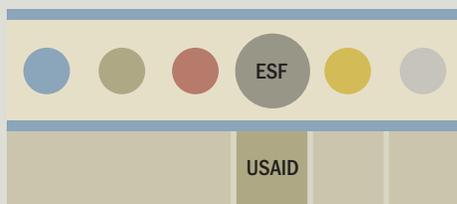
Pie chart in billions



Pie chart in millions

### FUNDING MARKERS

Funding markers identify individual funds discussed in the text. The agency responsible for managing the fund is listed in the tan box below the fund name.



### CALENDAR AND SOLAR YEARS

Afghanistan follows the solar Hejri calendar, which began in 622 A.D. in the Gregorian calendar. SIGAR converts Hejri solar years to Gregorian equivalents. The current Afghan solar year (SY) is 1392. It began on March 21, 2013, and ends on March 20, 2014. The Afghan government's fiscal year runs from December 21, 2012, to December 20, 2013.

## STATUS OF FUNDS CONTENTS

<b>U.S. Reconstruction Funding for Afghanistan</b>	<b>78</b>
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<b>International Narcotics Control and Law Enforcement</b>	<b>87</b>
<b>International Reconstruction Funding for Afghanistan</b>	<b>88</b>

## STATUS OF FUNDS

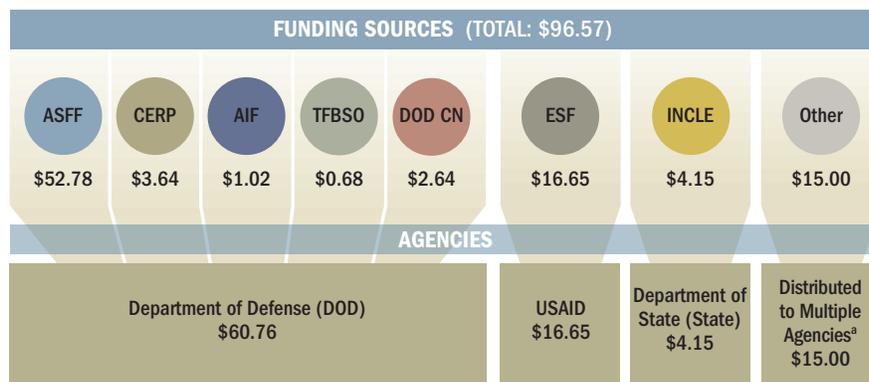
To fulfill SIGAR’s legislative mandate, this section details the status of U.S. funds appropriated, obligated, and disbursed for reconstruction activities in Afghanistan. As of June 30, 2013, the United States had appropriated approximately \$96.57 billion for relief and reconstruction in Afghanistan since FY 2002. This total has been allocated as follows:

- \$54.30 billion for security
- \$24.70 billion for governance and development
- \$6.92 billion for counternarcotics efforts
- \$2.67 billion for humanitarian aid
- \$7.99 billion for operations and oversight

Figure 3.1 shows the major U.S. funds that contribute to these efforts.

FIGURE 3.1

### U.S. FUNDS SUPPORTING AFGHANISTAN RECONSTRUCTION EFFORTS (\$ BILLIONS)



Notes: Numbers have been rounded.

<sup>a</sup> Multiple agencies include DOJ, State, DOD, USAID, Treasury, USDA, DEA, BBG, and SIGAR.

Sources: DOD, responses to SIGAR data call, 7/22/2013, 7/3/2013, 7/1/2013, 10/22/2012, 10/14/2009, and 10/1/2009; State, responses to SIGAR data call, 7/16/2013, 7/2/2013, 6/27/2013, 10/5/2012 and 6/27/2012; Treasury, response to SIGAR data call, 7/1/2013; OMB, response to SIGAR data call, 7/19/2013 and 1/4/2013; USAID, responses to SIGAR data call, 7/17/2013, 10/15/2010, 1/15/2010, and 10/9/2009; DOJ, response to SIGAR data call, 7/7/2009; USDA, response to SIGAR data call, 4/2009; P.L. 113-6, 3/26/2013; P.L. 112-74, 12/23/2011; P.L. 112-10, 4/15/2011; P.L. 111-212, 10/29/2010; P.L. 111-118, 12/19/2009; FY 2010 Defense Explanatory Statement.

- ASFF:** Afghanistan Security Forces Fund
- CERP:** Commander’s Emergency Response Program
- AIF:** Afghanistan Infrastructure Fund
- TFBSO:** Task Force for Business and Stability Operations
- DOD CN:** DOD Drug Interdiction and Counter-Drug Activities
- ESF:** Economic Support Fund
- INCLE:** International Narcotics Control and Law Enforcement
- Other:** Other Funding

# STATUS OF FUNDS



## U.S. RECONSTRUCTION FUNDING FOR AFGHANISTAN

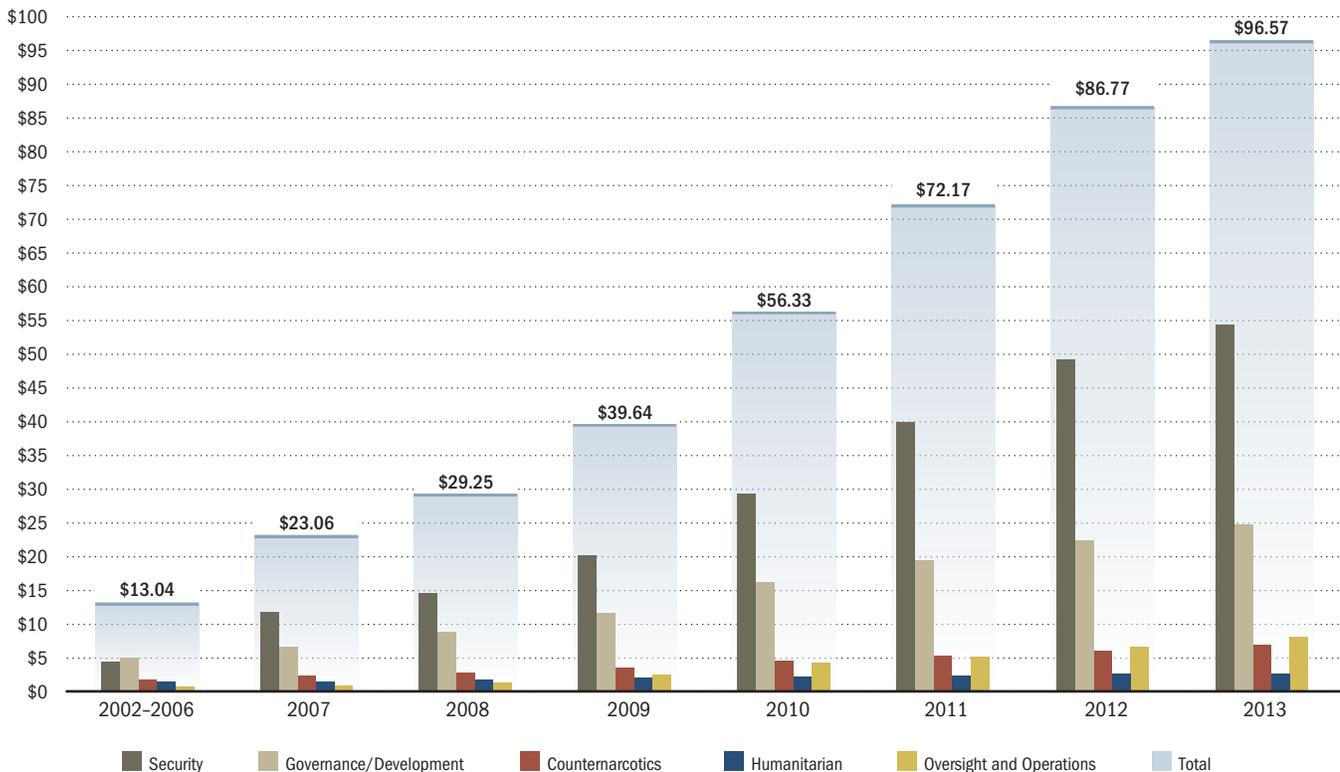
As of June 30, 2013, cumulative appropriations for relief and reconstruction in Afghanistan totaled approximately \$96.57 billion. This total can be divided into five major categories of reconstruction funding: security, governance and development, counternarcotics, humanitarian, and oversight and operations. For complete information regarding U.S. appropriations, see Appendix B.

On March 26, 2013, President Obama signed the Consolidated and Further Continuing Appropriations Act, 2013, funding the U.S. government for the rest of the fiscal year and increasing cumulative funding for Afghanistan reconstruction to approximately \$96.57 billion, as shown in Figure 3.2.

As of June 30, 2013, the total appropriated for Afghanistan reconstruction for FY 2013 amounted to nearly \$9.79 billion—a 33% decrease from the

The amount provided to the seven major U.S. funds represents nearly 84.5% (nearly \$81.57 billion) of total reconstruction assistance in Afghanistan since FY 2002. Of this amount, over 84.9% (more than \$69.25 billion) has been obligated, and over 73.9% (more than \$60.28 billion) has been disbursed. The following pages provide additional details on these funds.

FIGURE 3.2  
CUMULATIVE APPROPRIATIONS BY FUNDING CATEGORY, AS OF JUNE 30, 2013 (\$ BILLIONS)



Notes: Numbers have been rounded. FY 2013 figures for State and USAID accounts reflect draft allocation amounts and are subject to final Congressional approval. DOD reprogrammed \$1 billion from FY 2011 ASFF. DOD reprogrammed \$1 billion from FY 2012 ASFF. P.L. 113-6 rescinded \$1 billion from FY 2012 ASFF. DOD transferred \$101 million from FY 2011 AIF to FY 2011 ESF to fund an infrastructure project to be implemented by USAID.

Sources: DOD, responses to SIGAR data call, 7/22/2013, 7/3/2013, 7/1/2013, 10/22/2012, 10/14/2009, and 10/1/2009; State, responses to SIGAR data call, 7/16/2013, 7/2/2013, 6/27/2013, 10/5/2012 and 6/27/2012; Treasury, response to SIGAR data call, 7/1/2013; OMB, response to SIGAR data call, 7/19/2013 and 1/4/2013; USAID, responses to SIGAR data call, 7/17/2013, 10/15/2010, 1/15/2010, and 10/9/2009; DOJ, response to SIGAR data call, 7/7/2009; USDA, response to SIGAR data call, 4/2009; P.L. 113-6, 3/26/2013; P.L. 112-74, 12/23/2011; P.L. 112-10, 4/15/2011; P.L. 111-212, 10/29/2010; P.L. 111-118, 12/19/2009; FY 2010 Defense Explanatory Statement.

# STATUS OF FUNDS

\$14.60 billion appropriated for FY 2012, as shown in Figure 3.3. Despite the funding decrease from FY 2012 to FY 2013, the President’s Budget Request for FY 2014—approximately \$12 billion with oversight and operations budget requests included—is significantly higher than FY 2013 appropriations.<sup>41</sup> This increase is primarily attributed to a higher request for the Afghanistan Security Forces Fund to purchase equipment for the Afghan National Army’s Special Mission Wing and Air Force.<sup>42</sup>

Last quarter SIGAR reported that more than \$5.2 billion appropriated to four of the largest U.S. reconstruction funds for FY 2012 remained available for obligation. More than \$2.7 billion of this amount was obligated during this quarter, leaving approximately \$2.5 billion remaining to be obligated by the end of the fiscal year, as shown in Table 3.1.<sup>43</sup>

TABLE 3.1

FY 2012 APPROPRIATIONS AND OBLIGATIONS, AS OF JUNE 30, 2013 (\$ MILLIONS)		
	Appropriated	Obligated
ASFF <sup>a</sup>	\$9,200	\$6,951
AIF	\$400	\$322
ESF	\$1,837	\$1,699
INCLE	\$324	\$310
<b>TOTAL</b>	<b>\$11,761</b>	<b>\$9,282</b>
	<b>To Be Obligated</b>	<b>\$2,479</b>

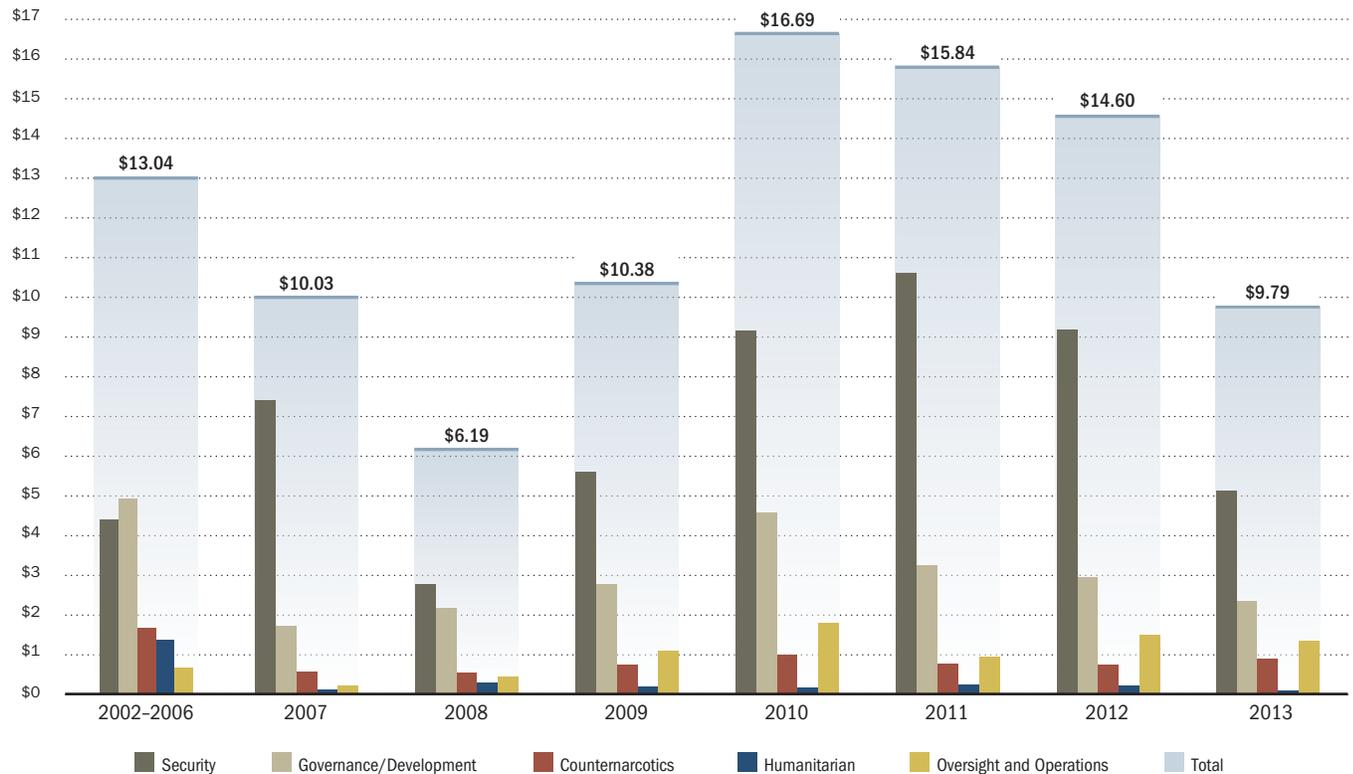
Notes: Numbers have been rounded. DOD reprogrammed \$1 billion out of FY 2012 ASFF, and P.L. 113-6 rescinded \$1 billion from FY 2012 ASFF, reducing the funding level from \$11.2 billion to \$9.2 billion.

<sup>a</sup> ASFF data as of May 31, 2013

Sources: DOD, response to SIGAR data call, 7/22/2013; USAID, response to SIGAR data call, 7/17/2013; State, response to SIGAR data call, 7/15/2013; P.L. 112-74, 12/23/2011.

FIGURE 3.3

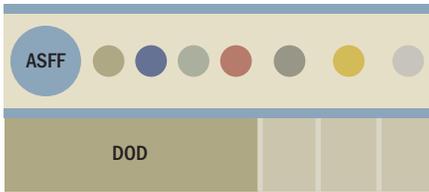
APPROPRIATIONS BY FISCAL YEAR, AMOUNT, AND CATEGORY (\$ BILLIONS)



Notes: Numbers have been rounded. FY 2013 figures for State and USAID accounts reflect draft allocation amounts and are subject to final Congressional approval. DOD reprogrammed \$1 billion from FY 2011 ASFF. DOD reprogrammed \$1 billion from FY 2012 ASFF. P.L. 113-6 rescinded \$1 billion from FY 2012 ASFF. DOD transferred \$101 million from FY 2011 AIF to FY 2011 ESF to fund an infrastructure project to be implemented by USAID.

Sources: DOD, responses to SIGAR data call, 7/22/2013, 7/3/2013, 7/1/2013, 10/22/2012, 10/14/2009, and 10/1/2009; State, responses to SIGAR data call, 7/16/2013, 7/2/2013, 6/27/2013, 10/5/2012 and 6/27/2012; Treasury, response to SIGAR data call, 7/1/2013; OMB, response to SIGAR data call, 7/19/2013 and 1/4/2013; USAID, responses to SIGAR data call, 7/17/2013, 10/15/2010, 1/15/2010, and 10/9/2009; DOJ, response to SIGAR data call, 7/7/2009; USDA, response to SIGAR data call, 4/2009; P.L. 113-6, 3/26/2013; P.L. 112-74, 12/23/2011; P.L. 112-10, 4/15/2011; P.L. 111-212, 10/29/2010; P.L. 111-118, 12/19/2009; FY 2010 Defense Explanatory Statement.

# STATUS OF FUNDS



## ASFF FUNDS TERMINOLOGY

DOD reported ASFF funds as appropriated, obligated, or disbursed

**Appropriations:** Total monies available for commitments

**Obligations:** Commitments to pay monies

**Disbursements:** Monies that have been expended

Source: DOD, response to SIGAR data call, 4/13/2010.

## AFGHANISTAN SECURITY FORCES FUND

The Congress created the Afghanistan Security Forces Fund (ASFF) to provide the ANSF with equipment, supplies, services, and training, as well as facility and infrastructure repair, renovation, and construction.<sup>44</sup> The primary organization responsible for building the ANSF is the North Atlantic Treaty Organization (NATO) Training Mission-Afghanistan/Combined Security Transition Command-Afghanistan.<sup>45</sup>

The Consolidated and Further Continuing Appropriations Act, 2013, appropriated more than \$5.12 billion for the ASFF for FY 2013, increasing total cumulative funding to nearly \$52.78 billion.<sup>46</sup> As of June 30, 2013, more than \$45.27 billion of total ASFF funding had been obligated, of which more than \$41.45 billion had been disbursed.<sup>47</sup> Figure 3.4 displays the amounts made available for the ASFF by fiscal year.

DOD reported that cumulative obligations as of June 30, 2013, increased by more than \$1.14 billion over cumulative obligations as of March 31, 2013. Cumulative disbursements as of June 30, 2013, increased by more than \$1.46 billion over cumulative disbursements as of March 31, 2013.<sup>48</sup> Figure 3.5 provides a cumulative comparison of amounts made available, obligated, and disbursed for the ASFF.

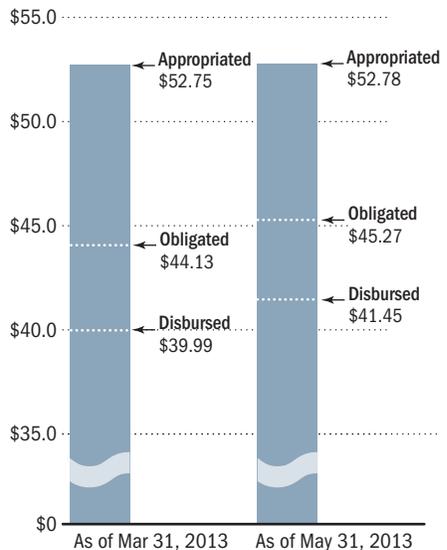
FIGURE 3.4

ASFF APPROPRIATED FUNDS BY FISCAL YEAR (\$ BILLIONS)



FIGURE 3.5

ASFF FUNDS, CUMULATIVE COMPARISON (\$ BILLIONS)



Notes: Numbers have been rounded.

<sup>a</sup> DOD reprogrammed \$1 billion of FY 2011 ASFF.

<sup>b</sup> DOD reprogrammed \$1 billion of FY 2012 ASFF; another \$1 billion was rescinded in P.L. 113-6.

Sources: DoD, response to SIGAR data call, 7/22/2013 and 4/16/2013; P.L. 113-6, 3/26/2013.

## ASFF BUDGET ACTIVITIES

DOD allocates funds to three budget activity groups within the ASFF:

- Defense Forces (Afghan National Army, ANA)
- Interior Forces (Afghan National Police, ANP)
- Related Activities (primarily Detainee Operations)

Funds for each **budget activity group** are further allocated to four **sub-activity groups**: Infrastructure, Equipment and Transportation, Training and Operations, and Sustainment.<sup>49</sup>

As of June 30, 2013, DOD had disbursed more than \$41.45 billion for ANSF initiatives. Of this amount, nearly \$27.44 billion was disbursed for the ANA, and more than \$13.69 billion was disbursed for the ANP; the remaining nearly \$0.32 billion was directed to related activities.<sup>50</sup>

As shown in Figure 3.6, the largest portion of the funds disbursed for the ANA—more than \$11.07 billion—supported Equipment and Transportation. Of the funds disbursed for the ANP, the largest portion—nearly \$4.77 billion—supported Sustainment, as shown in Figure 3.7.<sup>51</sup>

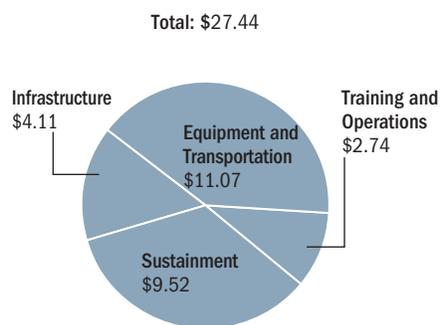
**Budget Activity Groups:** categories within each appropriation or fund account that identify the purposes, projects, or types of activities financed by the appropriation or fund

**Sub-Activity Groups:** accounting groups that break down the command's disbursements into functional areas

Sources: DOD, "Manual 7110.1-M Department of Defense Budget Guidance Manual," accessed 9/28/2009; Department of the Navy, "Medical Facility Manager Handbook," p. 5, accessed 10/2/2009.

FIGURE 3.6

**ASFF DISBURSEMENTS FOR THE ANA  
By Sub-Activity Group  
FY 2005–May 31, 2013 (\$ BILLIONS)**

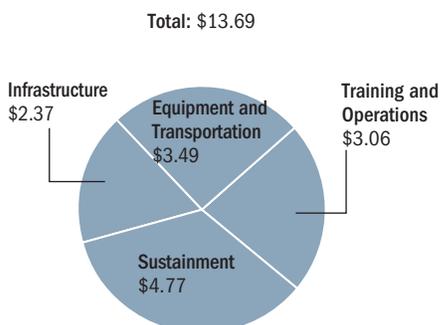


Note: Numbers have been rounded.

Source: DOD, response to SIGAR data call, 7/22/2013.

FIGURE 3.7

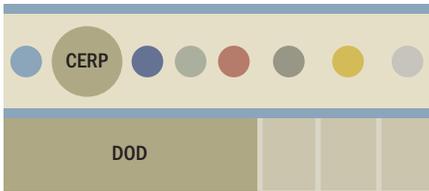
**ASFF DISBURSEMENTS FOR THE ANP  
By Sub-Activity Group  
FY 2005–May 31, 2013 (\$ BILLIONS)**



Note: Numbers have been rounded.

Source: DOD, response to SIGAR data call, 7/22/2013.

# STATUS OF FUNDS



## CERP FUNDS TERMINOLOGY

DOD reported CERP funds as appropriated, obligated, or disbursed

**Appropriations:** Total monies available for commitments

**Obligations:** Commitments to pay monies

**Disbursements:** Monies that have been expended

Source: DOD, response to SIGAR data call, 4/14/2010.

## COMMANDER'S EMERGENCY RESPONSE PROGRAM

The Commander's Emergency Response Program (CERP) enables U.S. commanders in Afghanistan to respond to urgent humanitarian relief and reconstruction requirements in their areas of responsibility by supporting programs that will immediately assist the local population. Funding under this program is intended for small projects that are estimated to cost less than \$500,000 each.<sup>52</sup> Projects with cost estimates exceeding \$1 million are permitted, but they require approval from the Commander of U.S. Central Command; projects over \$5 million require approval from the Deputy Secretary of Defense. CERP-funded projects may not exceed \$20 million.<sup>53</sup>

The Consolidated and Further Continuing Appropriations Act, 2013, appropriated \$200 million for CERP for FY 2013, increasing total cumulative funding to nearly \$3.64 billion.<sup>54</sup> Of this amount, DOD reported that more than \$2.27 billion had been obligated, of which more than \$2.21 billion had been disbursed.<sup>55</sup> Figure 3.8 shows CERP appropriations by fiscal year, and Figure 3.9 provides a cumulative comparison of amounts appropriated, obligated, and disbursed for CERP projects.

FIGURE 3.8

CERP APPROPRIATIONS BY FISCAL YEAR  
(\$ MILLIONS)

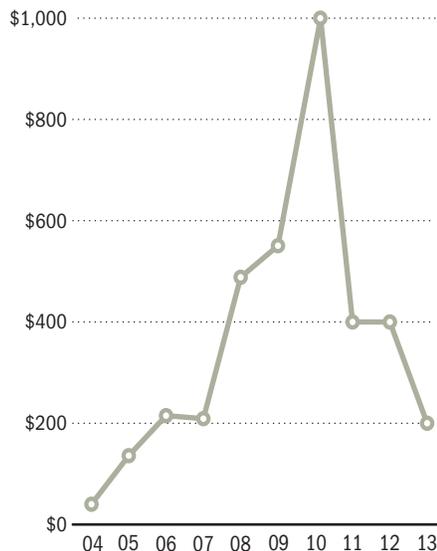


FIGURE 3.9

CERP FUNDS, CUMULATIVE COMPARISON  
(\$ BILLIONS)



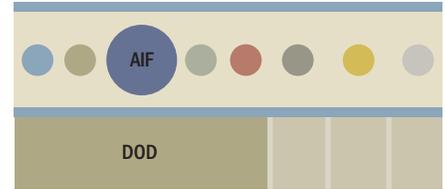
Notes: Numbers have been rounded. Data may include inter-agency transfers.

Sources: DOD, responses to SIGAR data call, 7/22/2013 and 4/17/2013; OMB, response to SIGAR data call, 1/4/2013; P.L. 113-6, 3/26/2013; P.L. 112-74, 12/23/2011; P.L. 112-10, 4/15/2011.

## AFGHANISTAN INFRASTRUCTURE FUND

The Ike Skelton National Defense Authorization Act for FY 2011 established the Afghanistan Infrastructure Fund (AIF) to pay for high-priority, large-scale infrastructure projects that support the U.S. civilian-military effort. Congress intended for projects funded by the AIF to be jointly selected and managed by DOD and State. Thirty days before obligating or expending funds on an AIF project, the Secretary of Defense and Secretary of State are required to notify the Congress with details of the proposed project, including a plan for its sustainment and a description of how it supports the counterinsurgency strategy in Afghanistan.<sup>56</sup>

The Consolidated and Further Continuing Appropriations Act, 2013, appropriated \$325 million for the AIF for FY 2013, increasing total cumulative funding to more than \$1.02 billion.<sup>57</sup> This figure excludes \$101 million of FY 2011 AIF funds transferred to the FY 2011 Economic Support Fund for USAID's AIF-funded infrastructure project. As of June 30, 2013, nearly \$616.07 million of total AIF funding had been obligated, of which more than \$134.18 million had been disbursed.<sup>58</sup> Figure 3.10 shows AIF appropriations by fiscal year, and Figure 3.11 provides a cumulative comparison of amounts appropriated, obligated, and disbursed for AIF projects.



### AIF FUNDS TERMINOLOGY

DOD reported AIF funds as appropriated, obligated, or disbursed

**Appropriations:** Total monies available for commitments

**Obligations:** Commitments to pay monies

**Disbursements:** Monies that have been expended

Source: DOD, response to SIGAR data call, 4/13/2012.

FIGURE 3.10

**AIF APPROPRIATIONS BY FISCAL YEAR**  
(\$ MILLIONS)

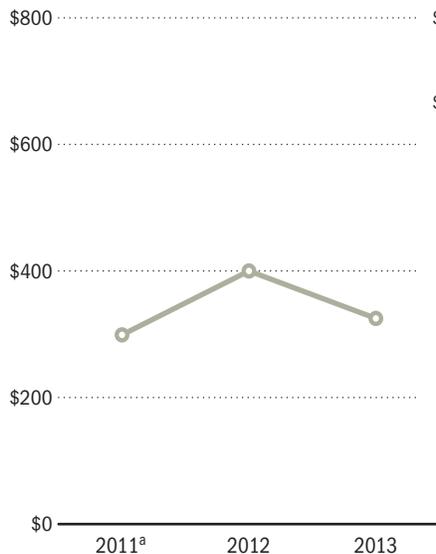
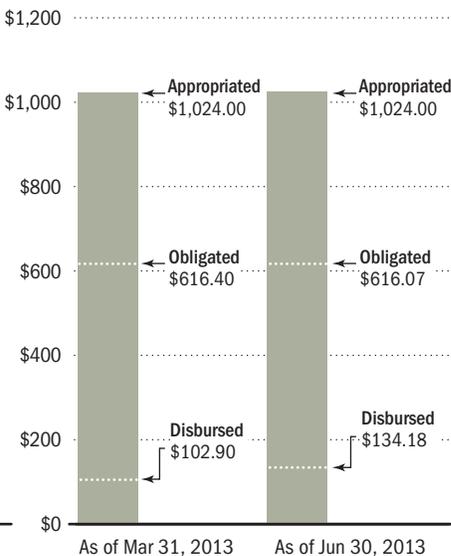


FIGURE 3.11

**AIF FUNDS, CUMULATIVE COMPARISON**  
(\$ MILLIONS)

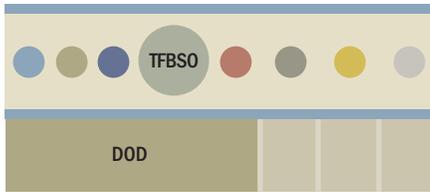


Notes: Numbers have been rounded. Updated data resulted in a lower obligation figure than that reported as of 3/31/2013.

<sup>a</sup> FY 2011 figure excludes \$101 million transferred to USAID to execute an AIF project.

Sources: DoD, responses to SIGAR data call, 7/22/2013 and 4/17/2013; P.L. 113-6, 3/26/2013; P.L. 112-74, 12/23/2011; P.L. 112-10, 4/15/2011.

# STATUS OF FUNDS



## TFBSO FUNDS TERMINOLOGY

DOD reported TFBSO funds as appropriated, obligated, or disbursed

**Appropriations:** Total monies available for commitments

**Obligations:** Commitments to pay monies

**Disbursements:** Monies that have been expended

Source: DOD, response to SIGAR data call, 4/13/2010.

## TASK FORCE FOR BUSINESS AND STABILITY OPERATIONS

In 2010, the Task Force for Business and Stability Operations (TFBSO) began operations in Afghanistan aimed at stabilizing the country and countering economically motivated violence by decreasing unemployment and creating economic opportunities for Afghans. TFBSO projects include activities that facilitate private investment, industrial development, banking and financial system development, agricultural diversification, and energy development.<sup>59</sup>

TFBSO has two separate funding streams. The funds authorized for TFBSO in the National Defense Authorization Act are used to pay for activities directly related to reconstructing Afghanistan. The funds TFBSO receives from the Operations and Maintenance, Army, account are used to pay for sustainment of U.S. assets, civilian employees, travel, security, and other operational costs.

As of June 30, 2013, TFBSO had been appropriated nearly \$129.84 million for FY 2013, bringing cumulative appropriations for the task force to more than \$684.59 million.<sup>60</sup> Of this amount, nearly \$590.76 million had been obligated and more than \$421.62 million had been disbursed.<sup>61</sup> Figure 3.12 displays the amounts appropriated for TFBSO projects by fiscal year, and Figure 3.13 provides a cumulative comparison of amounts made available, obligated, and disbursed for TFBSO projects.

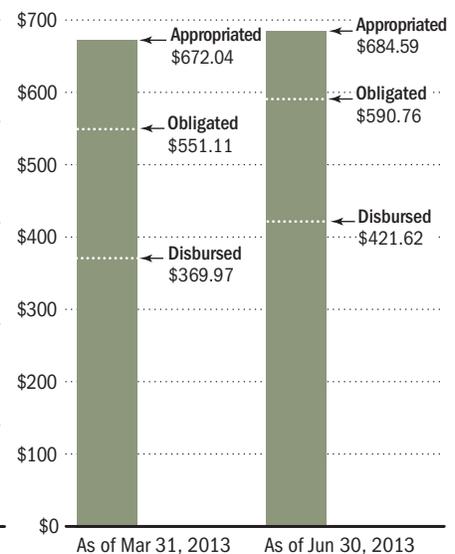
FIGURE 3.12

**TFBSO APPROPRIATIONS BY FISCAL YEAR**  
(\$ MILLIONS)



FIGURE 3.13

**TFBSO FUNDS, CUMULATIVE COMPARISON**  
(\$ MILLIONS)



Notes: Numbers have been rounded. NDA = National Defense Authorization Act. NDA funding is used to pay for activities directly related to reconstructing Afghanistan. OMA = Operations and Maintenance, Army. OMA funding is used to pay for sustainment of U.S. assets, civilian employees, travel, security, and other operational costs.

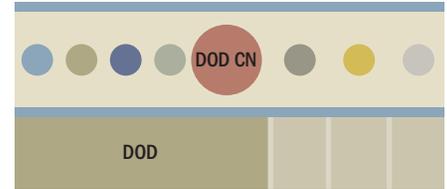
Sources: DOD, responses to SIGAR data call, 7/3/2013 and 10/4/2011; P.L. 113-6, 3/26/2013; P.L. 112-74, 12/23/2011; P.L. 112-10, 4/15/2011.

## DOD DRUG INTERDICTION AND COUNTER-DRUG ACTIVITIES

DOD's Drug Interdiction and Counter-Drug Activities Fund (DOD CN) supports efforts to stabilize Afghanistan by combating the drug trade and related activities. DOD uses the DOD CN to provide assistance to the counternarcotics effort by supporting military operations against drug traffickers; expanding Afghan interdiction operations; and building the capacity of Afghan law enforcement bodies—including the Afghan Border Police—with specialized training, equipment, and facilities.<sup>62</sup>

DOD CN funds are appropriated by Congress to a single budget line for all military services. DOD reprograms the funds from the Counternarcotics Central Transfer Account to the military services and defense agencies, which track obligations of the transferred funds. DOD reported DOD CN accounts for Afghanistan as a single figure for each fiscal year.<sup>63</sup>

As of June 30, 2013, DOD reported that DOD CN received more than \$333.11 million for Afghanistan for FY 2013, bringing cumulative funding for DOD CN to more than \$2.64 billion since fiscal year 2004.<sup>64</sup> Figure 3.14 shows DOD CN appropriations by fiscal year, and Figure 3.15 provides a cumulative comparison of amounts appropriated and transferred to the military services and defense agencies for DOD CN projects. SIGAR is currently working with the defense agencies to report DOD CN obligations and disbursements for Afghanistan.



### DOD CN FUNDS TERMINOLOGY

DOD reported DOD CN funds as appropriated, obligated, or disbursed

**Appropriations:** Total monies available for commitments

**Obligations:** Commitments to pay monies

**Disbursements:** Monies that have been expended

Source: DOD, response to SIGAR data call, 4/13/2010.

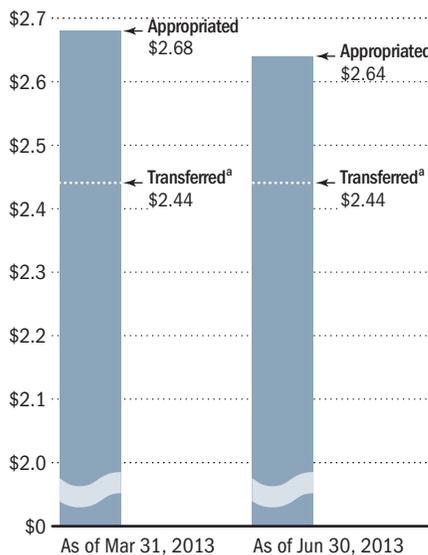
FIGURE 3.14

**DOD CN APPROPRIATIONS BY FISCAL YEAR**  
(\$ MILLIONS)



FIGURE 3.15

**DOD CN FUNDS, CUMULATIVE COMPARISON**  
(\$ BILLIONS)

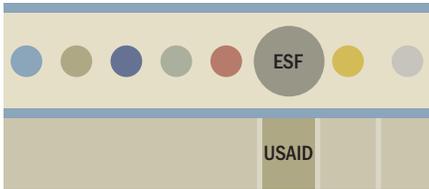


Notes: Numbers have been rounded. Updated data resulted in a lower appropriation figure for FY 2013.

<sup>a</sup> DOD reprograms all funds to the military services and defense agencies for obligation and disbursement.

Sources: DOD, responses to SIGAR data call, 7/1/2013 and 4/1/2013.

# STATUS OF FUNDS



## ESF FUNDS TERMINOLOGY

USAID reported ESF funds as appropriated, obligated, or disbursed

**Appropriations:** Total monies available for commitments

**Obligations:** Commitments to pay monies

**Disbursements:** Monies that have been expended

Source: USAID, response to SIGAR data call, 4/15/2010.

## ECONOMIC SUPPORT FUND

Economic Support Fund (ESF) programs advance U.S. interests by helping countries meet short- and long-term political, economic, and security needs. ESF programs support counterterrorism; bolster national economies; and assist in the development of effective, accessible, independent legal systems for a more transparent and accountable government.<sup>65</sup>

The ESF was appropriated more than \$1.62 billion for FY 2013, bringing cumulative funding for the ESF to more than \$16.65 billion. Of this amount, more than \$14.59 billion had been obligated, of which nearly \$10.93 billion had been disbursed.<sup>66</sup> Figure 3.16 shows ESF appropriations by fiscal year. Figure 3.17 shows ESF appropriations by fiscal year.

USAID reported that cumulative obligations as of June 30, 2013, increased by more than \$1.69 billion over cumulative obligations as of March 31, 2013. Cumulative disbursements as of June 30, 2013, increased by more than \$313.37 million over cumulative disbursements as of March 31, 2013.<sup>67</sup> Figure 3.17 provides a cumulative comparison of the amounts appropriated, obligated, and disbursed for ESF programs.

FIGURE 3.16

ESF APPROPRIATIONS BY FISCAL YEAR  
(\$ BILLIONS)

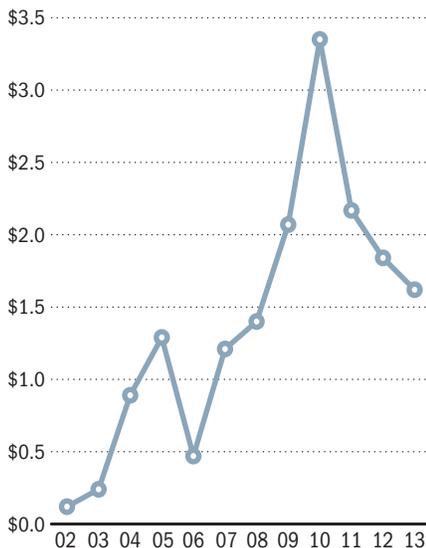
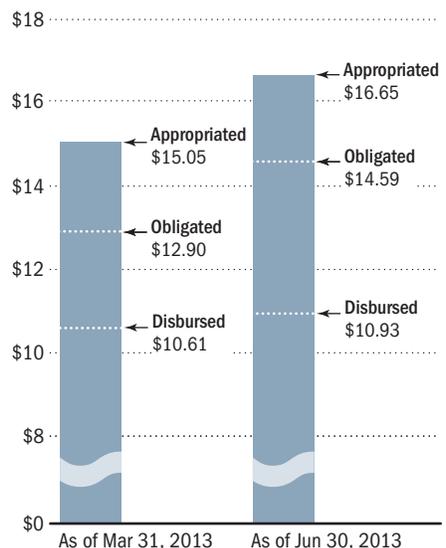


FIGURE 3.17

ESF FUNDS, CUMULATIVE COMPARISON  
(\$ BILLIONS)



Notes: Numbers have been rounded. FY 2013 figure reflects draft allocation amount for Afghanistan and is subject to final Congressional approval. FY 2011 figure includes \$101 million that was transferred to the ESF from the Afghanistan Infrastructure Fund.

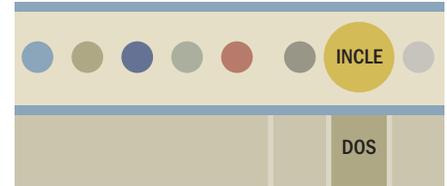
Sources: USAID, response to SIGAR data call, 7/17/2013 and 4/18/2013; State, response to SIGAR data call, 6/27/2013.

## INTERNATIONAL NARCOTICS CONTROL AND LAW ENFORCEMENT

The U.S. Bureau of International Narcotics and Law Enforcement Affairs (INL) manages an account for advancing rule of law and combating narcotics production and trafficking—the International Narcotics Control and Law Enforcement (INCLE) account. INCLE supports several INL program groups, including police, counternarcotics, and rule of law and justice.<sup>68</sup>

State reported that the Consolidated and Further Continuing Appropriations Act, 2013, appropriated nearly \$568.81 million for INCLE, bringing cumulative funding to nearly \$4.15 billion. Of this amount, nearly \$3.47 billion had been obligated, of which more than \$2.69 billion had been disbursed.<sup>69</sup> Figure 3.18 shows INCLE appropriations by fiscal year.

State reported that cumulative obligations as of June 30, 2013, decreased by more than \$15.11 million compared to cumulative obligations as of March 31, 2013. Cumulative disbursements as of June 30, 2013, increased by more than \$115.93 million over cumulative disbursements as of March 31, 2013.<sup>70</sup> Figure 3.19 provides a cumulative comparison of amounts appropriated, obligated, and disbursed for INCLE.



### INL FUNDS TERMINOLOGY

INL reported INCLE and other INL funds as appropriated, obligated, or disbursed.

**Appropriations:** Total monies available for commitments

**Obligations:** Commitments to pay monies

**Disbursements:** Monies that have been expended

Source: State, response to SIGAR data call, 4/9/2010.

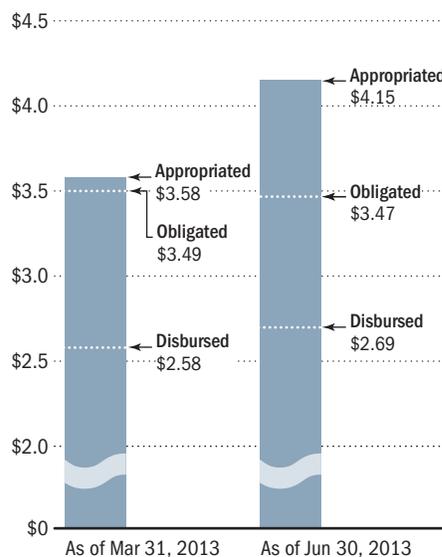
FIGURE 3.18

**INCLE APPROPRIATIONS BY FISCAL YEAR**  
(\$ MILLIONS)



FIGURE 3.19

**INCLE FUNDS, CUMULATIVE COMPARISON**  
(\$ BILLIONS)



Notes: Numbers have been rounded. Data may include inter-agency transfers. Updated data resulted in a lower obligation figure than that reported as of 3/31/2013.

<sup>a</sup> Figure reflects draft allocation amount for Afghanistan and is subject to final Congressional approval.

Sources: State, response to SIGAR data call, 7/15/2013, 6/27/2013, and 4/15/2013.

# STATUS OF FUNDS

## INTERNATIONAL RECONSTRUCTION FUNDING FOR AFGHANISTAN

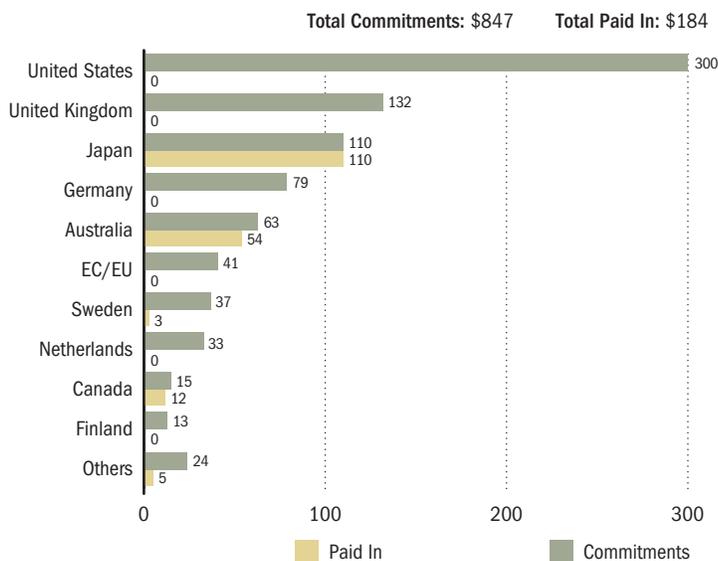
In addition to assistance provided by the United States, the international community provides a significant amount of funding to support Afghanistan relief and reconstruction efforts. As noted in previous SIGAR quarterly reports, most of the international funding provided is administered through trust funds. Contributions provided through trust funds are pooled and then distributed for reconstruction activities. The two main trust funds are the Afghanistan Reconstruction Trust Fund (ARTF) and the Law and Order Trust Fund for Afghanistan (LOTFA).<sup>71</sup>

### The Afghanistan Reconstruction Trust Fund

The largest share of international contributions to the Afghan operational and development budgets comes through the ARTF. From 2002 to June 21, 2013, the World Bank reported that 33 donors had pledged more than \$6.96 billion, of which nearly \$6.30 billion had been paid in.<sup>72</sup> According to the World Bank, donors have pledged approximately \$846.88 million to the ARTF for Afghan fiscal year 1392, which runs from December 21, 2012, to December 20, 2013.<sup>73</sup> Figure 3.20 shows the 10 largest donors to the ARTF for FY 1392.

FIGURE 3.20

ARTF CONTRIBUTIONS FOR FY 1392 BY DONOR, AS OF JUNE 21, 2013 (\$ MILLIONS)



Notes: Numbers have been rounded. FY 1392 = 12/21/2012–12/20/2013.

Source: World Bank, "ARTF: Administrator's Report on Financial Status as of June 21, 2013," p. 1.

# STATUS OF FUNDS

As of June 21, 2013, the United States had pledged more than \$2.04 billion and paid in more than \$1.74 billion since 2002.<sup>74</sup> The United States and the United Kingdom are the two biggest donors to the ARTF, together contributing nearly 46% of its total funding, as shown in Figure 3.21.

Contributions to the ARTF are divided into two funding channels—the Recurrent Cost (RC) Window and the Investment Window.<sup>75</sup> As of June 21, 2013, according to the World Bank, nearly \$2.83 billion of ARTF funds had been disbursed to the Afghan government through the RC Window to assist with recurrent costs such as salaries of civil servants.<sup>76</sup> The RC Window supports the operating costs of the Afghan government because the government’s domestic revenues continue to be insufficient to support its recurring costs. To ensure that the RC Window receives adequate funding, donors to the ARTF may not “preference” (earmark) more than half of their annual contributions for desired projects.<sup>77</sup>

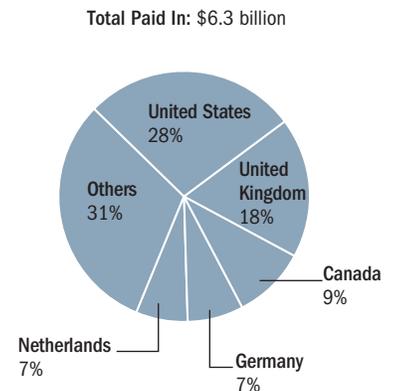
The Investment Window supports the costs of development programs. As of June 21, 2013, according to the World Bank, nearly \$2.90 billion had been committed for projects funded through the Investment Window, of which nearly \$2.04 billion had been disbursed. The World Bank reported 22 active projects with a combined commitment value of nearly \$1.84 billion, of which approximately \$980.40 million had been disbursed.<sup>78</sup>

## The Law and Order Trust Fund for Afghanistan

The United Nations Development Programme (UNDP) administers the LOTFA to pay ANP salaries and build the capacity of the Ministry of Interior.<sup>79</sup> Since 2002, donors have pledged more than \$3.35 billion to the LOTFA, of which nearly \$2.92 billion had been paid in, according to the most recent data available.<sup>80</sup> The LOTFA’s sixth support phase started on January 1, 2011. On March 20, 2013, the UNDP-LOTFA Steering Committee approved an extension of Phase VI to expand the phase from the planned end date of March 31, 2013, to December 31, 2013. In the 27 months since Phase VI began, the UNDP had transferred more than \$1.13 billion from the LOTFA to the Afghan government to cover ANP and Central Prisons Directorate staff remunerations and an additional \$25.61 million for capacity development and other LOTFA initiatives.<sup>81</sup> As of March 31, 2013, donors had committed more than \$1.82 billion to the LOTFA for Phase VI. Of that amount, the United States had committed nearly \$859.37 million, and Japan had committed more than \$614.76 million. Their combined commitments make up nearly 81% of LOTFA Phase VI commitments.<sup>82</sup> The United States had contributed more than \$1.12 billion to the LOTFA since the fund’s inception.<sup>83</sup> Figure 3.22 shows the four largest donors to the LOTFA since 2002, based on the latest data available.

FIGURE 3.21

ARTF CONTRIBUTIONS PAID IN BY DONORS SY 1381 (2002)–JUNE 21, 2013 (PERCENT)

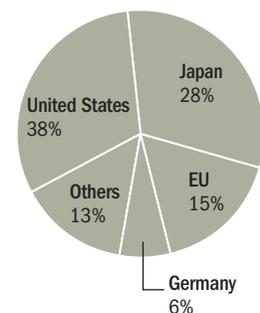


Notes: Numbers have been rounded. "Others" includes 28 donors.

Source: World Bank, "ARTF: Administrator's Report on Financial Status as of June 21, 2013," p. 5.

FIGURE 3.22

DONORS' CONTRIBUTIONS TO THE LOTFA SINCE 2002, AS OF MARCH 31, 2013 (PERCENT)



Notes: Numbers have been rounded. EC/EU = European Commission/European Union. "Others" includes 18 donors.

Sources: UNDP, "LOTFA Phase VI Quarterly Progress Report Q1/2013," Annex 1, 6/26/2013; SIGAR analysis of UNDP's quarterly and annual LOTFA reports, 7/23/2013.

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## SECURITY

As of June 30, 2013, the U.S. Congress had appropriated more than \$54 billion to support the Afghan National Security Forces (ANSF). Most of these funds (\$52.8 billion) were appropriated through the Afghanistan Security Forces Fund (ASFF) and provided to the Combined Security Transition Command-Afghanistan (CSTC-A). Its purpose is to build, equip, train, and sustain the ANSF, which comprises the Afghan National Army (ANA) and the Afghan National Police (ANP). Of the \$52.8 billion appropriated for the ASFF, approximately \$45.3 billion had been obligated and \$41.5 billion disbursed as of May 31, 2013.<sup>84</sup>

This section discusses assessments of the ANSF and the Ministries of Defense and Interior; gives an overview of U.S. funds used to build, equip, train, and sustain the ANSF; and provides an update on efforts to combat the cultivation of and commerce in illicit narcotics in Afghanistan. This section also discusses the challenges to transitioning to Afghan-led security by the end of 2014.

### KEY EVENTS

Key events this quarter include a proposed increase in funding in the Department of Defense's (DOD) FY 2014 ASFF budget request, the status of the FY 2014 National Defense Authorization Act (NDAA), the status of U.S.-Afghan negotiations on a bilateral security agreement, the increasing number of ANSF casualties, and the progress toward transition to ANSF-led security in Afghanistan.

### FY 2014 ASFF Budget Request

This quarter, DOD released its budget request for the FY 2014 ASFF. The request is broken into two parts: a core request for \$5.11 billion and an “enabler” request for \$2.62 billion.<sup>85</sup> According to DOD, the funding listed under the enabler request is conditional. It “shall not be available for obligation until the Department of Defense, with approval from the Office of Management and Budget, notifies the congressional defense committees that such amount, or a portion thereof, is necessary to further develop the capabilities of the Afghanistan Security Forces.”<sup>86</sup>

# SECURITY

At its current level, the total request of \$7.73 billion is \$1.98 billion more than the FY 2013 ASFF budget request and \$2.60 billion more than the final amount appropriated for FY 2013. The FY 2014 request would increase funding for ANA equipment by 803% and for infrastructure by 210% above what Congress provided for these categories in FY 2013, as shown in Table 3.2. DOD is requesting \$2.18 billion for ANA equipment (up from \$242 million in FY 2013) to purchase equipment and weapons. Notably, new equipment requested includes the following items aimed at bolstering the ANSF's enabler, or combat support, capabilities:<sup>87</sup>

- Mobile Strike Force Vehicles (\$886.9 million)
- 4 medium airlift aircraft to replace the Afghan Air Force's fleet of G-222s (\$250 million)
- Replacement helicopters (\$345 million)
- 10 C-208 fixed-wing training aircraft (\$28.6 million)
- 20 light air support fixed-wing aircraft for air-to-ground missions (\$416.8 million)
- 8 MD-530 helicopters for special operations and quick-reaction forces (\$28 million)
- NATO Standard 155mm howitzers (\$163.4 million)

TABLE 3.2

<b>AFGHANISTAN SECURITY FORCES FUND</b>			
	<b>Consolidated Appropriations Act, 2013 (P.L. 113-6)</b>	<b>FY 2014 Overseas Contingency Operations (OCO) Request</b>	<b>Change</b>
<b>MOD/ANA</b>			
Infrastructure	90,000,000	278,650,000	+210%
Equipment and Transportation	241,521,000	2,180,382,000	+803%
Training and Operations	758,380,000	626,550,000	-17%
Sustainment	2,523,825,000	2,735,603,000	+8%
<b>MOI/ANP</b>			
Infrastructure	50,000,000	0	-100%
Equipment and Transportation	84,859,000	54,696,000	-36%
Training and Operations	569,868,000	626,119,000	+10%
Sustainment	1,305,950,000	1,214,995,000	-7%
<b>Related Activities</b>			
Infrastructure	1,200,000	0	-100%
Equipment and Transportation	1,239,000	0	-100%
Training and Operations	4,000,000	2,500,000	-38%
Sustainment	18,325,000	7,225,000	-61%
<b>Reductions</b>			
General Reduction	-525,000,000		NA
<b>TOTAL</b>	<b>5,124,167,000</b>	<b>7,726,720,000</b>	<b>+51%</b>

Notes: Numbers have been rounded. MOD = Ministry of Defense. MOI = Ministry of Interior.

Sources: DOD, "Justification for FY 2014 Overseas Contingency Operations, Afghanistan Security Forces Fund (ASFF)," 5/2013, p. 2; DOD, "Justification for FY 2013 Overseas Contingency Operations, Afghanistan Security Forces Fund (ASFF)," 2/2012, p. 44; Congressional Record, House, 3/6/2013, p. H1013; Congressional Record, Senate, 3/11/2013, p. S1531; GPO, H.R. 933, 3/26/2013, p. H.R. 933-136.

Although DOD has asked for funds, CSTC-A said no Afghan authority had asked for MD-530s. Further there were no authorized positions for MD-530 pilots or maintainers.<sup>88</sup> The additional “enabler” request for ANA infrastructure (\$278.7 million) includes funding for facilities to house the new aircraft, ammunition bunkers for the new howitzers, and a new regional hospital. DOD is also requesting \$192.4 million for Afghan Air Force training.<sup>89</sup>

Despite the increase in the request for ANA equipment and infrastructure, the amounts requested in eight of the 12 ASFF funding categories were less than the amounts appropriated for FY 2013, as shown in Table 3.2.

## National Defense Authorization Act for FY 2014

As of July 8, 2013, the House of Representatives had passed its version (H.R. 1960) of the NDAA for FY 2014; the Senate is now considering the bill.<sup>90</sup> The current version of the bill withholds \$2.6 billion of ASFF funding until the Secretary of Defense certifies to Congress that the United States and Afghanistan have signed a bilateral security agreement that ensures:<sup>91</sup>

- protection for DOD and its contractors from taxes or charges for efforts to carry out missions in Afghanistan that had been agreed to by both the United States and Afghanistan
- exclusive U.S. jurisdiction over U.S. forces in Afghanistan
- no infringement of the U.S. military and its personnel’s self-defense rights
- ability of the U.S. military to protect U.S. government offices and personnel in Afghanistan as needed
- U.S. military access to bases as needed to carry out its mission
- U.S. freedom of movement necessary to defeat al-Qaeda and its associates

H.R. 1960 withholds the same \$2.6 billion until the Secretary of Defense submits to Congress a report on certain equipment (helicopters, systems for close air support, air-mobility systems, and armored vehicles) to be purchased with ASFF funds authorized by the Act that includes:<sup>92</sup>

- lists of all equipment
- the expected date such equipment would be delivered and operable in Afghanistan
- full requirements for operating such equipment
- the plan for maintaining such equipment and estimated costs by year through 2020
- the expected date that ANSF personnel would be fully capable of operating and maintaining such equipment without U.S. support
- an explanation of the extent to which the acquisition of such equipment will impact longer-term U.S. costs of supporting the ANSF

H.R. 1960 also includes limitations on use of FY 2013 and later DOD funding for purchasing equipment from Rosoboronexport, the Russian



**Seth Jones** of the RAND Corporation shared his views with SIGAR staff on the U.S. effort to secure and stabilize Afghanistan. SIGAR periodically invites subject matter experts to speak with staff. (SIGAR photo)

agency that sells military equipment, until the Secretary of Defense certifies that Rosoboronexport is cooperating with the Defense Contract Audit Agency, has not provided anti-aircraft missiles to Syria, and has not signed any new contracts with President Bashar al Assad's regime. The Secretary of Defense may waive the limitation by certifying that the purchase is in the national security interests of the United States.<sup>93</sup>

Since 2005, DOD has been procuring Russian-made Mi-17 helicopters for the ANSF. In 2011, the Army contracted Rosoboronexport to purchase 21 Mi-17 military helicopters with the option to buy another 12.<sup>94</sup>

H.R. 1960 also requires that no less than \$47.3 million be used to recruit and retain women in the ANSF.<sup>95</sup> Recruitment of women has been a challenge: currently only 0.2% of ANA personnel and 1% of ANP personnel are women.<sup>96</sup>

## Bilateral Security Agreement

Since November 15, 2012, the United States and Afghanistan have been negotiating a Bilateral Security Agreement (BSA) to determine the status and role of U.S. forces post-2014.<sup>97</sup> The top U.S. and NATO commander in Afghanistan, General Joseph F. Dunford Jr., told Congress on April 17 that the BSA was needed to show our commitment to both Afghanistan and to Coalition partners and to counter the Taliban message that Afghanistan will be abandoned.<sup>98</sup> On June 19, 2013, President Karzai suspended talks with the United States on the BSA due to disagreements over the peace process.<sup>99</sup>

The United States has yet to determine the number of troops that will remain in Afghanistan after 2014. Last quarter, U.S. Central Command (CENTCOM) commander General James Mattis recommended a post-2014 force of 20,000 Coalition troops, 13,600 of them American. NATO defense ministers have discussed leaving a force of 9,500 U.S. and 6,000 Coalition troops.<sup>100</sup> As of July 9, 2013, the United States had not ruled out a "zero option" whereby all U.S. troops would exit Afghanistan post-2014.<sup>101</sup>

## Security Environment and ANSF Casualties

In testimony before the Senate Foreign Relations Committee on July 11, a senior DOD official noted that close to 400 Afghan army and police personnel are being killed in action every month.<sup>102</sup>

From February 16 to May 15, 2013, the number of security incidents in Afghanistan had increased by 10% over the same period in 2012, according to the UN Secretary-General.<sup>103</sup>

## Transition Progress

This quarter, all five tranches of geographic areas were transitioning to ANSF-led security. President Karzai's June 18 announcement of the start of the transition process for the fifth and final tranche means 100% of the Afghan population now lives in areas under transition to ANSF security lead. The announcement also coincided with the "Milestone 2013"

ceremony which marked the International Security Assistance Force’s (ISAF) shift in focus from combat to supporting the ANSF through a train-advise-assist mission.

According to DOD, ISAF will continue to engage in combat operations, as needed, until the end of 2014, and remain committed to helping the ANSF by providing enablers such as air, aviation, medical support, intelligence, counter-IED, signals, and logistics. However, ANSF will be responsible for day-to-day execution of security operations. Afghanistan’s Ground Forces Command, a new Ministry of Defense (MOD) operational headquarters, will oversee security in the country.<sup>104</sup>

To ensure proper security in transitioning areas, ISAF will continue to provide the ANSF with training, advising, and assistance support using the Security Force Assistance Brigades, according to DOD. Through this transition process, the level of ISAF support can be adjusted as the ANSF demonstrate improved capabilities. During this shift, the Coalition forces will realign their posture, setting the conditions for the ANSF to assume full security responsibility and authority in late 2014.<sup>105</sup>

## U.S. FORCES IN AFGHANISTAN

According to CENTCOM, 70,100 U.S. forces were serving in Afghanistan as of June 30, 2013. Of those, approximately 51,000 were assigned to ISAF and 1,700 to the NATO Training Mission-Afghanistan (NTM-A)/CSTC-A. Of the remaining U.S. personnel, 7,200 were assigned to the U.S. Forces-Afghanistan and 10,200 were designated “other military personnel.”<sup>106</sup> As of July 15, 2013, a total of 2,115 U.S. military personnel have died in Afghanistan—83% of whom were killed in action—and 18,957 were wounded as part of Operation Enduring Freedom since it began on October 7, 2001.<sup>107</sup>

## ANSF STRENGTH

This quarter, ANSF’s assigned force strength was 337,111 (185,287 assigned to the ANA and Afghan Air Force, and 151,824 assigned to the ANP), according to data provided by CSTC-A.<sup>108</sup> This is 14,889 less than the end-strength goal, as shown in Table 3.3.

TABLE 3.3

ANSF ASSIGNED STRENGTH, MAY 20, 2013			
ANSF Component	Current Target	Status as of 5/2013	Difference Between Current Strength and Target End-Strength Goals
Afghan National Army	187,000 personnel by December 2012	178,826	-8,174
Afghan National Police	157,000 personnel by February 2013	151,824	-5,176
Afghan Air Force	8,000 personnel by December 2014	6,461	-1,539
<b>ANSF Total</b>	<b>352,000</b>	<b>337,111</b>	<b>-14,889</b>

Sources: DOD, “Report on Progress Toward Security and Stability in Afghanistan,” 12/2012, p. 56; CSTC-A, response to SIGAR data calls, 7/2/2013.

## SIGAR AUDIT

In an ongoing audit, SIGAR is assessing the reliability and usefulness of data for the number of ANSF personnel authorized, assigned, and trained. In the same audit, SIGAR is examining the methods and tools used to measure and evaluate the ANSF’s operational effectiveness, including the extent to which these methods and tools are consistently applied, reliable, and validated.

## AFGHAN LOCAL POLICE

This quarter, the number of trained and equipped Afghan Local Police (ALP) personnel was 23,551. The current goal is for the ALP to reach 30,000 personnel. According to the Special Operations Joint Task Force, the ALP are operational at 115 sites. The United States has obligated \$151 million to support the ALP as of June 30, 2013.<sup>109</sup> ALP numbers are not counted as ANSF.

### SIGAR AUDIT

Last quarter, SIGAR initiated a follow-on audit to the agency's March 2012 testimony and its June 2012 report that assessed the potential effects of USAID's transfer of security functions for its projects from PSCs to the APPF.

## AFGHAN PUBLIC PROTECTION FORCE

As of June 30, 2013, the number of personnel assigned to the APPF was 18,821, according to CSTC-A. Of these, 1,352 were officers, 1,336 were non-commissioned officers (NCOs), and 16,133 were guards.<sup>110</sup> APPF numbers are not counted as ANSF.

## ANSF ASSESSMENTS

Assessments of the ANA and ANP are indicators of the effectiveness of U.S. and Coalition efforts to build, train, equip, and sustain the ANSF. These assessments also provide both U.S. and Afghan stakeholders with updates on the status of these forces as transition continues and Afghanistan assumes responsibility for its own security.

In assessing the capability of ANA and ANP units, ISAF uses the Commander's Unit Assessment Tool (CUAT), which has five rating levels:<sup>111</sup>

- **Independent with Advisors:** The unit is able to plan and execute its missions, maintain command and control of subordinates, call on and coordinate quick-reaction forces and medical evacuations, exploit intelligence, and operate within a wider intelligence system.
- **Effective with Advisors:** The unit conducts effective planning, synchronizing, directing, and reporting of operations and status. Leaders, staff, and unit adhere to a code of conduct and are loyal to the Afghan government. Coalition forces provide only limited, occasional guidance to unit personnel and may provide **enablers** as needed. Coalition forces augment support only on occasion.
- **Effective with Partners:** The unit requires routine mentoring for planning, synchronizing, directing, and reporting of operations and status; coordinating and communicating with other units; and maintaining effective readiness reports. Leaders, staff, and most of the unit adhere to a code of conduct and are loyal to the Afghan government. ANSF enablers provide support to the unit; however, coalition forces may provide enablers to augment that support.
- **Developing with Partners:** The unit requires partnering and assistance for planning, synchronizing, directing, and reporting of operations and status; coordinating and communicating with other units; and maintaining effective readiness reports. Leaders and most of the

**Enablers:** specialized units that support combat units, such as engineering, civil affairs, military intelligence, helicopter, military police, and intelligence, surveillance, and reconnaissance assets.

Source: DOD, "Mullen Tours Forward Outposts in Afghanistan," 4/22/2009, accessed 1/4/2012.

staff usually adhere to a code of conduct and are loyal to the Afghan government. Some enablers are present and effective, providing some of the support. Coalition forces provide enablers and most of the support.

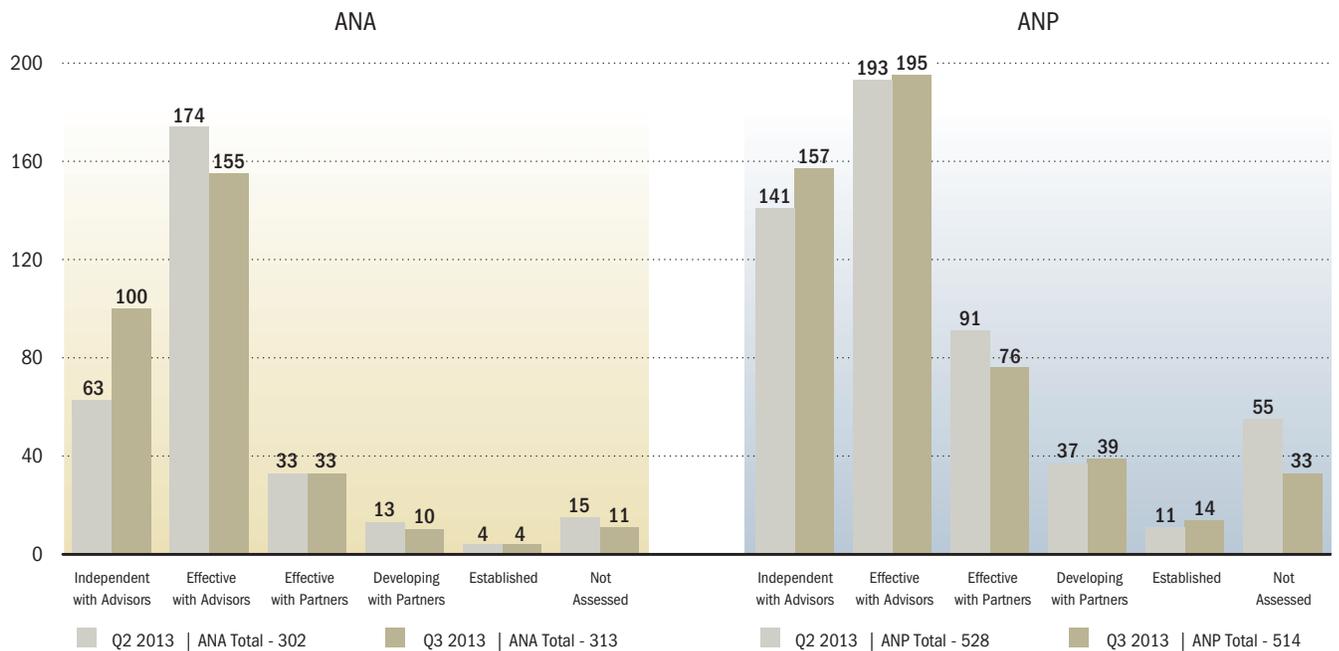
- Established:** The unit is beginning to organize but is barely capable of planning, synchronizing, directing, or reporting operations and status, even with the presence and assistance of a partner unit. The unit is barely able to coordinate and communicate with other units. Leadership and staff may not adhere to a code of conduct or may not be loyal to the Afghan government. Most of the unit's enablers are not present or are barely effective. Those enablers provide little or no support to the unit. Coalition forces provide most of the support.

During this reporting cycle, the total number of ANA units rose from 302 to 312. According to ISAF Joint Command (IJC), this increase is the result of new units being fielded in the 111th Capital Division, the Mobile Strike Brigades, and the 201st, 203rd, and 215th Corps.<sup>112</sup> For the ANP, the total number of units fell from 528 to 514.<sup>113</sup>

Because not every unit is reported in every CUAT cycle, the IJC uses the most recent assessment (within the last 18 months) to “enable cycle to cycle

FIGURE 3.23

### CUAT RATINGS OF ANSF UNITS, QUARTERLY CHANGE



Sources: DOD, responses to SIGAR data call, 4/17/2013 and 7/9/2013.

comparisons.”<sup>114</sup> When compared this way, 37 more ANA units and 16 more ANP units were rated “independent with advisors,” as shown in Figure 3.23 on the previous page. According to the most recent assessments, more than 81% of all ANA units were rated at the two highest levels: 32% were “independent with advisors” and 50% were “effective with advisors.” For the ANP, more than 68% of units were rated at the two highest levels: 31% were “independent with advisors” and 38% were “effective with advisors.”<sup>115</sup>

## MINISTRY OF DEFENSE AND MINISTRY OF INTERIOR ASSESSMENTS

Assessments of the MOD and the MOI continued to show progress this quarter. To rate the operational capability of these ministries, NTM-A uses the Capability Milestone (CM) rating system. This system assesses staff sections (such as the offices headed by assistant or deputy ministers) and cross-functional areas (such as general staff offices) using four primary and two secondary ratings:<sup>116</sup>

- CM-1A: capable of autonomous operations
- CM-1B: capable of executing functions with coalition oversight only
- CM-2A: capable of executing functions with minimal coalition assistance
- CM-2B: can accomplish its mission but requires some coalition assistance
- CM-3: cannot accomplish its mission without significant coalition assistance
- CM-4: exists but cannot accomplish its mission

At the MOD, all 46 staff sections and cross-functional areas were assessed this quarter. Of those, nine progressed and two regressed. Notably, the Logistics Command became the first MOD office to achieve the highest rating of CM-1A (capable of autonomous operations).

The other offices that received a higher rating this quarter were:<sup>117</sup>

- General Staff Policy and Planning (CM-1B)
- First Deputy Minister of Defense (CM-1B)
- Assistant Minister of Defense for Reserve Affairs (CM-2B)
- Afghan Air Force Command (CM-2B)
- Assistant Minister of Defense for Education (CM-2B)
- General Staff Logistics (CM-2B)
- Vice Chief of General Staff - Air (CM-2B)
- Assistant Minister of Defense for Intel Policy (CM-3)

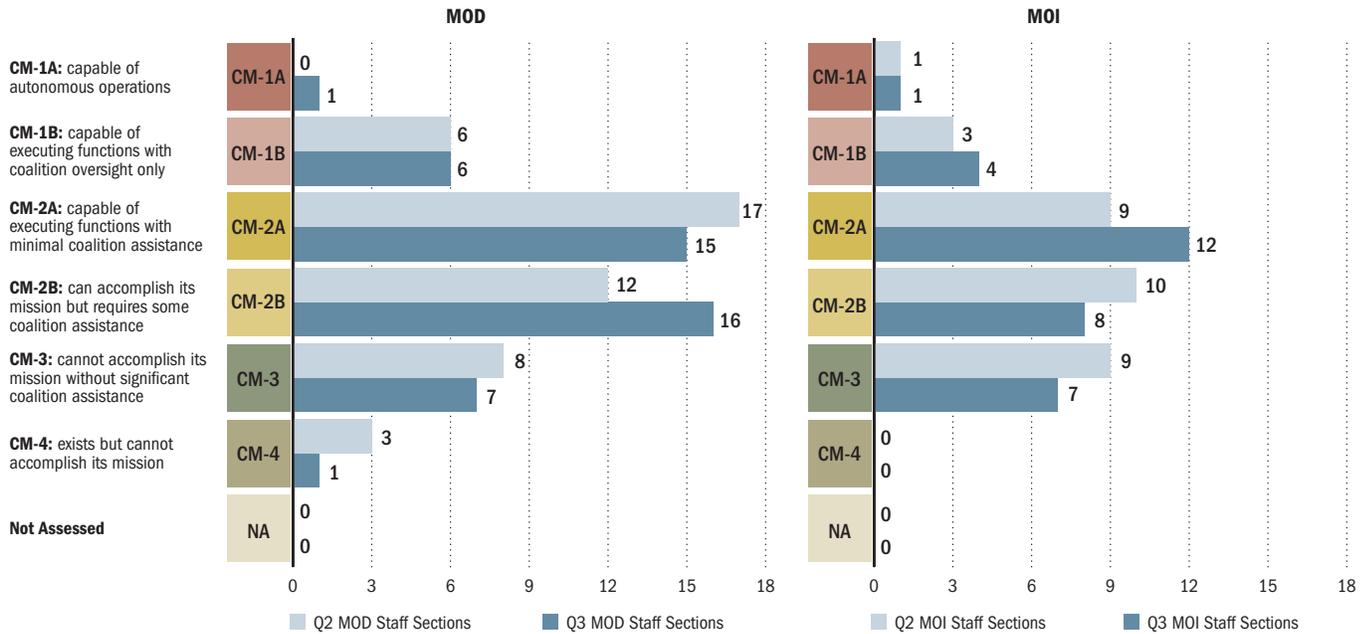
The two MOD offices that regressed were the MOD Chief of the Legal Department (fell to CM-3) and the MOD Chief of Finance (fell to CM-2B).<sup>118</sup> One MOD office—Gender Integration—was rated CM-4 (down from 3 last quarter), meaning that it cannot accomplish its mission, as shown in Figure 3.24.<sup>119</sup>

### SIGAR SPECIAL PROJECT

In an ongoing special project, SIGAR is reviewing assessments of the MOD and MOI to determine those ministries' capacity to manage and account for U.S. direct assistance funds. For more information, see SIGAR's April 2013 Quarterly Report to Congress.

FIGURE 3.24

## CAPABILITY MILESTONE RATINGS OF MOD AND MOI, QUARTERLY CHANGE



Sources: CSTC-A, responses to SIGAR data call, 4/1/2013, 7/2/2013, and 7/15/2013.

All 32 staff sections at the MOI were assessed; nine progressed and two regressed—the Recruiting Command and the Inspector General—since last quarter. No MOI sections were rated CM-4. Those whose ratings increased this quarter were:<sup>120</sup>

- Force Management (CM-1B)
- Legal Affairs (CM-2A)
- Intelligence (CM-2A)
- Civil Service (CM-2A)
- Afghan Border Police (CM-2A)
- Anti-Crime Police (CM-2A)
- Information, Communications, and Technology (CM-2B)
- Training Management (CM-2B)
- Counter-IED (CM-2B)

## AFGHAN NATIONAL ARMY

As of May 31, 2013, the United States had a obligated \$29.9 billion, and disbursed \$27.4 billion of ASFF funds to build, train, and sustain the ANA.<sup>121</sup>

## ANA Strength

As of May 21, 2013, the overall strength of the ANA was 185,287 personnel (178,826 Army and 6,461 Air Force), according to CSTC-A. This is an increase of 3,453 since last quarter, as shown in Table 3.4. The total includes 18,033 trainees, students, and those awaiting assignment, as well as 4,667 cadets. According to CSTC-A, the ANA includes 7,806 civilians (both ANA and Air Force personnel) in determining its end strength. CSTC-A noted that it worked with the ANA to identify and separate civilians from military personnel.<sup>122</sup> SIGAR’s reporting of ANA’s end strength does not include these civilians, but does count unassigned military personnel and cadets.

CSTC-A stated that 52,650 ANA and Afghan Air Force personnel were in the field or actively engaged in combat operations. Another 69,707 were “present for duty” which meant that they were “in [their] barracks.” Personnel both present for duty and in the field did not include “Echelon Above Corps” personnel—those assigned to the MOD, General Staff, or the Intermediate Commands.<sup>123</sup>

Determining accurate ANA strength is challenging. The ANA often collects data by hand, on paper. CSTC-A has said “there is no 100% viable method of validating ANA personnel numbers,” although it does

TABLE 3.4

ANA Component	Authorized			Assigned		
	Q1 2013	Q2 2013	Quarterly Change	Q1 2013	Q2 2013	Quarterly Change
	201st Corps	17,821	17,638	-183	17,427	18,116
203rd Corps	20,022	20,002	-20	19,095	20,288	+1,193
205th Corps	18,476	18,287	-189	18,982	19,351	+369
207th Corps	14,313	14,097	-216	12,803	14,279	+1,476
209th Corps	14,458	14,236	-222	13,065	13,371	+306
215th Corps	16,933	16,733	-200	17,307	17,447	+140
111th Capital Division	9,273	9,174	-99	8,654	8,619	-35
Special Operations Force	12,261	12,238	-23	10,366	10,970	+604
Echelons Above Corps <sup>a</sup>	37,592	38,773	+1,181	37,837	33,685	-4,152
TTHS <sup>b</sup>	-	-	-	19,905 <sup>c</sup>	22,700 <sup>d</sup>	+2,795
<b>ANA Total</b>	<b>161,149</b>	<b>161,218<sup>e</sup></b>	<b>+69</b>	<b>175,441</b>	<b>178,826</b>	<b>+3,385</b>
Afghan Air Force (AAF)	7,639	7,097	-542	6,393	6,461	+68
<b>ANA + AAF Total</b>	<b>168,788</b>	<b>168,315</b>	<b>-473</b>	<b>181,834</b>	<b>185,287</b>	<b>+3,453</b>

Notes: Q1 data is as of 2/18/2013. Q2 data is as of 5/21/2013.

<sup>a</sup> Includes MOD, General Staff, and Intermediate Commands

<sup>b</sup> Trainee, Transient, Holdee, and Student; these are not included in counts of authorized personnel

<sup>c</sup> Includes 3,802 cadets

<sup>d</sup> Includes 4,667 cadets

<sup>e</sup> CSTC-A provided total; actual sum of ANA components was 161,178

Sources: CSTC-A, responses to SIGAR data calls, 4/1/2013, 4/16/2013, and 7/2/2013.

cross-reference reported numbers with pay records and personnel status reports. In addition, CSTC-A cross-references ANA reporting of new recruits with ANA training-center strength reports. While these efforts leave room for error, CSTC-A reported that discrepancies are relatively minor and acceptable considering “the potential for over/under reporting in a still largely paper-based system.” CSTC-A noted that the use of the Afghan Human Resources Information System will provide a more reliable platform for reporting and validating ANA strength numbers.<sup>124</sup> That automated system is still in development, however, and its launch date is not yet set.

## ANA Sustainment

As of May 31, 2013, the United States had obligated \$9.8 billion and disbursed \$9.5 billion of ASFF funds for ANA sustainment.<sup>125</sup>

As part of sustainment funding, the United States has provided the ANA with ammunition at a cost of approximately \$1.03 billion, according to CSTC-A.<sup>126</sup>

## ANA Salaries, Food, and Incentives

As of June 30, 2013, the United States had provided nearly \$1.8 billion through the ASFF to pay for ANA salaries, food, and incentives since FY 2008. This includes \$51 million provided this quarter. Since FY 2009, the United States contribution to ANA salaries alone (not including food and incentives) was \$1.2 billion. The estimated annual amount of funding required for the base salaries, bonuses, and incentives of a 195,000-person ANA is \$686.1 million.<sup>127</sup>

## ANA Equipment and Transportation

While the U.S. effort to equip the ANA has at times appeared to be ending, new requirements for additional equipment are resulting in new procurements. These new requirements are evident in quarterly changes to equipment cost totals, as well as in DOD’s FY 2014 ASFF budget request for approximately \$2 billion in new equipment.<sup>128</sup>

As of May 31, 2013, the United States had obligated and disbursed \$11.1 billion of the ASFF for ANA equipment and transportation.<sup>129</sup> Most of these funds were used to purchase weapons and related equipment, vehicles, communications equipment, and aircraft and aviation-related equipment.<sup>130</sup> Nearly 82% of U.S. funding in this category was for vehicles and transportation-related equipment, as shown in Table 3.5 on the following page. The United States has also procured more than \$768 million in other equipment such as clothing and personal gear.<sup>131</sup>

Last quarter, CSTC-A stated that the United States had procured \$878 million of weapons for the ANA. However, this quarter, CSTC-A stated that the total cost was actually \$623 million due to a \$153 million correction in the total cost of some equipment and accounting for nearly \$102 million in donated equipment that was not U.S.-funded (but still tracked as part

### SIGAR AUDIT

This quarter, SIGAR announced an audit to evaluate the effectiveness of U.S. government oversight of contracts to procure, operate, and maintain Mobile Strike Force Vehicles (MSFV) for the ANA. The audit will also determine the extent to which the ANA has the capacity to operate and maintain its current and planned MSFVs. For more information, see Section 2, page 40.

### SIGAR AUDIT

SIGAR completed a financial audit of a contract to support the ANA’s Technical Equipment Maintenance Program. The audit found four internal control deficiencies and five instances of non-compliance, which brought into question \$2.8 million in costs. For more information, see Section 2, page 46.

TABLE 3.5

COST OF U.S.-FUNDED ANA EQUIPMENT		
Type of Equipment	Procured	Remaining to be Procured
Weapons	\$622,775,356	\$226,000
Vehicles	\$5,558,632,248	\$0
Communications Equipment	\$599,498,880	\$0
<b>Total</b>	<b>\$6,780,906,484</b>	<b>\$226,000</b>

Source: CSTC-A, response to SIGAR data call, 7/2/2012.

of the ANA's equipment inventory).<sup>132</sup> The updated equipment cost total is reflected in Table 3.5.

CSTC-A also stated last quarter that no new vehicles or communications equipment remained to be procured for the ANA. However, this quarter, CSCT-A's latest cost totals had increased for vehicles (by more than \$2 million) and communications equipment (by nearly \$19 million).<sup>133</sup> According to CSTC-A, this is due, in part, to new requirements to support APPF convoy-security operations and the General Directorate of Police Special Units.<sup>134</sup>

This quarter, the Afghan Air Force inventory consisted of 108 aircraft, according to CSTC-A.<sup>135</sup>

- 48 Mi-17s (transport helicopters)
- 6 Mi-35s (attack helicopters)
- 16 C-27As (cargo planes)
- 26 C-208s (light transport planes)
- 6 C-182s (four-person trainers)
- 6 MD-530Fs (light helicopters)

Still to be procured are 20 light support aircraft, 12 Mi-17 helicopters, and four C-130H cargo planes.<sup>136</sup> Last February, the U.S. Air Force awarded a U.S. company a \$427 million contract to deliver the 20 light support aircraft; the contract is capped at \$950 million through February 2019.<sup>137</sup>

Ten of the Afghan Air Force's 48 Mi-17s are loaned to the Special Mission Wing (SMW).<sup>138</sup> The SMW is a unit that provides air support for Afghan Special Forces executing counternarcotics and counterterrorism missions.<sup>139</sup> This quarter, the SMW inventory consisted of 30 Mi-17 helicopters: 13 from DOD, 10 on loan from the Afghan Air Force, five from the United Kingdom, and two from Germany.<sup>140</sup>

## ANA Infrastructure

As of May 31, 2013, the United States had obligated \$6.2 billion and disbursed \$4.1 billion of the ASFF for ANA infrastructure.<sup>141</sup> At that time, the United States had completed 227 infrastructure projects (valued at \$2.65 billion), with another 124 projects ongoing (\$2.93 billion) and eight planned

### SIGAR AUDIT

A SIGAR audit released this quarter found that DOD is moving forward with a \$771.8 million purchase of aircraft for the SMW despite the SMW having less than one-quarter of the personnel needed, facing steep recruitment and training challenges, and lacking the ability to maintain its current aircraft fleet. For more information, see Section 2, page 30.

(\$180 million), according to CSTC-A. Of the ongoing projects, five new contracts (valued at more than \$58 million) were awarded this quarter.<sup>142</sup>

While the number of completed projects is increasing (227 this quarter compared to 213 last quarter), the total number of projects—ongoing and planned—is decreasing. According to CSTC-A, the overall decrease is due, in part, to project completions and to a reduction in planned projects because transfers of Coalition bases are reducing ANSF facility requirements.<sup>143</sup>

This quarter, the largest ongoing ANA infrastructure projects were a brigade garrison for the 201st Corps in Kunar (at a cost of \$115.8 million), phase one of the MOD's headquarters in Kabul (\$108 million), and a brigade garrison for the 205th Corps in Kandahar (\$89.1 million).<sup>144</sup>

DOD's FY 2014 ASFF budget request of nearly \$279 million for ANA infrastructure was 210% more than the amount appropriated (\$90 million) for FY 2013. FY 2013 ASFF funding was not for construction projects, but for upgrades and modernizations of garrisons and force-protection systems, and to prepare Coalition facilities for handover to the ANSF as U.S. forces are drawn down. The FY 2014 ASFF budget request is mostly for the construction of facilities for the planned increase of ANA equipment, including bunkers for howitzers and additional facilities for new Afghan Air Force aircraft.<sup>145</sup>

## ANA and MOD Training and Operations

As of May 31, 2013, the United States had obligated \$2.8 billion and disbursed \$2.7 billion of the ASFF for ANA and MOD operations and training.<sup>146</sup> This quarter, 58,828 ANA personnel were enrolled in some type of training, with 42,500 enrolled in literacy training, according to CSTC-A. In addition, 7,770 enlisted personnel were enrolled in basic warrior-training courses, 2,781 were training to become commissioned officers, and 1,371 were training to become NCOs. Other training programs include combat specialty courses such as infantry training; combat-support courses such as engineering, signals, and logistics; and courses to operate the high-mobility multipurpose wheeled vehicles known as "Humvees."<sup>147</sup>

According to CSTC-A, the United States funds a variety of contracts to train the MOD and the ANA. The largest of these are a \$256 million contract for advising, training, and supporting the MOD; a \$76.3 million contract to train elements of the ANA Special Operations Command; and a \$65.4 million contract to train ANA specialized personnel to respond to improvised explosive devices (IEDs) and other explosive ordnance.<sup>148</sup>

## ANA Literacy

Since its start in 2009, NTM-A/CSTC-A's literacy program has sought to achieve greater literacy rates within the ANA. The program is based on a 312-hour curriculum. According to CSTC-A, in order to progress from illiteracy to functional literacy, a student may take as many as seven tests. The student's performance determines if he or she progresses to the next training level.<sup>149</sup>

## SIGAR AUDIT

An ongoing SIGAR audit will examine CSTC-A's justification and support for the ANSF infrastructure project requirements. The audit will also assess: (1) the extent to which U.S. and Coalition basing plans for the ANSF reflect ANSF force-strength projections; (2) whether CSTC-A fully considered alternatives to new construction; (3) whether CSTC-A developed and used appropriate criteria to ensure that current and proposed construction projects for the ANSF are necessary, achievable, and sustainable by the Afghan government.

Level 1 literacy is the ability to read and write single words, count up to 1,000, and add and subtract whole numbers. At Level 2, an individual can read and write sentences, carry out basic multiplication and division, and identify units of measurement. At Level 3, an individual has achieved functional literacy and can “identify, understand, interpret, create, communicate, compute and use printed and written materials.”<sup>150</sup>

As of June 13, 2013, ANA personnel who have completed a literacy program include:<sup>151</sup>

- 128,370 Level 1 graduates
- 37,404 Level 2 graduates
- 31,977 Level 3 graduates

According to CSTC-A, the goal is to achieve 100% Level 1 literacy and 50% Level 3 (or functional) literacy by the time the program ends.<sup>152</sup> However, CSTC-A stated that it does not know how many literacy program graduates are still in the ANA.<sup>153</sup>

Since 2010, the United States has funded three literacy contracts for the ANSF. Each has a base year and a five-year limit—one-year options may be exercised in August of each year—and a maximum cost of \$200 million. According to CSTC-A, these contractors were providing 684 literacy trainers to the ANA:<sup>154</sup>

- OT Training Solutions, a U.S. company, was providing 254 trainers.
- Insight Group, an Afghan company, was providing 180 trainers.
- The Higher Education Institute of Karwan, an Afghan company, was providing 250 trainers.

CSTC-A said responsibility for literacy training for ANA personnel in the field will transition to the ANA between October 1, 2013, and October 1, 2014.<sup>155</sup>

Although a deputy to the commander of the NATO Training Mission and CSTC-A said in May 2011, “We know that we will improve the literacy rate in Afghanistan in the Afghanistan national security forces to over 50 percent by January 2012,” the current literacy rate has not been reported.<sup>156</sup>

## Women in the ANA

The number of women in the ANA is increasing, but the goal for women to make up 10% of the ANA and Afghan Air Force remains distant. At a Senate hearing on July 11, a senior DOD official called the statistics of over 400 women in the ANA “impressive” and a “very significant [increase] from zero.”<sup>157</sup> Despite an increase this quarter, however, women make up only 0.2% of the force.<sup>158</sup> This is the same percentage as three years ago, when 301 women were serving.<sup>159</sup>

According to CSTC-A, institutional barriers stemming from traditional and cultural biases have impeded progress in women’s integration. Moreover, many families do not want their daughters to join because of



**ANA Officer** adjusts the sights on her weapon. Women currently make up 0.2% of the ANA. (ISAF photo)

concerns for their security. Nonetheless, more women are showing an interest in joining the military. But the MOD has not capitalized on this interest and “has not organized necessary initial training” for women.<sup>160</sup> U.S. and Coalition personnel continue to work closely with the MOD and the ANA to address gender integration issues.<sup>161</sup>

This quarter, 426 women were serving in the ANA—255 officers, 89 NCOs, 53 enlisted personnel, and 29 cadets—according to CSTC-A. This is a 14% increase over the number of women serving last quarter. In the Afghan Air Force, 34 women were serving—22 officers and 12 NCOs.<sup>162</sup>

## AFGHAN NATIONAL POLICE

As of May 31, 2013, the United States had obligated \$15 billion, and disbursed \$13.7 billion of ASFF funds to build, train, and sustain the ANP.<sup>163</sup>

### ANP Strength

As of May 20, 2013, the overall strength of the ANP was 151,824 personnel, including 108,128 Afghan Uniform Police (AUP), 21,422 Afghan Border Police (ABP), 14,515 Afghan National Civil Order Police (ANCOP), 3,059 in the Counter Narcotics Police of Afghanistan (CNPA), and 3,779 students in training—according to CSTC-A.<sup>164</sup> The total is an increase of 905 since last quarter, as shown in Table 3.6.

### SIGAR AUDIT

In an ongoing audit, SIGAR will assess the ANP’s logistics capacity for petroleum, oil, and lubricants. The audit focuses on two main issues: accuracy of fuel requirements, and accountability for fuel purchases.

TABLE 3.6

ANP Component	Authorized			Assigned		
	Q1 2013	Q2 2013	Quarterly Change	Q1 2013	Q2 2013	Quarterly Change
AUP	108,122	108,122	None	103,851	108,128	+4,277
ABP	23,090	23,090	None	22,029	21,422	-607
ANCOP	14,541	14,541	None	14,592	14,515	-77
NISTA <sup>a</sup>	9,000	9,000	None	7,388	3,779	-3,609
Other	-	-	-	-	-	-
<b>ANP Total</b>	<b>154,753</b>	<b>154,753</b>	<b>None</b>	<b>147,860</b>	<b>147,844</b>	<b>-16</b>
CNPA	2,247	2,247	None	3,059	3,059	None
<b>ANP + CNPA Total</b>	<b>157,000</b>	<b>157,000</b>	<b>None</b>	<b>150,919</b>	<b>151,824<sup>b</sup></b>	<b>+905</b>

Notes: Q1 data is as of 2/18/2013. Q2 data is as of 5/20/2013; NR = Not reported

<sup>a</sup> Personnel in training

<sup>b</sup> CSTC-A provided total; actual sum of all ANP components and the personnel in the NISTA account was 150,903

Sources: CSTC-A, responses to SIGAR data calls, 4/1/2013 and 7/2/2013.

### ANP Sustainment

As of May 31, 2013, the United States had obligated \$4.9 billion, and disbursed \$4.8 billion of ASFF funds for ANP sustainment.<sup>165</sup>

As part of sustainment funding, the United States has provided the ANP with ammunition at a cost of approximately \$246 million, according to CSTC-A.<sup>166</sup>

## ANP Salaries

From 2008 through June 30, 2013, the U.S. government had provided \$818 million through the ASFF to pay ANP salaries, incentives (extra pay for personnel engaged in combat or employed in specialty fields), and food, CSTC-A reported. However, that number does not include non-ASFF funds. As of June 30, 2013, the United States had provided approximately \$1.01 billion through the UN-administered Law and Order Trust Fund-Afghanistan (LOTFA) to support the ANP. The United States also provided more than \$73 million outside of LOTFA for salaries and incentives.<sup>167</sup>

According to CSTC-A, when the ANP reaches its final strength of 157,000 personnel, it will require an estimated \$628.1 million per year to fund salaries (\$265.7 million), incentives (\$224.2 million), and food (\$138.2 million).<sup>168</sup>

## ANP Equipment and Transportation

As of May 31, 2013, the United States had obligated and disbursed \$3.5 billion of ASFF funds for ANP equipment and transportation.<sup>169</sup> Most of these funds were used to purchase weapons and related equipment, vehicles, and communications equipment.<sup>170</sup> More than 82% of U.S. funding in this category was for vehicles and vehicle-related equipment, as shown in Table 3.7.

TABLE 3.7

COST OF U.S.-FUNDED ANP EQUIPMENT		
Type of Equipment	Procured	Remaining to be Procured
Weapons	\$368,722,984	\$273,538
Vehicles	\$2,646,263,422	\$5,519,620
Communications Equipment	\$201,958,600	\$42,500
<b>Total</b>	<b>\$3,216,995,006</b>	<b>\$5,835,658</b>

Source: CSTC-A, response to SIGAR data call, 7/2/2013.

## ANP Infrastructure

As of May 31, 2013, the United States had obligated \$3.5 billion and disbursed \$2.4 billion of ASFF funds for ANP infrastructure.<sup>171</sup> As of June 30, 2013, the United States had completed 538 infrastructure projects (valued at \$1.74 billion), with another 199 projects ongoing (\$1.13 billion) and 29 planned (\$245 million), according to CSTC-A.<sup>172</sup>

This quarter, the largest ongoing ANP infrastructure projects were a regional police-training center in Herat (\$62.2 million), administrative facilities at the MOI Headquarters (\$59.5 million), and an ANCOP training center

### SIGAR AUDIT

In an ongoing audit, SIGAR will assess the process CSTC-A uses to determine requirements and to acquire, manage, store, and distribute repair parts for the ANSF, and evaluate internal controls to determine if they are sufficient to account for these parts and to prevent fraud, waste, and abuse.

in Jowzjan (\$35.8 million).<sup>173</sup> The contract for the regional police-training center in Kandahar (reported as a \$62.3 million ongoing project in prior SIGAR quarterly reports) was terminated last quarter, according to CSTC-A. At the time of its termination, \$34 million worth of work had been completed. An additional contract is scheduled to be awarded for the remaining work required to make the center operational.<sup>174</sup>

## ANP Training and Operations

As of May 31, 2013, the United States had obligated and disbursed \$3.1 billion of ASFF funds for ANP and MOI training and operations.<sup>175</sup> This quarter, 6,596 ANP personnel were enrolled in some type of training, according to CSTC-A. Of those, 1,175 were training to become officers and 1,304 were training to become NCOs.<sup>176</sup>

The total number of students has decreased this quarter. According to CSTC-A, this decrease is due, in part, to a yearly trend whereby enrollment steadily decreases through the third quarter. CSTC-A stated that the ANP is taking a more proactive role in training by reviewing their requirements and realigning courses and enrollment numbers to better meet their fielded-force and professionalization needs.<sup>177</sup>

NTM-A/CSTC-A contracts with DynCorp International to provide training, mentoring, and support services at multiple training sites around the country. The ASFF-funded contract provides 458 mentors and trainers as well as approximately 2,500 support personnel at regional training centers and in mobile support teams. The contract value is \$1.18 billion.<sup>178</sup>

## ANP Literacy

NTM-A/CSTC-A's literacy program for the ANP follows the same curriculum and uses the same standards as the ANA's literacy program previously mentioned in this section. The program is based on moving students through three levels of literacy training.<sup>179</sup>

As of June 13, 2013, ANP personnel who have completed a literacy program include:<sup>180</sup>

- 76,337 Level 1 graduates
- 48,304 Level 2 graduates
- 30,944 Level 3 graduates

According to CSTC-A, the goal is to achieve 100% Level 1 literacy and 50% Level 3 (or functional) literacy by the time the program ends.<sup>181</sup> However, CSTC-A stated that it does not know how many literacy program graduates are still in the ANP.<sup>182</sup> The current literacy level of the force has not been reported.

Since 2010, the United States has funded three literacy contracts for the ANSF. Each has a base year and a five-year limit—one-year options may be exercised in August of each year—and a maximum cost of \$200 million.

## SIGAR AUDIT

In an ongoing audit, SIGAR will examine CSTC-A's justification and support for the ANSF infrastructure project requirements. The audit will also assess: the extent to which U.S. and Coalition basing plans for the ANSF reflect ANSF force-strength projections; whether CSTC-A fully considered alternatives to new construction; and whether CSTC-A developed and used appropriate criteria to ensure that current and proposed construction projects for the ANSF are necessary, achievable, and sustainable by the Afghan government.

## SIGAR AUDIT

In an ongoing audit, SIGAR is evaluating the implementation and oversight of the three ANSF literacy training program contracts. SIGAR will also assess whether the contractors provide qualified instructors and services; the extent to which CSTC-A monitored the contractors' performance and training outcomes; and the extent to which the contracts are meeting the goal of providing basic, sustainable levels of literacy for the ANSF.

According to CSTC-A, these contractors were providing 700 literacy trainers to the ANP.<sup>183</sup>

- OT Training Solutions, a U.S. company, was providing 274 trainers.
- Insight Group, an Afghan company, was providing 152 trainers.
- The Higher Education Institute of Karwan, an Afghan company, was providing 274 trainers.

CSTC-A said responsibility for literacy training for ANP personnel in the field will transition to the ANP between October 1, 2013, and October 1, 2014.<sup>184</sup>

## Women in the ANP

As of May 20, 2013, ANP personnel included 1,489 women—226 officers, 605 NCOs, and 658 enlisted personnel—according to CSTC-A.<sup>185</sup> This is the exact same number of women as reported last quarter. At this level, women make up 1% of the ANP. This is the same percentage as three years ago, when 1,100 women were serving.<sup>186</sup>

The ANP has a total of 2,995 authorized positions for women, but some are currently occupied by men. According to CSTC-A, the MOI is considering moving some of these men into positions authorized for males.<sup>187</sup>

## ANSF MEDICAL/HEALTH CARE

As of June 30, 2013, the United States has funded construction of 174 ANSF medical facilities valued at \$134 million, and has funded \$11 million in contracts to provide the ANSF with medical training, according to CSTC-A. The United States is also funding ongoing construction of 10 additional medical facilities valued at \$33 million. Moreover, since 2006, Coalition forces have procured and fielded \$25 million in ANSF medical equipment. Coalition partners have also funded service, supply, and equipment contracts at a cost of \$561,924.<sup>188</sup>

This quarter, the ANSF health care system had 775 physicians—a decrease of 140 since last quarter—out of 944 authorized. Of these, 566 were assigned to the ANA and 209 were assigned to the ANP. The ANSF had 6,860 other medical personnel (including nurses and medics)—an increase of 39 since last quarter—out of 10,284 needed.<sup>189</sup> In June 2013, the ANSF took full control of three of four major regional military hospitals.<sup>190</sup>

The shortage of medical personnel is becoming a larger concern as the ANSF takes on more security responsibility. According to CSTC-A, progress is being made in recruiting physicians; although the Afghan Office of the Surgeon General has found it difficult to recruit physicians to serve in “less desirable areas.”<sup>191</sup>

TABLE 3.8

<b>CONVENTIONAL WEAPONS DESTRUCTION PROGRAM METRICS, APRIL 1, 2012–MARCH 31, 2013</b>						
<b>Date Range</b>	<b>AT/AP Destroyed</b>	<b>UXO Destroyed</b>	<b>SAA Destroyed</b>	<b>Fragments Cleared</b>	<b>Minefields Cleared (m<sup>2</sup>)</b>	<b>Estimated Contaminated Area Remaining (m<sup>2</sup>)</b>
4/1–6/30/2012	1,559	28,222	20,580	3,601,378	7,251,257	563,000,000
7/1–9/30/2012	5,542	165,100	121,520	2,569,701	11,830,335	550,000,000
10/1–12/31/2012	2,146	62,449	22,373	3,672,661	7,265,741	570,000,000
1/1–3/31/2013	1,984	100,648	105,553	3,722,289	7,978,836	552,000,000
<b>Total</b>	<b>11,231</b>	<b>356,419</b>	<b>270,026</b>	<b>3,722,289</b>	<b>34,326,169</b>	<b>552,000,000</b>

Notes: AT/AP = anti-tank/anti-personnel ordnance. UXO = unexploded ordnance. SAA = small-arms ammunition. Fragments are reported because their clearance requires the same care as for other objects until their nature is determined.

Source: DOS, PM/WRA, response to SIGAR data call, 6/27/2013.

## REMOVING UNEXPLODED ORDNANCE

From 2002 through 2012, the U.S. Department of State has provided nearly \$260 million in funding for weapons destruction and de-mining assistance to Afghanistan, according to its Political-Military Affairs’ Office of Weapons Removal and Abatement (PM/WRA). Through its Conventional Weapons Destruction program, the Department of State funds five Afghan nongovernmental organizations (NGOs), five international NGOs, the United Nations Mine Action Service, and a U.S. government contractor. These funds enable clearance of areas contaminated by explosive remnants of war, support removal and destruction of abandoned weapons that insurgents might use to construct improvised explosive devices, and provide mentoring to the Afghan government’s Department of Mine Clearance.<sup>192</sup>

From April 1, 2012, through March 31, 2013, Department of State-funded implementing partners cleared over 34 million square meters (about 13 square miles) of minefields, according to the most recent data from the PM/WRA.<sup>193</sup> An estimated 552 million square meters (more than 200 square miles) of contaminated areas remain to be cleared, as shown in Table 3.8. The PM/WRA defines a “minefield” as an area contaminated by landmines, and a “contaminated area” as an area contaminated with both landmines and explosive remnants of war.<sup>194</sup>

## COUNTERNARCOTICS

The Afghan opium economy undermines U.S. reconstruction efforts by financing the insurgency and fueling corruption. Despite efforts to reduce poppy cultivation and illicit drug trafficking, Afghanistan is expected to produce 90% of the world’s opium this year, as it has in the past.<sup>195</sup> Moreover, the illicit trade continues to generate substantial revenue: a 2012 report from the Asian Development Bank said opium exports are equivalent to 13% of Afghan GDP.<sup>196</sup>

The U.S. counternarcotics strategy focuses primarily on combating the narco-insurgency nexus.<sup>197</sup> The main components of the strategy include U.S.-sponsored eradication, alternative livelihoods and public-awareness initiatives, and interdiction operations. As of July 1, 2013, the United States has appropriated \$4.42 billion for counternarcotics initiatives in Afghanistan since efforts began in 2002. Most of these funds were appropriated through two channels: the State Department’s International Narcotics Control and Law Enforcement (INCLE) account (\$1.78 billion), and the DOD Drug Interdiction and Counter-Drug Activities (DOD CN) fund (\$2.64 billion).<sup>198</sup>

State’s Bureau of International Narcotics and Law Enforcement Affairs (INL) is the primary U.S. entity charged with funding Afghan-led eradication, alternative livelihoods, and public awareness programs. DOD and INL coordinate to support the counternarcotics efforts of the Ministry of Counternarcotics (MCN), MOI, and MOD.<sup>199</sup>

## The Narco-Insurgency Nexus

In 2009, President Obama stated that Afghanistan’s “economy is undercut by a booming narcotics trade that encourages criminality and funds the insurgency.”<sup>200</sup> According to the Congressional Research Service, narco-trafficking generates \$70–100 million per year for insurgents.<sup>201</sup> However, the benefit to insurgents may be greater than previously thought. In June 2013, Afghanistan’s Minister of Counternarcotics said that insurgents receive \$155–400 million per year.<sup>202</sup> In insurgent-controlled territory, insurgents collect this income by taxing poppy farmers, running protection rackets, operating heroin labs, and conducting kidnappings and other smuggling schemes.<sup>203</sup> Insurgents also win political support by protecting farmers from eradication or interdiction efforts.<sup>204</sup> Since 2001, insurgent territorial control has centered in the south and southwest. Today, Helmand, Kandahar, and Farah account for over 80% of Afghanistan’s poppy cultivation per year, according to the U.S. Institute of Peace.<sup>205</sup>

## The Narco-Corruption Nexus

The narcotics trade is also linked to corruption by both high- and low-level officials in the Afghan government. “High-level corruption” occurs when Afghan officials collude in the opium economy to gain the financial and/or political support of local power brokers.<sup>206</sup> On the other end of the corruption spectrum, low-level or “need-driven” corruption occurs, for example, when low-paid law enforcement officials supplement their income with bribes that enable narco-trafficking.<sup>207</sup> Both types of corruption erode public faith in government and indirectly enrich insurgents.<sup>208</sup> Moreover, the participation of officials in narco-trafficking distorts eradication and alternative livelihood initiatives, obstructs interdictions, and shields offenders from punishment.

## Afghanistan in the Global Opium Economy

Afghanistan has emerged over the past thirty years as the world's leading opium producer. In 1972, Iran, Pakistan, and Turkey began enforcing drug bans, which created an opening for a new opium supplier in Southwest Asia.<sup>209</sup> Soon thereafter, the Soviet occupation of Afghanistan destroyed the rural economy there. The repercussions were significant: as opium was both durable and highly valuable, farmers used opium for savings and exchange and mujahedeen used opium to finance weapons procurement.<sup>210</sup>

Opium continued as a source of income for warring factions, including the Taliban, during the Afghan Civil War.<sup>211</sup> Under the Taliban's rule, opium production doubled from 1996–1999.<sup>212</sup> From 2000–2001, the Taliban enforced a ban on poppy cultivation, creating a humanitarian crisis for farmers left without income and starving during a drought.<sup>213</sup>

By the end of the 1990s, Afghanistan produced about 70% of the world's opium.<sup>214</sup> From 2003–2012, Afghanistan produced an average of 85% of the world's opium annually, according to United Nations Office of Drugs and Crimes (UNODC).<sup>215</sup> However, analysts attribute these decreases more to global market saturation, crop disease, and poor weather than to U.S. counternarcotics efforts.<sup>216</sup>

Between 2005 and 2012, the **farm-gate value** of opium production was equivalent to 8% on average of Afghanistan's total GDP, according to the UNODC. From 2007–2012, the total **export value** of opiates was equivalent to 25% of the country's GDP on average.<sup>217</sup> Both values have shrunk over time due to the growth of the Afghan economy and lower opium production since 2007, as shown in Figure 3.25 on the following page.

Although the Western European heroin market is shrinking, the global opium market remains stable, according to the UNODC's 2013 World Drug Report.<sup>218</sup> Canada is the only North American country supplied by heroin produced in Afghanistan.<sup>219</sup> However, new markets for heroin and other opium-based products are opening in Africa and East Asia, and new trafficking routes are opening, connecting Afghanistan—through Iran and Pakistan—to Iraq and the Middle East.<sup>220</sup>

In its 2013 Opium Risk Assessment of Afghanistan, UNODC projects poppy cultivation will increase in most regions and the main poppy-growing provinces. Of the 20 provinces that produce opium, UNODC expects 12 to increase their poppy cultivation, seven to remain unchanged, and one to decrease. Another 14 provinces are expected to maintain their poppy-free status. UNODC warned that some provinces may lose their poppy-free status without timely eradication. UNODC further reported that cultivation is expected to expand in some areas where it had previously existed and also in “new areas or in areas where poppy cultivation was stopped.”<sup>221</sup> Increases in Helmand and Kandahar are projected due to the current high price of opium as well as recovery from weather- and crop disease-related low yields in 2012.<sup>222</sup> INL said that increased poppy

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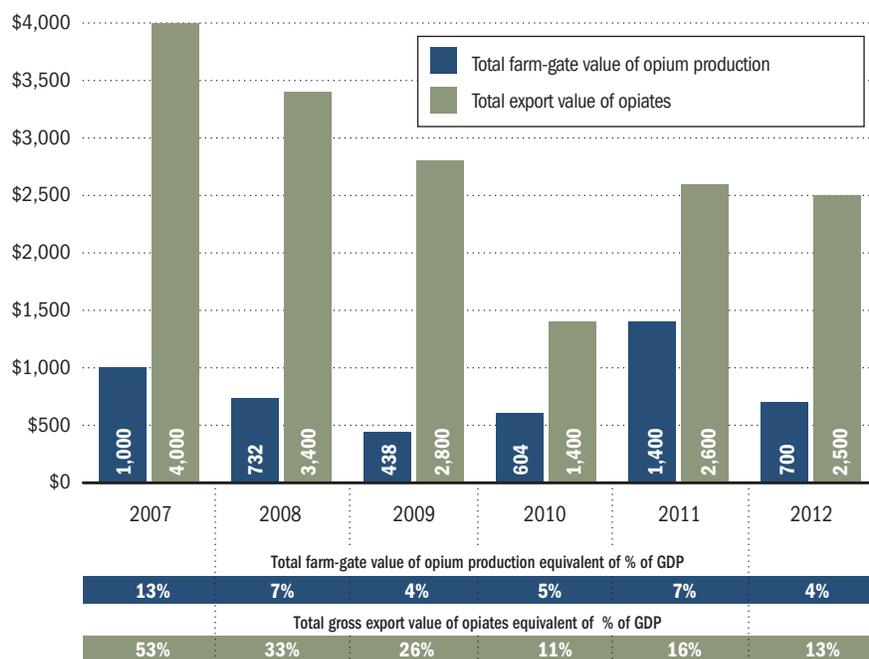
**Farm Gate Price:** the price of the product available at the farm, excluding any separately billed transport or delivery charge.

**Export Value:** The value of exports at the seaport, airport, or border port of export, based on the transaction price, including inland freight, insurance, and other charges incurred in placing the merchandise alongside the carrier at the port of exportation. The value, as defined, excludes the cost of loading the merchandise aboard the exporting carrier and also excludes freight, insurance, and any charges or transportation costs beyond the port of exportation.

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Sources: U.S. Census Bureau, “Guide to Foreign Trade Statistics: Description of the Foreign Trade Statistical Program,” 2/16/2012; IMF, “Producer Price Index Manual: Theory and Practice,” 2004, p. 598.

FIGURE 3.25  
**SIZE OF THE AFGHAN OPIUM ECONOMY (\$ MILLIONS)**



Note: 2012 export value computed from UNODC data.

Sources: UNODC, "Afghanistan Opium Survey 2008," 8/2008, p. 1; UNODC, "Afghanistan Opium Survey 2009," 12/2009, Fact Sheet; UNODC, "Afghanistan Opium Survey 2010," 9/2010, Fact Sheet; UNODC, "Afghanistan Opium Survey 2011," 12/2011, p. 3; UNODC, "Afghanistan Opium Survey 2012 Summary Findings," 11/2012, p. 3; Asia Development Bank, "Afghanistan Fact Sheet," 12/2012, p. 1.

cultivation predicted by UNODC for 2013 "should not overshadow the positive counternarcotics gains made since 2007" and "fluctuations in poppy cultivation are expected."<sup>223</sup>

The report identified a strong relationship between security and poppy cultivation, noting that "almost all villages with very poor security and most villages with poor security" cultivated poppy.<sup>224</sup> UNODC observed that villages reached by agricultural assistance and public awareness campaigns were less likely to grow poppy, but also found the correlation was not statistically significant. However, UNODC noted that in some areas, agricultural programs "seemed to have led to comparatively low and possibly declining levels of poppy cultivation."<sup>225</sup>

## Poppy Eradication

From 2004 to 2008, the U.S. counternarcotics strategy in Afghanistan centered on eradication.<sup>226</sup> In 2009, the United States stopped leading eradication efforts because the strategy was "ineffective and drove farmers to

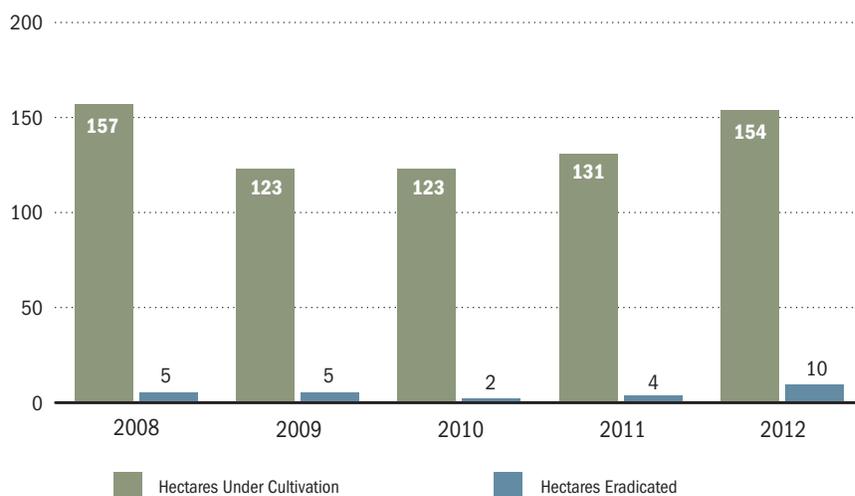
side with the Taliban.<sup>227</sup> However, the United States continues to support Afghan-led eradication efforts. Since 2010, INL has obligated \$7 million to the Governor-Led Eradication (GLE) program which reimburses governors for the cost of self-initiated eradication efforts.<sup>228</sup> From January 1 through June 24, 2013, GLE eradicated 7,692 hectares, a decrease compared to the 11,032 hectares eradicated by the same point in 2012.<sup>229</sup> (Note: INL's figure for hectares eradicated in 2012 did not match the UNODC's data, which shows 9,672 hectares eradicated in all of 2012).<sup>230</sup>

Since 2008, eradication efforts have affected on average less than 4% of the annual national poppy crop, as shown in Figure 3.26. Yet GLE may be an effective deterrent: according to UNODC, fear of eradication was a primary driver in many farmers' decisions not to farm in 2012, unlike in previous years.<sup>231</sup> But concerns remain that eradication delegitimizes local authorities and builds support for the Taliban by impoverishing farmers.<sup>232</sup> Reflecting these worries, DOD noted that the MCN "believes that GLE is most effective when paired with an Alternative Livelihood (AL) campaign designed to give subsistence farmers a viable alternative to growing poppy."<sup>233</sup>

INL has also obligated \$85 million since 2010 to the MCN's Good Performers' Initiative (GPI) which provides incentives for governors to reduce poppy cultivation in their provinces.<sup>234</sup> A province becomes eligible for \$1 million in GPI development projects if it is deemed poppy-free, defined as having fewer than 100 hectares (about 247 acres) under

FIGURE 3.26

### HECTARES OF POPPY CULTIVATED AND ERADICATED, 2008-2012 (THOUSANDS)



Note: A hectare is 10,000 square meters, or almost 2.5 acres.

Sources: UNODC, "World Drug Report 2012," 6/2012, pp. 27-28; UNODC, "World Drug Report 2012," 6/2012 p. 27; UNODC, "Afghanistan Opium Survey 2012: Summary Findings," 11/2012, p. 3.

cultivation during the year.<sup>235</sup> Since the start of the GPI in 2007, more than 170 development projects are either complete or in progress in all 34 provinces.<sup>236</sup> Nonetheless, national poppy cultivation levels remain high.

## Alternative Livelihoods and Anti-Poppy Awareness

Alternative livelihood (AL) programs aim to end farmers' dependence on illicit narcotics.<sup>237</sup> The United States has funded numerous cash-for-work and short-term crop-substitution programs to provide short-term employment.<sup>238</sup> However, experts contend that these programs often do not create sustainable alternative labor and goods markets.<sup>239</sup> For example, many of the wheat seeds distributed in Helmand in 2008–2009 were sold locally rather than sown because the favorable wheat-to-opium price ratios under which the program took effect were unsustainable.<sup>240</sup>

A Brookings Institution report argues that sustainable AL initiatives should develop and integrate the whole agricultural production chain.<sup>241</sup> Among other initiatives, the U.S. Agency for International Development (USAID) has obligated \$131 million to Incentives Driving Economic Alternatives for North, East, and West (IDEA-NEW) which increases farmers' access to agricultural inputs and instruction, processing facilities, markets, and credit.<sup>242</sup> But IDEA-NEW has had mixed results due to inadequate planning and oversight, according to the USAID Inspector General.<sup>243</sup> Further, AL affiliates are threatened by insurgents, and as security bubbles shrink, performing oversight will be increasingly difficult.<sup>244</sup>

INL also funds the Counternarcotics Public Information (CNPI) program to promote continued poppy-free status in provinces through nationwide pre-planting-season public awareness campaigns in poppy-growing areas.<sup>245</sup> UNODC said that awareness campaigns like CNPI "seem to have a positive influence on the decision not to grow opium."<sup>246</sup> In addition, INL funds a grant to the Aga Khan Foundation, which focuses on helping six key provinces eliminate poppy cultivation by working with communities and local NGOs to increase opportunities for residents to find non-narcotics-related jobs.<sup>247</sup>

This quarter, INL launched a year-long public opinion survey initiative to track different aspects of the illicit drug trade to guide INL policy and assistance to Afghanistan. The \$729,000 project will be completed in May 2014.<sup>248</sup>

## Counternarcotics Police of Afghanistan

This quarter, 3,059 personnel were assigned to the Counternarcotics Police of Afghanistan (CNPA).<sup>249</sup> The CNPA includes the National Interdiction Unit (NIU), Sensitive Investigation Unit (SIU), Technical Investigation Unit (TIU), and other elements.<sup>250</sup>

Since 2006, INL has obligated \$219.8 million to support the interdiction activities of the NIU and SIU by providing investigative and strategic mentoring, logistics, housing, food and fuel, as well as transportation to and

**The Helmand Food Zone is an Afghan-led initiative to reduce poppy cultivation. It includes:**

- Distribution of heavily subsidized wheat seeds and fertilizers to farmers who pledge to not grow poppy
- Targeted eradication against crops of farmers who continue growing poppy
- Anti-poppy public-awareness efforts

Source: Civil-Military Fusion Center, "The Food Zone Programme," 5/2012, pp. 1, 3.

from interdiction operation sites. INL also underwrites the NIU's salary supplements, and since 2010, has obligated \$249.8 million for counternarcotics aviation support.<sup>251</sup>

Since 2004, DOD has provided more than \$415 million on CNPA training, equipment, and facilities.<sup>252</sup> DOD also funds programs to improve the CNPA's Tactical Operations Center which targets drug trafficking networks. Further, DOD funds the Afghan Special Mission Wing (SMW) which, along with INL helicopters, supports CNPA operations.<sup>253</sup> As detailed in SIGAR's recent audit, DOD is moving forward with a \$771.8 million purchase of aircraft for the SMW although the SMW lacks the absorptive capacity for them.<sup>254</sup>

NTM-A and the Drug Enforcement Administration (DEA) provide mentors and advisors to the CNPA. According to CSTC-A, NTM-A provides 16 advisors and the DEA provided 33 counternarcotics trainers (of which 20 are in country at a time). Also according to CSTC-A, a U.S. contractor provides 37 staff to assist the CNPA.<sup>255</sup>

### Interdiction Operations

The objectives of U.S. interdiction policy are to decrease drug trafficking and processing through direct action, and "to build the capability of Afghan law enforcement to disrupt and dismantle drug trafficking organizations."<sup>256</sup> In 2009, the interdiction policy was refined to target drug lords connected to the insurgency in order to break the narco-insurgency nexus.<sup>257</sup>

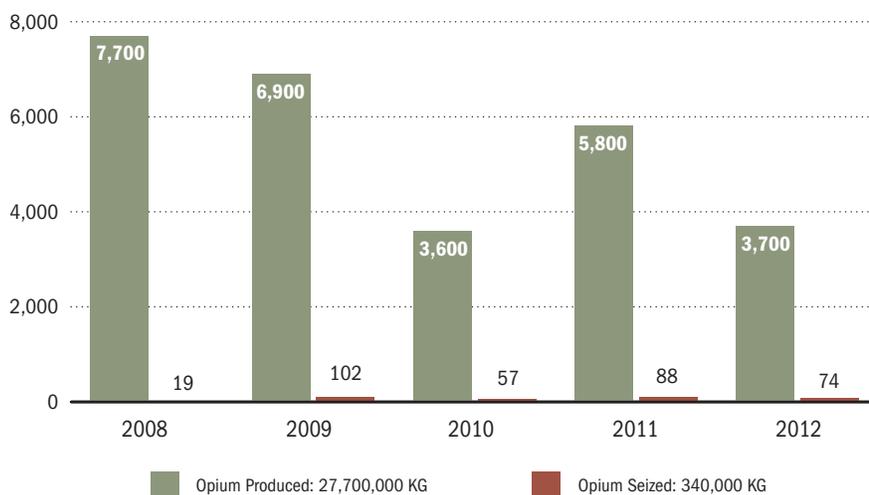
From April 1 through June 30, 2013, Afghan forces conducted 73 unilateral interdiction operations.<sup>258</sup> These operations resulted in 73 detentions and the seizure of several thousand kilograms of narcotics and narcotics-related chemicals.<sup>259</sup> But as shown in Figure 3.27 on the following page, seizures have affected on average only 1.2% of the total opium produced annually.

Interdiction operations have not significantly decreased Afghan drug trafficking, in part because they increasingly target small-scale poppy farmers, according to a Brookings Institution report.<sup>260</sup> In addition, the impact of interdiction may be limited because Afghanistan's judicial system is incapable of bringing high-level narco-traffickers to justice, according to a 2010 U.S. Senate report.<sup>261</sup> However, the Afghan Minister of Counternarcotics pointed out at a June 2013 event that Afghan authorities have arrested seven of the top 10 traffickers targeted, including individuals with significant political power.<sup>262</sup> The State Department also noted the recent conviction of a well-connected "drug kingpin" as an example of how the Afghan judiciary is improving.<sup>263</sup>

While interdiction efforts have yielded limited results, U.S. efforts to build Afghan capability to mount counternarcotics operations have shown some progress. Afghan forces are increasingly conducting unilateral operations.<sup>264</sup> Moreover, Afghan specialized and conventional units continued to execute operations with support from Afghan interagency elements.

FIGURE 3.27

**AFGHAN OPIUM PRODUCED AND SEIZED (2008–2012)** (THOUSANDS OF KILOGRAMS)



Note: Numbers have been rounded. A kilogram is about 2.2 pounds.

Sources: UNODC, "World Drug Report 2012," 6/2012, p.28; UNODC, "Afghanistan Opium Survey 2012: Summary Findings," 11/2012, p.3; DOD, response to SIGAR data call, 4/1/2013.

However, all operations continued to be coordinated with and supported by U.S. and Coalition military commanders and the DEA continued to mentor specialized counternarcotics units.<sup>265</sup>

## Challenges to the U.S. Counternarcotics Strategy

The U.S. counternarcotics strategy in Afghanistan faces many short-term challenges, especially high global opium prices and the upcoming Afghan elections.<sup>266</sup> Persistent high prices mean that the opium trade will remain lucrative, benefiting corrupt officials, insurgents, and farmers alike.<sup>267</sup> The upcoming 2014–2015 election cycle may cause officials to back off from their support for policies like eradication and interdiction that could negatively affect farmers or constituents.<sup>268</sup>

Corruption, a deteriorating security environment, and decreased aid will make it difficult to achieve U.S. goals in the long-term. The Afghan public loses faith in its government when political elites use eradication to destroy rivals' poppy crops and pay bribes to escape eradication themselves.<sup>269</sup> Similarly, public officials' selling of Afghan government-provided AL agricultural inputs—such as the seeds or fertilizer required to cultivate non-poppy crops—in bazaars delegitimizes the government, according to a 2011 European Commission-funded report.<sup>270</sup> Finally, according to a Brookings Institution expert, the U.S.-supported interdiction policy's failure

to consistently target powerful traffickers conveyed “the message that government-linked traffickers have little to fear.”<sup>271</sup>

The withdrawal of U.S. forces from the south and southwest—the geographic center of the narco-insurgency nexus—will “reduce the overall security presence” in these areas, according to the U.S. Institute of Peace.<sup>272</sup> This reduced presence will likely dampen ongoing counternarcotics efforts. The institute also warned that decreases in counternarcotics aid will undercut AL efforts, potentially leaving eradication as the Afghan authorities’ primary means to control opium production.<sup>273</sup>

## SIGAR AUDIT

Due to concerns about the effectiveness and sustainability of the U.S. counternarcotics strategy in Afghanistan, SIGAR has a counternarcotics audit scheduled for FY 2014.

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## GOVERNANCE

As of June 30, 2013, the United States had provided nearly \$24.7 billion to support governance and economic development in Afghanistan. Most of this funding, nearly \$16.7 billion, was appropriated to the Economic Support Fund (ESF), which is administered by the State Department and the United States Agency for International Development (USAID).<sup>274</sup>

### KEY EVENTS

At a Senior Officials Meeting held July 3, 2013, in Kabul, donors called upon the Afghan government to fulfill its pledges to fight corruption, hold fair elections, and protect women's rights in order to qualify for \$16 billion in future aid. The Senior Officials Meeting followed up on the Tokyo Mutual Accountability Framework, which was the main outcome of the 2012 Tokyo Conference. Under the Framework, the Afghan government committed to improve governance and its record on human rights, while the international community pledged to provide \$16 billion through 2015. Delegations from 40 countries and eight international agencies as well as senior Afghan government officials and representatives of Afghan civil society attended.<sup>275</sup>

Participants agreed that credible and inclusive elections in 2014 will be profoundly important for sustaining international support. They said it was vital that the Afghan government safeguard women's rights. They also urged the Afghan government to secure criminal convictions in the Kabul Bank case to allow recovery of stolen assets. And they said the government needed to meet revenue targets as agreed with the International Monetary Fund (IMF).<sup>276</sup>

Preparations went forward for Afghanistan to hold presidential elections on April 5, 2014. President Hamid Karzai signed a law on July 17, 2013, laying out the composition and rules for Afghanistan's election commission, the Independent Election Commission (IEC), and a separate commission to adjudicate complaints about voter fraud and other irregularities, the Electoral Complaints Commission (ECC).<sup>277</sup> The IEC began registering voters in all 34 of Afghanistan's provinces in May.<sup>278</sup> On July 9, 2013, the U.S. Senate passed a non-binding resolution urging the Afghan government to hold transparent and credible presidential and provincial elections by adhering to internationally accepted democratic standards,

establishing a transparent electoral process, and ensuring security for voters and candidates.<sup>279</sup>

The Taliban opened an office in Qatar in June, but the Afghan government and the United States have not yet opened peace talks with the movement. U.S. Special Representative for Afghanistan and Pakistan James F. Dobbins told a press conference that the Taliban's statement opposing the use of Afghan territory for attacks on any other state was sufficient for the United States to begin talks with them. But on June 27, 2013, Dobbins said the Taliban had not given the United States a definitive response about whether its representatives were to meet with the United States or with representatives of Afghanistan's High Peace Council.<sup>280</sup>

## RECONCILIATION AND REINTEGRATION

Long-stalled peace negotiations looked likely to get under way this quarter when the Taliban opened an office in Qatar in June. But plans for talks collapsed after the Taliban put up signs reading "The Islamic Emirate of Afghanistan" and raised their black-and-white flag over the office. Afghan officials considered the actions an affront to their government's legitimacy. President Karzai backed away from plans to send a delegation from the High Peace Council to Qatar for talks and suspended negotiations with the United States on a Bilateral Security Agreement. The Taliban later took down the signs and the flag, but no publicly reported talks with the group were held by the end of the quarter.<sup>281</sup>

### High Peace Council

President Hamid Karzai's announcement in June that members of the High Peace Council would soon visit Qatar to open talks with the Taliban offered some hope for jump-starting the reconciliation process.<sup>282</sup> It was not clear, however, that the movement was any more receptive to peace talks than in the past. The Taliban also carried out multiple attacks on targets in Kabul in June and July.<sup>283</sup>

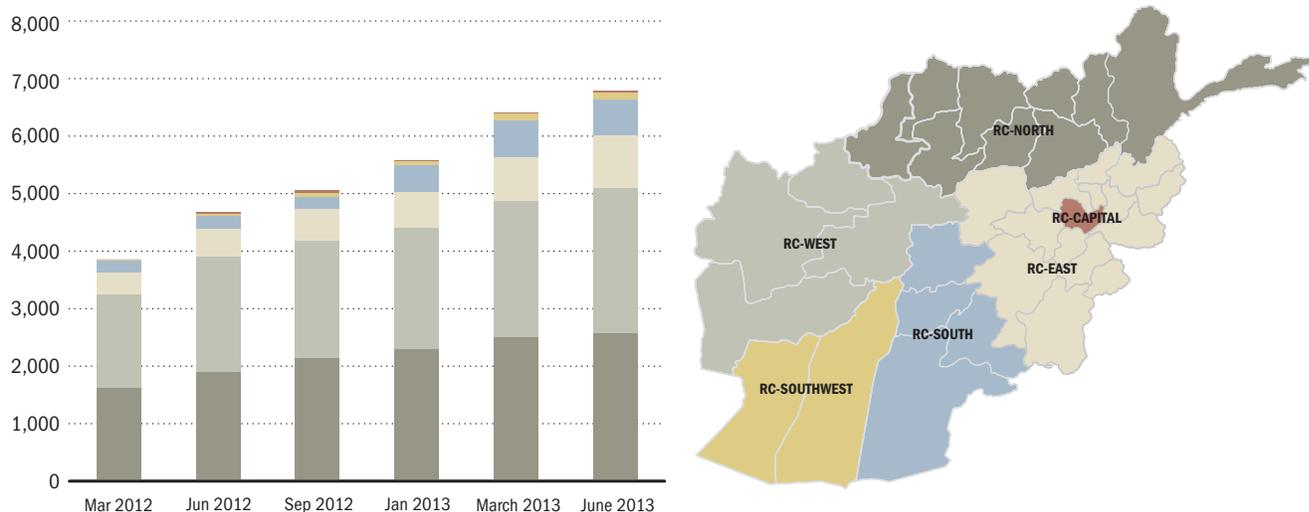
Earlier in the quarter, the High Peace Council held its first meeting with Afghan political parties. More than 45 representatives of various political parties, including influential political figures, attended the meeting to discuss ways to move the peace process forward. The overall aim was to broaden consensus among key political actors to enable the council to enter into negotiations with the armed opposition from a position of strength.<sup>284</sup>

### Afghanistan Peace and Reintegration Program

This quarter was another rocky one for the Afghanistan Peace and Reintegration Plan (APRP). As in the preceding quarter, international donors cut off funds when the APRP's Joint Secretariat (JS) was unable to reconcile financial accounts, the Department of Defense (DOD) said.

FIGURE 3.1

REINTEGREES BY REGIONAL COMMAND, MARCH 2012–JUNE 2013



Sources: SIGAR Quarterly Report, 1/30/2013, p. 97; DoS, responses to SIGAR data call, 4/2/2013, 1/2/2013, 10/2/2012, 7/5/2012, 3/30/2012, and 7/1/2013.

As a result, the JS and Provincial Joint Secretariat Teams could not fund transition assistance, salaries, small grants, or other efforts for long periods in April and May. Funds finally began to flow to the provinces in June. The State Department (State) observed that the delays have damaged the process of reintegration.<sup>285</sup> Partly in response to a letter from international donors at the end of May, the JS implemented a series of financial reforms that have the potential to prevent future cash-flow shutdowns.<sup>286</sup>

During this reporting period, 370 new reintegrees were formally accepted into the APRP for a total of 6,779 since the program began, as shown in Figure 3.1. Regional Command-East had the most growth, with 42% of the new reintegrees coming from its provinces of Bamyán, Ghazni, Kapisa, Khowst, Kunar, Laghman, Logar, Nangarhar, Nuristan, Paktika, Paktiya, Panjshayr, Parwan, and Wardak.<sup>287</sup> The introduction of the commander's reintegration program, which raises the amount and duration of transitional assistance for individuals who reintegrate along with combatants under their command, has improved the APRP's ability to attract key brokers. Approximately 370 commanders are now enrolled in APRP.<sup>288</sup> Twelve donor countries have given the APRP a total of \$176.3 million. Of this, \$84 million had been expended as of June 27, 2013.<sup>289</sup>

### Afghanistan Peace and Reintegration

**Program:** the Afghan government's main program for promoting and managing insurgent reintegration. It provides a way for Taliban members and other anti-government elements to renounce violence and become productive members of Afghan society. The program also attempts to link peacefully re-entering society with development opportunities to enhance the attractiveness of the program. It is administered through a Joint Secretariat. The United Nations Development Programme (UNDP) provides operational support.

Sources: UNDR, "UNDP Support to Afghan Peace and Reintegration Program," 7/2/2013; ISAF, "APRP," accessed online 7/2/2013.

### National Dispute Resolution Strategy

The APRP had originally intended to interview a wide variety of government officials and members of civil society to determine what drives

disputes in a particular province. The organization then planned to map grievances and develop a National Dispute Resolution Strategy.<sup>290</sup> But DOD said grievance mapping remains very much in preliminary stages. Nor has the Grievance Resolution Strategy adopted by the JS in June 2012 been put into practice. According to DOD, one problem is that it is not clear whether the JS or another Afghan government body is responsible for leading grievance resolution.<sup>291</sup>

## NATIONAL AND SUBNATIONAL GOVERNANCE

The United States has implemented many programs to help Afghanistan improve its national and subnational governance in such areas as capacity building, local governance, and civil-service training. Nevertheless, an inability to generate sufficient revenues, corruption, limited experience in public financial management, ineffective program monitoring, and budget shortfalls for subnational governance all continue to plague efforts to build a stable Afghan government.

### Karzai Decree Implementation

Progress in implementing President Karzai's 164-point plan to reduce corruption under Presidential Decree 45 has slowed in the last quarter, but the government moved forward with implementing two articles relating to the system for collecting customs, the State Department said.<sup>292</sup>

One of the decree's articles recommends that the Ministry of Finance (MOF) develop a plan to improve collection of customs duties to boost government revenue. According to the April report of the independent Monitoring and Evaluation Committee (MEC), tasked with evaluating progress on anticorruption aspects of the decree, the finance ministry had developed a credible 40-point plan to improve customs collection, but needed to develop additional administrative controls to keep revenue from being diverted from official accounts.

The second article of the decree called on Da Afghanistan Bank (DAB) to develop a strategy to prevent transfers of bulk cash out of the country, especially through the Kabul International Airport. The report noted that DAB had produced a strategy, but should consult with other agencies involved in detecting and preventing bulk cash transfers, such as the Afghan Border Police.<sup>293</sup>

The MEC praised U.S. Embassy Kabul efforts to train border police in anti-money-laundering techniques, but noted that currency counters installed at the airport by the Embassy are not currently in use. SIGAR found the same problem when it inspected the counters in 2012.<sup>294</sup>

The report assessed as "partially or fully implemented" other MEC recommendations to prevent corruption in the customs regime: the establishment of the Presidential Executive Commission on Transparency and Accountability at Borders, Airports, and Inland Customs Depots;

mechanisms for traders to pay their customs duties electronically; expanded use of the Automated System for Customs Data to consolidate and analyze customs data; restricting access to customs facilities to essential officials; increasing the salaries of customs officials; and revising the Afghan Customs Act to clarify customs procedures and grant non-transferable legal authority to customs and border-control agencies.<sup>295</sup>

## Elections

Two of the United States' highest-ranking former defense officials warned this quarter that "the real make-or-break political event for Afghanistan will likely be the 2014 election." In a paper written for the Center for a New American Security, former International Security Assistance Force (ISAF) commander General John Allen and former Undersecretary for Defense Michele Flournoy, together with Brookings Senior Fellow Michael O'Hanlon, said an illegitimate process or outcome in the elections scheduled for April 5, 2014, could polarize the country ethnically, spark a descent into civil war, and so frustrate donors that they cut off aid or substantially downsize their security commitments.<sup>296</sup>

David Pearce, Deputy Special Representative to Afghanistan and Pakistan, testified in May before Congress that the State Department has identified three priorities to lay a solid foundation for credible elections. The first was for parliament to pass legislation establishing a truly independent body to adjudicate complaints. Second, the Independent Elections Commission (IEC) charged with running the elections must have a competent and effective chairman. Third, the IEC must implement its operational plan.<sup>297</sup>

Afghanistan made progress on the first priority when President Karzai signed a law establishing the ECC as the body that will adjudicate electoral complaints. However, the ECC will no longer have two foreigners appointed by the United Nations among its five members. Instead a committee will present the Afghan president with a shortlist of Afghan candidates from which to appoint the ECC's members.<sup>298</sup> On the second issue, at press time, Karzai had not yet appointed a new chairperson for the IEC.<sup>299</sup> On the third issue, the IEC is moving forward to put its operational plan into action.<sup>300</sup>

President Karzai is constitutionally prohibited from standing for president again next year and has said many times he does not intend to run. No leading candidates for president have yet emerged.<sup>301</sup>

## Independent Elections Commission

The IEC began registering voters for the 2014 presidential and provincial council elections on May 26, 2013. Voter cards issued in previous years will still be valid. New cards are being issued to Afghans over 18 or who will turn 18 by the elections and have not previously registered. The cards are also being issued to Afghan citizens who moved from their previous electoral constituencies, whose voter cards were lost or damaged, or who



**525 women voted**, representing the largest turn out of female voters ever in a local election in Helmand. Four seats were reserved for women; five female candidates stood for election. (PRT Helmand photo)

recently returned to the country.<sup>302</sup> The IEC is consulting with the security ministries to finalize a comprehensive plan to secure polling stations, while the security ministries are starting to assess security at polling stations. According to USAID, the IEC's operational plan for the elections contains a good framework for implementing fraud mitigation measures to improve the fairness and transparency of the election.<sup>303</sup> The current commission chairman's term expired April 15, 2013, but he remains in place pending the appointment of a successor.<sup>304</sup>

## **Electoral Complaints Commission**

The ECC received a new lease on life when President Karzai signed a law on July 17, 2013, reestablishing it as the country's adjudicator of electoral complaints. The ECC invalidated hundreds of thousands of votes, primarily for Karzai, during the 2009 elections, leading to a runoff that was only avoided when Karzai's opponent withdrew. Earlier this year, Karzai vetoed a law that would have allowed the commission to include two foreigners appointed by the United Nations. Later a compromise was struck in Parliament for a commission that will be composed only of Afghans. The president will appoint its members from a shortlist selected by a committee made up of the two speakers of Parliament, the head of the Afghanistan Independent Human Rights Commission, the head of the Supreme Court, a member of a constitutional watchdog, and a member of civil society. The United States and other donors had pressed the Afghan government to pass the law, saying that continued aid would depend on conducting fair and free elections.<sup>305</sup>

## **E-taskera**

The Ministry of the Interior has postponed the issuance of the e-taskera, an electronic national identification card that can be used for voter registration.<sup>306</sup> E-taskera cards are intended to serve as the foundation for voter identification in the medium to long term. The State Department said the advantage of the e-taskera is that a single identification data set can improve the delivery of government services, reduce fraud and corruption, facilitate inclusive voting processes, and improve security through positive identification. The disadvantage in Afghanistan is the difficulty of accessing and recording identification data from all citizens, either because of poor road infrastructure or because of security concerns. Both increase the cost of implementation. The Afghan government has estimated the initial enrolment process will cost \$120 million for a population of approximately 30 million.<sup>307</sup>

## **USAID Election Support**

USAID is the lead agency in providing assistance and administering programs to build the capacity of Afghan institutions and civil society to manage and participate in electoral processes. The U.S. Government provided \$179 million in assistance from 2009 to 2013 for programs focusing

on effective voter registration, civic and voter education, electoral reform and legislation, and expanding political participation. It will provide an additional \$95 million for the 2014 presidential and provincial council elections and the 2015 parliamentary elections.<sup>308</sup> The IEC estimates that the total cost of the 2014 elections will be \$129 million.<sup>309</sup> USAID contributes to the United Nations Development Programme's (UNDP) comprehensive electoral support program, the Enhancing Legal and Electoral Capacity for Tomorrow project.<sup>310</sup>

Another major electoral program USAID is funding is Afghanistan Electoral Reform and Civic Advocacy (ACERA). Run by the Maryland-based, small-business contractor Democracy International, ACERA conducts field research on electoral civic education and awards grants to civil society organizations to educate communities on the importance of participating in the electoral process. Some \$25.59 million has been expended on the program to date.<sup>311</sup>

This quarter Democracy International announced the results of a survey revealing that Afghans are divided on how well democracy functions overall in their nation. While 39% of Afghans report some level of satisfaction with how democracy works, 33% report dissatisfaction. While 46% of Afghans are satisfied with the election process, common understanding of the institutions that manage Afghan elections is low. Some 62% of Afghans report that they are unfamiliar with the function of the ECC and 33% report that they are not well informed about the role of the IEC. Despite the information gap, 76% of Afghans plan to participate in the upcoming presidential elections. The survey also found that 73% of Afghans did not believe that armed insurgents, either former or present, should be permitted to participate as candidates in elections. About 4,000 randomly selected Afghans from all 34 of Afghanistan's provinces took the 63-question survey from October 1 through November 20, 2012.<sup>312</sup>

## **National Assembly**

Afghanistan's National Assembly is slowly growing into a stronger, more politically mature institution, State said. While consistently fractious, the Parliament is occasionally capable of protecting its legislative prerogatives and directing a public spotlight on ministries. The legislative branch remains weak in comparison to the executive, but members of parliament appear to be trying to strengthen their hand. However, staffing struggles, corruption, and low levels of education and experience continue to handicap the body.<sup>313</sup>

State said the most notable bill passed by the National Assembly this quarter was the IEC Structure Law, which outlines the procedures for appointing IEC commissioners and convening an electoral complaints commission. Karzai vetoed the law on April 27, citing constitutional grounds. The IEC Structure Law was resubmitted to the lower house, which passed a revised version on June 10. The upper house passed the draft law on June 23

with further revisions. A joint committee reviewed the two versions to reconcile differences.<sup>314</sup> On July 17, President Karzai signed the bill into law.<sup>315</sup>

Until this quarter, USAID had been providing aid to the Afghan National Assembly through the Afghanistan Parliamentary Assistance Program. USAID says that program has been replaced by the Assistance to Legislative Bodies of Afghanistan (ALBA) project. ALBA will run through April of 2017 with a possible one-year extension depending upon funding and project success. In the first two years of the ALBA project, efforts will focus on building parliamentary capacity ahead of the 2015 parliamentary elections. Once the new parliament is in place, the project will shift focus to more individualized training for parliamentarians and parliamentary commissions. As of June 30, 2013, USAID had obligated \$4.91 million for assistance to the parliament.<sup>316</sup>

## Civil Service Capacity

Afghanistan's Independent Administrative Reform and Civil Service Commission had planned to implement a general entrance exam this year to recruit recent university graduates for civil-service positions nationwide, as President Karzai directed in his anticorruption measure, Presidential Decree 45. The exam was supposed to take place in April, but has been delayed until Parliament approves legislation concerning the exam. For the time being, civil servants are being recruited under previous procedures.<sup>317</sup>

## National Budgeting

In January 2013, the National Assembly passed the national budget submitted by the MOF. The submission noted the urgency of ensuring greater self-sufficiency through revenue generation. The total proposed budget is \$6.81 billion (\$3.77 billion in the operational budget and \$3.03 billion in the development budget).<sup>318</sup>

The World Bank reported that Afghan government revenues rose by 13.1% in 2012, but still missed IMF targets, mainly because customs revenue fell by 9.6% in spite of higher import volumes.<sup>319</sup> The Senior Officials Meeting Joint Report warned that revenue collection faces significant challenges as the enforcement of taxation is hampered by a deteriorating security situation, limitations on the application of the rule of law, and low organizational capacity, all leading to a potential leakage of revenue.<sup>320</sup>

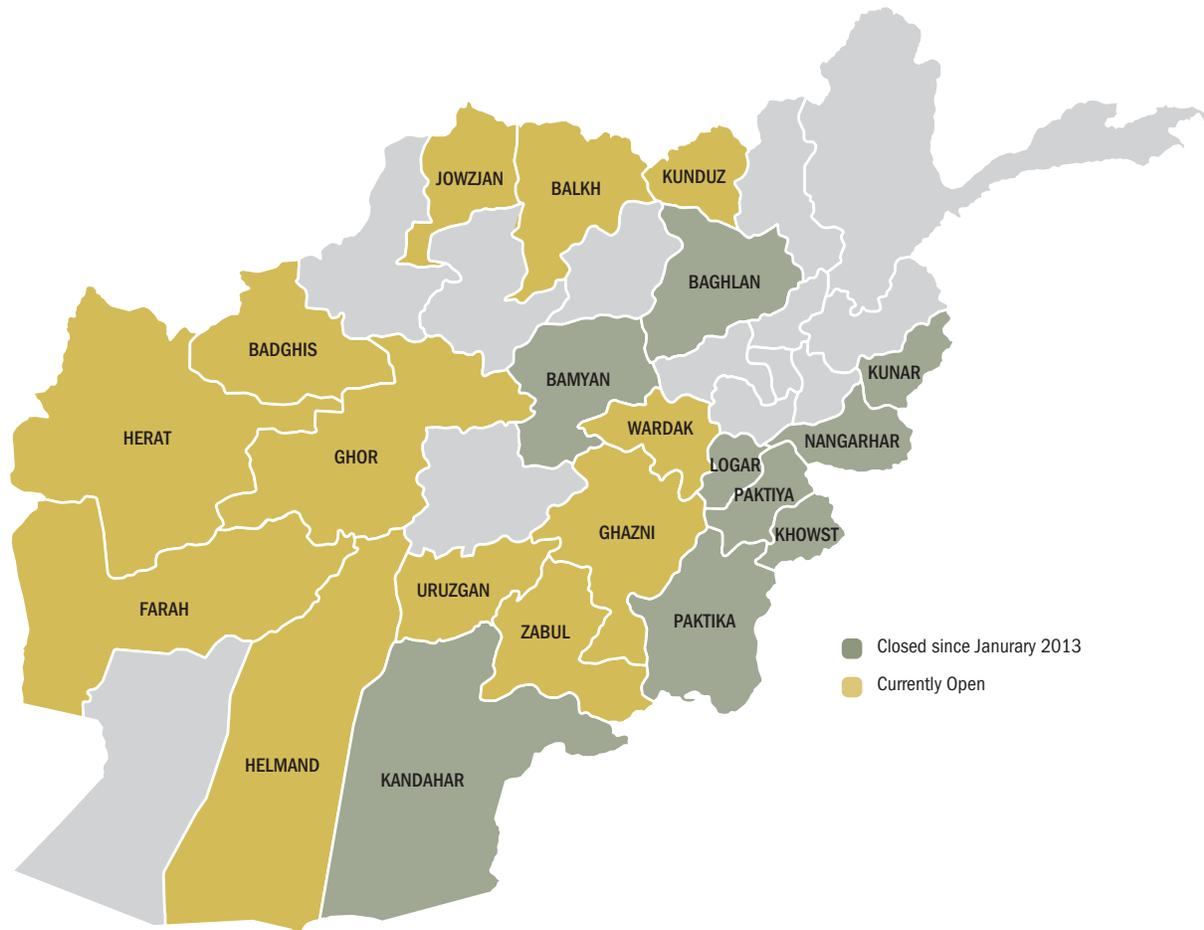
## Local Governance

The United States and its allies continue to close the Provincial Reconstruction Teams (PRTs) they originally established to assist Afghanistan's local governments. Nine of the 22 PRTs still operating in January 2013 have since closed: Baghlan, Bamyan, Kandahar, Khowst, Kunar, Logar, Nangarhar, Patika, and Paktiya, as shown in Figure 3.28.<sup>321</sup> More closings are expected in the coming year.

# GOVERNANCE

FIGURE 3.28

STATUS OF PROVINCIAL RECONSTRUCTION TEAMS



Source: DOD response to SIGAR data call, 6/5/2013.

By the end of 2012, the PRT model of daily mentoring provincial, district, and line-ministry officials had become outdated, State said. As local governments assumed the lead and U.S. officials pulled back, governors, ANSF officials, provincial and district councils, and line ministries began working together to solve local problems. State is using U.S. military support to monitor U.S.-funded programs while this is still possible. The department recognizes that military mobility support will wane and it is moving toward a third-party monitoring system.<sup>322</sup>

USAID's Support to the Sub-National Governance Structure project aims to develop the capacity of Afghanistan's 32 provincial councils and provide

technical assistance to the Independent Directorate of Local Governance. This quarter, the program conducted a number of public hearings, site visits, NGO briefings, cross-regional visits, and trainings on different topics in most of the country's provinces. Of \$18.98 million obligated, the program has expended \$16.75 million. It is scheduled to end September 30, 2013.<sup>323</sup>

## U.S. Stability Programs

The Department of Defense and USAID conduct stability programs to extend the reach of the Afghan government into less secure areas, to keep security from deteriorating, and to enable the conditions for transition and long-term development.<sup>324</sup>

### Stability in Key Areas Program

USAID currently administers the Stability in Key Areas (SIKA) programs throughout Afghanistan. USAID created the four regional SIKA programs—North, South, East, and West—through separate contracts with a total value of over \$203 million. AECOM International Development Inc. received the contracts for SIKA East, SIKA West, and SIKA South. Development Alternatives Inc. received the contract for SIKA North. According to the contracts, the programs would award grants to communities for projects that address sources of stability identified by the community.

Although USAID had disbursed approximately \$47 million for the four SIKA contracts as of March 31, 2013, a SIGAR audit released this quarter found that none of the funds have 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.

The SIKA contracts stressed the importance of the programs being viewed as extensions of the Afghan government. However, USAID did not secure a formal agreement with key Afghan government partners until nine months after it signed the first SIKA contract. In addition, 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 contracts, even though the contractors had executed no grants. The overall delay in awarding grants appears to have created participant dissatisfaction with the programs. For example, the audit found that participants in one of the regional programs are experiencing “fatigue” with the many planning workshops they have attended. Consequently, the program is at risk of undercutting its stated objectives to promote stability and improve Afghan perceptions of their government.<sup>325</sup>

### Village Stability Operations

Village Stability Operations (VSO) and the Afghan Local Police (ALP) are complementary components of the Afghan government and of the Afghan

#### SIGAR AUDIT

A SIGAR audit this quarter found that the SIKA program has suffered from serious delays in implementation and has not met contract requirements. For more information, see Section 2, page 36.

National Army (ANA) Special Operations Command's counterinsurgency strategy. DOD said that VSO/ALP has made substantial progress in protecting and mobilizing rural populations, preventing their exploitation by the insurgency, and expanding the influence of the Afghan government. Increased security provided by the ALP improves the ability of the provincial and district government to provide essential services and goods to the populace. According to DOD, ALP is a cost-effective means of achieving relative security in key rural areas. It costs \$6,000 per year to train and maintain each ALP member, or one-sixth the cost of an Afghan policeman and one-eighth the cost of an ANA soldier. At the currently approved number of 30,000 ALP members, the program as a whole costs \$180 million a year. ISAF is submitting a request to expand the current ALP by an additional 5,000 members, which would require an increase of \$30 million per year.<sup>326</sup>

## U.S. Capacity-Building Programs for Public Administration

A top goal of the U.S. reconstruction effort is to improve the Afghan capacity for administering government. The United States is implementing a number of programs to build Afghan governing capacity at the national, provincial, and local levels. This subsection reviews some of these efforts.

### Initiative to Promote Afghan Civil Society

USAID said its Initiative to Promote Afghan Civil Society (IPACS) has three objectives. First, it seeks to improve civil society's accountability and the legal and regulatory framework for it. Second, it seeks to increase civil society's capacity. Third, it seeks to increase citizen mobilization and policy engagement. Counterpart International is the implementer. Some \$45 million has been obligated for the program, of which \$32.3 million had been expended by June 29, 2013.<sup>327</sup>

Among the highlights of the program this quarter: Counterpart developed a package of proposed tax incentives that will support the sustainability of Afghan NGOs. Counterpart and its key partners have conducted 76 community dialogues and 16 provincial policy dialogues. And Counterpart selected 34 candidates to participate in its "Emerging Leaders" program and hosted the first in a series of training events for the participants.<sup>328</sup>

While the program has made significant inroads, USAID said Afghans continue to lack understanding of the role of civil society, resulting in a lack of trust in civil society at large. IPACS plans to address this next quarter by running a series of short TV and radio spots. The advertisements will give a simple presentation of what civil society is and what it does for citizens and communities at the local and the policy-making level.<sup>329</sup>

**The World Bank defines civil society as "the wide array of non-governmental and not-for-profit organizations that have a presence in public life, expressing the interests and values of their members or others, based on ethical, cultural, political, scientific, religious or philanthropic considerations."**

Source: World Bank, "Defining Civil Society," <http://web.worldbank.org/WBSITE/EXTERNAL/TOPICS/CSO/0,,contentMDK:20101499~menuPK:244752~pagePK:220503~piPK:220476~theSitePK:228717,00.html>, accessed 7/6/2013.

### Performance Based Governance Fund

USAID's Performance Based Governance Fund (PBGF) focuses on building the financial-management capacity of provincial governors' offices (PGOs).

Quarterly assessments of the PGOs' capacity are used to determine which receive incentive funding. The assessments show steady improvements in PGO performance.<sup>330</sup>

The program faces challenges. Due to security issues, USAID said it cannot operate in one of Afghanistan's 34 provinces. Its work environment is also highly political and subject to change. Last year, 12 governors resigned or were replaced. Changes in governors often affect the budget process. The new governors stop budget execution and implementation while they learn about PBGF. They also seek changes to the budgets their predecessors developed, further disrupting the process. Governors who receive low rankings in the quarterly evaluation have required the project to engage in extensive and difficult discussions about the results. Although the project includes a strong internal audit component, cases of corruption have arisen.<sup>331</sup>

The total obligated for PBGF to date is \$48.89 million, of which \$45.85 million has been expended.<sup>332</sup>

## **RAMP-UP and Kabul City Initiative**

USAID's Regional Afghan Municipalities Program for Urban Populations (RAMP-UP) and the Kabul City Initiative (KCI) both help municipal governments in Kabul and other urban centers increase the capacity of municipal officials, improve the delivery of municipal services, support economic growth initiatives, and raise revenues.<sup>333</sup> As of June 30, 2013, USAID had obligated \$251.04 million for RAMP-UP and \$41.43 million for KCI, of which \$198.28 million and \$38.98 million had been expended, respectively.<sup>334</sup>

The municipal-support programs work in all of Afghanistan's 34 provincial capitals, plus several district centers. More recently, RAMP-UP has provided limited training and mentorship to 10 district municipalities in Regional Command-East, using the larger provincial capitals as training hubs. The small-scale infrastructure undertaken as a part of these programs includes road and sidewalk repair, drainage-ditch and culvert rehabilitation, street light installation, and construction of markets, latrines, landfills, slaughterhouses, and public parks.<sup>335</sup>

USAID said citizens can now hold municipal officials accountable through a host of formal mechanisms such as town hall meetings, budget hearings, and radio call-in shows. USAID is assisting with the formation of Municipal Advisory Boards, representative bodies that monitor municipal activities and solicit citizen concerns. Municipal elections could take place as early as 2015. That would bring the municipal governance structure in line with Afghanistan's constitution. The Integrated Financial Management System, which USAID funded and will eventually expand to include all municipalities, is reducing corruption by making municipal financial transactions automated and transparent.<sup>336</sup> SIGAR plans work with regard to RAMP-UP and KCI in the future.



**Afghan media attend** a press conference held by Afghan Defense Minister Bismullah Khan before a shura of the governors of seven provinces north of Kabul. (U.S. Army photo)

## **Afghanistan Media Development and Empowerment Project**

USAID's Afghanistan Media Development and Empowerment Project (AMDEP) was designed to strengthen the capacity of independent media by promoting greater professionalism within and among media institutions in Afghanistan. The implementer is the Internews Network.<sup>337</sup>

AMDEP supports the Salam Watander ("Hello Countrymen") radio news and current-affairs service and a network of 58 provincial partner radio stations. AMDEP provides daily radio content, ongoing mentoring, and tailored assistance to enhance the quality of programming, increase the technical capacity of staff, and improve financial sustainability. AMDEP-sponsored Salam Watander programming has an audience reach of an estimated 13 million Afghan citizens through the provincial partner radio network. During this reporting period, six additional radio stations joined the network. AMDEP promotes TV as well as radio, providing technical upgrades to independent TV outlets in Ghazni, Kunduz, Takhar, and Helmand.<sup>338</sup>

AMDEP backs Nai Supporting Open Media in Afghanistan (Nai), the leading media advocacy and training organization in Afghanistan, with offices in Kabul, Nangarhar, Kandahar, Herat, and Balkh provinces. Nai brings media representatives together to conduct a range of advocacy initiatives such as press conferences, press releases, and associated events. Nai Media Watch tracks threats against journalists and incidents that impact free speech. The Nai Graduate Club provides a forum for ongoing professional development and support to Nai training recipients and young media enthusiasts. The Nai

Media Institute provides higher-quality vocational education through a two-year diploma course.<sup>339</sup>

Internews advisors also provide in-depth technical support and advice in spectrum management and monitoring to the Ministry of Communications and Information Technology and the Ministry of Information and Culture.<sup>340</sup>

USAID has obligated \$31.8 million for AMDEP, of which \$28.65 million has been spent.<sup>341</sup>

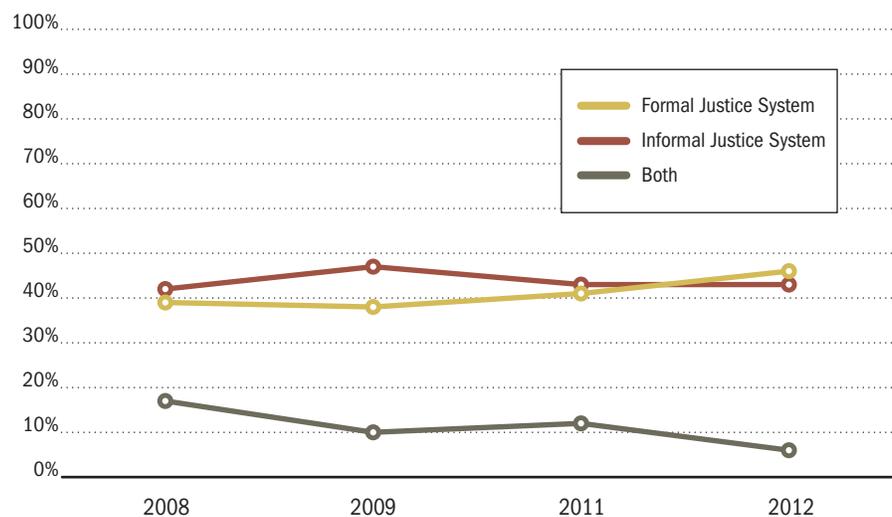
## JUDICIAL REFORM AND RULE OF LAW

Establishing the rule of law is an enormous governance challenge for Afghanistan. Justice continues to be administered in Afghanistan by several parallel systems. The government funds a formal system, complete with formal courts and judges trained according to Afghan and sharia law. As shown in Figure 3.29, Afghans for the first time in 2012 used the formal system more often than the informal system, which is composed of elders, local government officials, and religious leaders.<sup>342</sup> USAID noted that the formal system is challenged by corruption, while the informal system operates according to traditional beliefs that often violate Islamic law and the Afghan constitution. Finally, the Taliban runs its own courts in the areas it controls.<sup>343</sup>

Afghans consider the judiciary the most corrupt segment of their society, Transparency International reported in its annual survey of public opinion

FIGURE 3.29

### PERCENT USING AFGHAN JUSTICE SYSTEMS



Note: No data reported for 2010.

Source: Asia Foundation, *Afghanistan in 2012: A Survey of the Afghan People*, 2012, p. 148.

on corruption. The survey found that 60% of Afghans see the judiciary as affected by corruption, or more than any other profession, while 65% reported paying a bribe to the judiciary, also more than any other profession.<sup>344</sup> Of the 22 national priority programs the government is using to guide its development, only two remain to be endorsed. One of these is “Law and Justice for All.”<sup>345</sup>

## Supreme Court

Under the Afghan constitution, Supreme Court judges serve set terms. Five of the eight judges’ terms have expired, but they are still on the bench and have not been replaced. The term of the current chief justice and an associate justice expired in August 2010. The terms of another three associate justices expired in July 2013.<sup>346</sup> David Pearce, Deputy Special Representative for Afghanistan and Pakistan, told Congress in May that it was important that the Supreme Court justices whose constitutional terms have expired be removed and replaced.<sup>347</sup>

A suicide bomber attacked the Supreme Court on June 11, 2013. The bomb killed 17 people, most of them court employees. The Taliban later said the attack aimed to punish Supreme Court judges for imposing tough sentences on insurgents.<sup>348</sup>

## Criminal Procedure Code

The lower house of the National Assembly passed the updated Criminal Procedure Code in early June 2013, the State Department said. State was told that it passed substantially intact, and incorporates the recommended amendments. As of mid-July, the bill is pending with the upper house. The Afghan government had pledged at the end of the Kabul Conference in July 2010 to enact its draft Criminal Procedure Code.<sup>349</sup>

## Taliban Justice

The Taliban’s judicial system is the closest thing the movement has to a functioning shadow government, according to a report by Integrity Watch Afghanistan. The system is defined by mobile courts, lean structures, and little recordkeeping. The report found that Taliban courts have suffered from problems like corruption and cronyism, but said the movement has been trying to contain them with tools like multiple channels of reporting on the judges within the Taliban themselves and external oversight, often by village elders and religious figures. Non-Taliban interviewees told the report’s authors that Taliban courts appeared to have achieved a relatively high degree of perceived fairness when judging disputes and criminal cases. However, the Taliban often resort to arbitrary executions or show trials where the defendant does not have a fair chance in the case of charges of spying or collaborating with the Afghan government. Overall, the report

says the Taliban's judiciary has served the group better than any other non-military aspect of their movement.<sup>350</sup>

## U.S. Justice Sector Training

The State Department's Bureau of International Narcotics and Law Enforcement Affairs (INL) cited The Asia Foundation survey which found that, for the first time, more Afghans were using the formal justice system than the informal one as evidence that its justice-sector programs were working.

INL said its Justice Sector Support Program (JSSP) has been operating continuously since 2005, working with ministries in Kabul, providing nearly nationwide provincial training, and implementing other important programs such as legislative drafting help and the case-management system. Moreover, the increasing usage of the formal justice system since 2008 tracks closely with greater appropriations for justice, greater U.S. Embassy engagement on justice issues, and the expansion of INL justice projects. INL noted that while other donors have stopped and started projects since the beginning of Afghan reconstruction, INL has been able to maintain its relationship with the justice ministries for eight years, including relationships with significant cohorts of Afghan JSSP attorneys.

INL said it expects the formal justice system to survive intact after the 2014 transition, largely because it represents the restoration of an accepted Afghan model that predates the Soviet invasion of 1979. INL said Afghanistan now has the ability to deploy a minimally adequate and functioning system that will support continuing reform.

INL has agreed to fund the Justice Training Transition Program, previously implemented by JSSP, at \$47 million over 2.5 years.<sup>351</sup>

## U.S. Corrections Sector Training

State listed INL's support for Afghanistan's General Directorate of Prisons and Detention Centers (GDPDC) as among its most successful development programs. State said INL had helped the GDPDC improve its capability to operate safe, secure, and humane Afghan correctional facilities. The department said these improvements were particularly important given sharp increases in arrests and prosecutions, which caused the prison population to grow dramatically from 600 prisoners in 2001 to more than 27,000 in 2013. INL's Corrections Support System Program has trained more than 8,000 corrections officers since 2006 under oversight from INL's program managers and contracting personnel.<sup>352</sup>

## ANTICORRUPTION

The United States joined other members of the international community at the Senior Officials meeting on July 3, 2013, in calling for Afghanistan to combat corruption. In statement released after the meeting to follow up

### SIGAR AUDIT

In an ongoing audit, SIGAR is assessing the Department of State's JSSP. The program aims to train justice-sector personnel and build the overall capacity of the Afghan judicial system.

on the Tokyo Mutual Accountability Framework, participants said continued efforts were necessary in the Kabul Bank fraud case to hold complicit parties accountable and to secure criminal convictions that would allow the Afghan government to recover stolen assets. They said that while Afghanistan had made progress on the declaration and publication of assets of senior government officials, the assets needed to continue to be verified according to Afghan law.<sup>353</sup> Afghanistan's national priority program on transparency and accountability has yet to be endorsed by the Afghan government and the international community.<sup>354</sup>

The United States' anticorruption efforts received a blow this quarter when President Karzai confirmed a report by *The New York Times* that he received regular cash payments from the U.S. Central Intelligence Agency (CIA). Karzai, who said the CIA had promised him the payments would continue, claimed they had helped pay for rent for various officials, treat wounded members of his staff, and even pay for scholarships. Other officials said the practice undercuts a key goal of the U.S. reconstruction effort: building a clean and credible Afghan government that can reduce popular support for the Taliban.<sup>355</sup>

## Afghan Attorney General's Office

State said the Attorney General's Office (AGO) lacks the political will to prosecute high-level, corrupt officials. The Attorney General was in Germany during the first half of this reporting period recovering from a heart attack. His deputy, serving as acting Attorney General during most of the absence, has been unresponsive.<sup>356</sup>

The new director of the Anti-Corruption Unit (ACU) at the AGO does not appear to have the support to combat high-level corruption. Generally speaking, morale at the ACU is very low and line prosecutors feel constrained by the lack of political will. According to State, the teams of two to three prosecutors assigned to each case do not share information and an atmosphere of paranoia prevails.<sup>357</sup>

The Kabul Bank case continues to epitomize the AGO's lack of zeal. Although the AGO has appealed the rather weak convictions handed down by the primary court, the analysis it provided the court does not go much beyond the arguments that failed in the primary court. Moreover, there is no movement toward bringing charges against the remaining shareholders despite a court order to do so.<sup>358</sup>

## Special Cases Committee Cases

As of June 2013, the Special Cases Committee (SCC) is effectively defunct. The Afghan Attorney General created the SCC in December 2011. From the outset, he invited international participation, including the U.S. Department of Justice (DOJ). The committee was meant to be a means for identifying cases of special significance, marking them for special attention by the ACU

and the Military Anti-Corruption Unit (MACU) within the Attorney General's office, and tracking progress and outcomes. In May, DOJ drafted a proposed charter to document the purpose, policies, and procedures for the SCC. This was delivered to the AGO as a means of reinvigorating and formalizing the SCC concept. The initial reaction to the proposed charter was lukewarm.

The National Military Hospital case was the first identified by the SCC for investigation and prosecution. At least one charge has been filed against former ANA Surgeon General Zia Yaftali for crimes committed in connection with his oversight and responsibility for the hospital. The charge, essentially for dereliction leading to waste, relates to Yaftali's failure to enforce the terms of a sales contract for swine flu vaccine. In May, the Anti-Corruption Tribunal returned the case to the MACU for further refinement; it is not clear when it will be re-filed. A second case, involving the unnecessary purchase of a mammography machine, has the potential for a more serious charge of procurement fraud, because the machine was purchased from a company in which Yaftali's brother held a financial interest. MACU prosecutors say this case will be filed "soon," but they have been saying this for nearly eight months.<sup>359</sup>

## Monitoring and Evaluation Committee

USAID's Assistance to Afghanistan's Anticorruption Authority (4A Project) temporarily transferred a team specializing in vulnerability to corruption assessments to the Independent Joint Anti-Corruption MEC this quarter. The team finalized draft reports in the areas of land distribution to repatriates and university-certificate issuance. It also drafted most of an assessment of the civil service commission.<sup>360</sup>

## High Office of Oversight and Anticorruption

USAID said the High Office of Oversight and Anticorruption (HOO) continues to be dysfunctional and ineffective, owing to mismanagement and top leadership's lack of political will to carry out its corruption-fighting mandate. When HOO does take on a case, it selectively targets people who are not politically connected.<sup>361</sup>

## Assistance to Afghanistan's Anticorruption Authority

The work of USAID's 4A Project with the HOO is now limited to providing assistance to its Human Resources Directorate. The HOO refuses to share information with the 4A Project since the level of funding it provided over the last two years is no longer available. The 4A Project believes that, given the help the HOO has received, it now has the capacity to function as an effective anticorruption institution. However, it is not functioning effectively because of interventions from ethnic, regional, and political figures.

Despite these problems, the HOO is slowly and steadily registering assets in the provinces, processing corruption complaints, and conducting

vulnerability-to-corruption assessments. The Kabul Municipality has significantly simplified the process of issuing residential and commercial construction permits. The new rules have not been put to the test, but if they manage to simplify the process and reduce corruption, then this would be a success story.<sup>362</sup>

## Audits

Earlier this year, the National Assembly passed a National Audit Law. The parliament stripped out key provisions that would have strengthened the independence of the Control and Audit office, now renamed the National Audit Office (NAO). USAID said that the NAO is subject to the caprices of the presidency. It lacks the capacity to conduct performance audits and can conduct only the bare minimum of financial audits. Nor can the MOF now conduct internal audits of line ministries. Only the line ministries' internal audit departments are now permitted to undertake such audits. USAID said these changes represent backward steps for transparency and accountability.<sup>363</sup>

## Corruption in Afghan Security Forces

Afghanistan's security ministries made progress fighting corruption this quarter, DOD said. Transparency International's Government Defense Anti-Corruption Index rates the country's Ministry of Defense (MOD) and Ministry of Interior (MOI) above many of their counterparts in the region and on a par with those of countries such as Bahrain, Oman, and Saudi Arabia.

The MOD continues to push anticorruption reform measures. In March, it held a two-day conference that outlined the ministry's approach to anticorruption and provided detail on the way the Transparency and Accountability Working Group, set up to provide oversight for MOD, will work. Likewise, the MOD Inspector General is now demonstrating a more robust stance against corruption with a number of investigations and, more important, prosecutions. Unfortunately, the MOI did not put forward any new reform measures, according to DOD.<sup>364</sup>

## CJIATF-Shafafiyat

Combined Joint Interagency Task Force (CJIATF)-Shafafiyat, an ISAF-interagency group created in 2010 to coordinate anticorruption efforts, has been encouraging ISAF and Afghan leaders to take corruption and organized crime into account when planning for transition. Dr. Ashraf Ghani, President Karzai's transition lead, is ensuring that transparency and accountability issues are considered throughout the planning process, but tangible progress on tackling wider corruption and organized crime remains to be seen. Suspects in corruption and organized crime cases often have the backing of senior Afghan government officials and are protected by strong patronage

networks. With a reduction in personnel and transition well underway, CJIAF's focus has shifted away from broad-spectrum counter corruption toward hardening Afghan security ministries against corruption.<sup>365</sup>

## SIGAR AUDIT

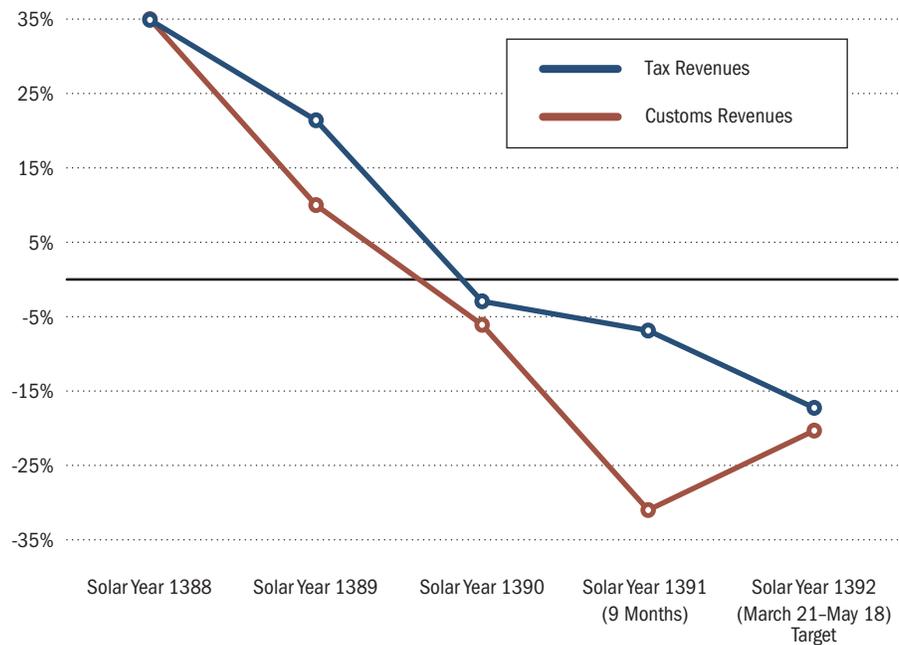
SIGAR is reviewing USAID and the Department of Homeland Security Customs Border Protection programs to develop and strengthen Afghanistan's capacity to assess and collect customs revenue. For more information, see Section 2, page 40.

## Corruption in Customs Collections

Fraud and corruption in customs continue to threaten the Afghan government's ability to fund itself. Customs revenues fell in 2012 as a result of increased corruption and in 2013 the Afghan government missed its IMF revenue targets by nearly 30%.<sup>366</sup> In its April edition of its *Afghanistan Economic Update*, the World Bank stated although a variety of factors could explain shortfalls in revenue collection, it is likely that a deteriorating customs governance environment contributed to the problem.<sup>367</sup> Figure 3.30 shows the increasing disparity between budgeted customs and tax revenues and actual revenue collection.

FIGURE 3.30

COLLECTED TAX AND CUSTOMS REVENUES: PERCENTAGE GREATER OR LESS THAN BUDGETED



Notes: Solar years run approximately March 20 to March 20 of Gregorian calendar years. SY 1388 corresponds to March 20, 2009, to March 20, 2010, and so on. Nine-month data for solar year 1391 reflect a change in the Afghan fiscal year. SY 1392 (2013) is not over.

Sources: MOF, "1388 National Budget," accessed 7/2/13; MOF, "1389 National Budget," accessed 7/2/13; MOF, "1390 National Budget," accessed 7/2/13; MOF, "1391 National Budget," accessed 7/2/13; MOF, "National Budget Procedures Fiscal Year 1391" accessed 6/26/13; MOF, "Annual Fiscal Report 1391," accessed 6/20/2013; MOF, "1392 National Budget," accessed 7/1/13; MOF, "Monthly Fiscal Bulletin, Month 2," 5/18/13, accessed 6/24/2013.

As a result of this underperformance, the MOF lost \$13 million in funding from the Afghanistan Reconstruction Trust Fund Incentive Program.<sup>368</sup> Partially because of this loss, the MOF undertook a large-scale restructuring of the Afghan Customs Department.<sup>369</sup> To prevent customs officials from building local corruption networks, the MOF also replaced a large number of high-ranking officials and rotated most provincial customs directors. The Minister of Finance expressed confidence in the capabilities of the new senior officials. At the end of the quarter, it was too early for the State Department to know how effective this move was, but it has the potential to reduce corruption.<sup>370</sup>

## HUMAN RIGHTS

Afghanistan failed to improve its human rights record in this quarter. Human rights organizations warned that women's rights were in danger. More civilians were killed, mostly in anti-government attacks. The United Nations found that 533 civilians were killed and 882 injured between February 1 and April 30, a 25% increase over the same period in 2012. Antigovernment elements were responsible for 73% of the civilians killed or wounded in this period; government-affiliated elements were responsible for 12%.<sup>371</sup>

## Gender Equity

Human Rights Watch warned this quarter that women's rights face a darker future in Afghanistan with the drawdown of foreign forces in 2014. On May 18, 2013, a female lawmaker attempted to strengthen Afghanistan's 2009 Law on the Elimination of Violence Against Women (EVAW) by having Parliament endorse it. Instead, conservatives so harshly castigated the law that it was withdrawn. The law's opponents, including religious leaders serving in parliament, attacked key provisions such as shelters for female victims of violence and a minimum marriage age. The criticism was so vociferous that the speaker halted debate after 15 minutes and sent the law back to parliamentary commissions.<sup>372</sup>

At the Senior Officials Meeting on the Tokyo Mutual Accountability Framework, participants noted that implementing EVAW and monitoring its progress was one of the Afghan government's commitments to the international community.<sup>373</sup> In a July submission to the United Nations Committee on the Elimination of Discrimination Against Women, Human Rights Watch said that extreme forms of discrimination remain part of the day-to-day experience of most Afghan women, and violence against women is common and largely unpunished. Half of girls are not in school and female literacy remains extremely low. Child marriage and forced marriage are common, with 39% of girls married before age 18, according to the UN Population Fund.<sup>374</sup>

USAID plans to address these issues in the coming year with its Promoting Gender Equality in the National Priority Program (PROMOTE). PROMOTE will assist the Afghan government in working toward the goal of achieving a rate of 30% female staff in the Afghan civil service laid out in the Tokyo Mutual Accountability Framework. It will also support the networking among established women's rights groups. And it may establish professional business development services and market-driven technical and vocational education for women. Some \$214.4 million in funding is planned for PROMOTE through fiscal year (FY) 2014.<sup>375</sup>

## Women's Shelters

The State Department listed an INL program to support operations of nine women's shelters across Afghanistan and the Afghan Women's Shelter Network, which brings together Afghan shelter providers to discuss best practices and advocate for victims, as one of its most successful reconstruction projects. State said that INL's support had expanded the number of provinces where services are available to victims of gender-based violence and discrimination and facilitated an Afghan-led campaign to increase public acceptance of women's shelters. State has seen an increase in government referrals to and political support for the shelters, indicating that the Afghan government is starting to accept shelters as legitimate resources for women seeking legal and protective services. Shelters have been provided multi-year funding that extends into 2014 and 2015. In 2012, INL-funded shelters benefitted approximately 2,000 women and children in 30 of Afghanistan's 34 provinces.<sup>376</sup>

## Refugees

Pakistan agreed to extend the validity of the registration cards held by 1.6 million Afghan refugees beyond a June 30, 2013, deadline. The decision means that Afghan cardholders in Pakistan will continue to have legal status until the approval of a National Policy for Afghan Refugees. That policy is pending approval by the Pakistani Cabinet and Prime Minister.<sup>377</sup>

## Afghanistan Independent Human Rights Commission

After more than 18 months' delay, President Karzai appointed a group of new commissioners to the Afghanistan Independent Human Rights Commission (AIHRC) on June 15, 2013. The president extended Sima Samar's tenure as the head of the commission, and gave five others five-year appointments as commissioners.<sup>378</sup>

Human Rights Watch complained that most of the new commissioners appeared to have little human rights experience and that the president had made his appointments without consulting civil-society organizations involved in defending human rights.<sup>379</sup> The United Nations High Commissioner for Human Rights warned that the appointments

**The AIHRC was established in accordance with the 2001 Bonn Agreement as the main institution within the Afghan government responsible for promoting human rights. Although the commission is a government body, with commissioners appointed by the president, it is by law independent. The commission's responsibilities include monitoring the general human rights situation in Afghanistan, making recommendations to the government on human rights, investigating specific human rights violations, and assisting individual Afghans whose rights have been violated.**

Source: HRW, "Afghanistan: Weak Appointments Undermine Rights Body," 6/18/2013.

compromised the commission's independence and effectiveness and undermined its standing with the public and international partners.<sup>380</sup> Karzai had been under pressure from donors to appoint new commissioners. In the Tokyo Mutual Accountability Framework, the Afghan government had committed to allowing the AIHRC to perform its "appropriate functions."<sup>381</sup>

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## ECONOMIC AND SOCIAL DEVELOPMENT

As of June 30, 2013, the U.S. government has provided nearly \$24.7 billion to support governance and economic development in Afghanistan. Most of the appropriated funds flowed into four major programs and accounts, as shown in Table 3.9. Of the \$22 billion appropriated for these four funds, approximately \$18.1 billion had been obligated, \$13.7 billion disbursed, and \$1.5 billion expired as of June 30, 2013.

This quarter, the United States and the international community sought to further prepare Afghanistan to take full control of its national security and to minimize economic contraction in what the international community is calling Afghanistan’s “Transformation Decade” following the drawdown of Coalition forces in 2014.

### KEY EVENTS

This quarter saw several important developments. First, senior officials from 40 countries and eight international organizations, as well as civil-society and private-sector representatives, met in Kabul on July 3, 2013, to review implementation of commitments made under the Tokyo Mutual Accountability Framework agreed to in July 2012.<sup>382</sup>

Second, the Swiss-based Basel Institute on Governance issued its second annual Anti-Money Laundering Index. Afghanistan ranked as the country most at risk for money laundering and terrorist financing activity out of 149 countries assessed. Iran had held that position in the 2012 rankings.<sup>383</sup>

Third, a major jobs conference held in Kabul focused on the state of Afghanistan’s labor market and the need for strategic, inclusive employment growth as the basis of future development.<sup>384</sup>

In other developments, the International Monetary Fund’s Extended Credit Facility Arrangement review and disbursement remain delayed due to insufficient Afghan progress under the agreement’s quantitative and legislative requirements.<sup>385</sup> And a national railway plan for Afghanistan was released. Successful implementation of the plan is seen as critical for developing Afghanistan’s mining sector and its position as a regional trading partner.<sup>386</sup>

TABLE 3.9

CUMULATIVE APPROPRIATIONS FOR AFGHANISTAN DEVELOPMENT, AS OF JUNE 30, 2013 (\$ MILLIONS)		
Name	Managed by	Appropriated
ESF	USAID	\$16,654
CERP	DOD	\$3,639
TFBSO	DOD	\$685
AIF	STATE/DOD	\$1,024
<b>Total</b>		<b>\$22,002</b>

Notes: ESF = Economic Support Fund; CERP = Commander’s Emergency Response Program; TFBSO = Task Force for Business and Stability Operations; AIF = Afghanistan Infrastructure Fund.

Source: See Appendix B of this report.



Senior officials met in Kabul in July to discuss progress towards goals articulated in the Tokyo Mutual Accountability Framework. (UNAMA photo)

## ECONOMIC PROFILE

Afghanistan's economy has grown 10% annually on average since 2002, fueled by international military spending and development assistance. The services sector has been the most important driver of economic growth, while construction has propelled the industrial sector. Demand in these areas has been buoyed by increased public spending in 2013.<sup>387</sup>

Legal agriculture is the second leading contributor to GDP, but fluctuates with the weather. Good rains in 2012 led to a near-record-breaking wheat and cereal harvest, driving real GDP growth to an estimated 11.8%. But moderate rainfalls in early 2013 should yield a more conventional harvest, slowing real GDP growth to 3.1% for the year.<sup>388</sup>

Fading business and investor confidence in response to Afghanistan's volatile political and security environments is expected to slow economic growth in 2013 and 2014, according to the World Bank. Moreover, with an expected decline in aid post-2014, World Bank projections show average real GDP growth declining to 4–6% annually during 2011–2018.<sup>389</sup>

## Fiscal Sustainability

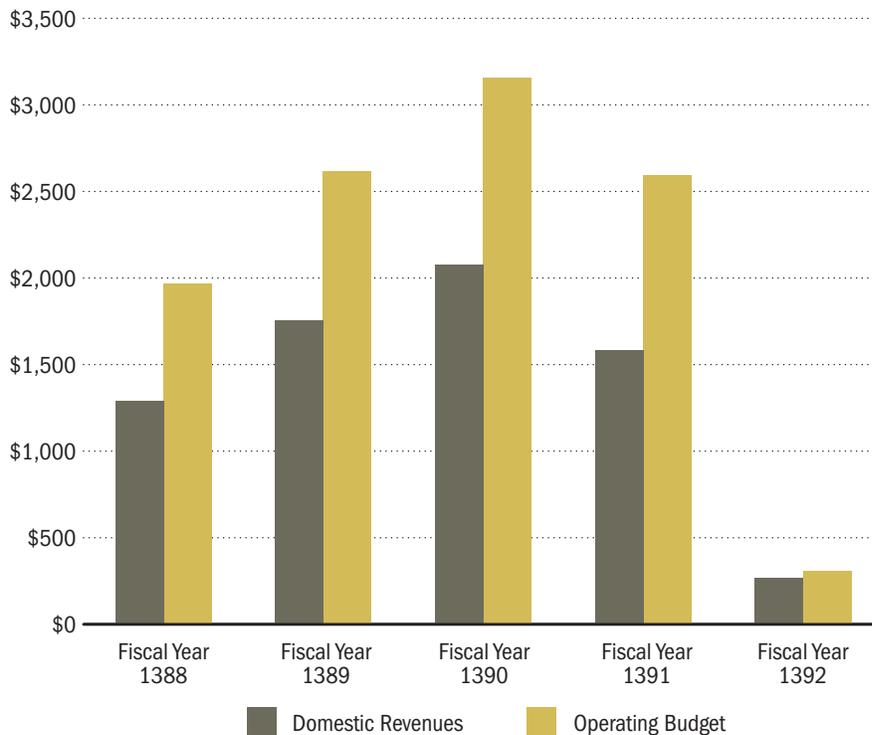
Afghanistan's fiscal sustainability ratio—domestic revenues versus operating expenses—remains one of the lowest in the world, according to DOD.<sup>390</sup> The Ministry of Finance (MOF) projected domestic revenue for Afghan fiscal year (FY) 1392 (December 2012 to December 2013) at \$2.4 billion, an increase of 33% over FY 1391 (March 2012 to December 2012). However, in the first two months of FY 1392, total domestic revenues decreased by 19.2% from the same period in FY 1391, and missed MOF budget targets by 25.9%.<sup>391</sup> Figure 3.31 depicts the disparity between the government's domestic revenues—derived primarily from taxes and customs duties—and budgeted operating expenditures from FY 1388 to FY 1392. The Senior Leaders Meeting Joint Report to assess the Afghan Government's progress on meeting Tokyo Mutual Accountability Framework benchmarks concluded that the government's enforcement of taxation is increasingly being hindered by a deteriorating security situation, limitations on the application of the rule of law, and low organizational capacity.<sup>392</sup> More detailed information on revenue collection may be found on page 138.

## Afghanistan Chamber of Commerce and Industries

This quarter, the Afghanistan Chamber of Commerce and Industries released results of its inaugural December 2012 surveys of 896 Afghan businesses in Kabul and Balkh provinces. The surveys had two purposes: to assess business owners' perceptions of the existing business environment (the Business Tendency Survey), and to document obstacles facing the private sector (the Bottleneck Survey). Respondents characterized the current business climate as "slightly worse than normal," but expected more positive economic activity in the first half of 2013. Meanwhile, security risks

FIGURE 3.31

## AFGHANISTAN'S DOMESTIC REVENUES COMPARED TO OPERATING BUDGET (\$ MILLIONS)



Notes: Until recently, Afghan fiscal years ran approximately March 20 to March 20 of Gregorian calendar years. FY 1388 corresponds to March 20, 2009, to March 20, 2010, and so on. Nine-month data for fiscal year 1391 reflect a change in the timing of the Afghan fiscal year. FY 1392 (2013) is not over.

Sources: MOF, "1388 National Budget," accessed 7/2/13; MOF, "1389 National Budget," accessed 7/2/13; MOF, "1390 National Budget," accessed 7/2/13; MOF, "1391 National Budget," accessed 7/2/13; MOF, "National Budget Procedures Fiscal Year 1391" accessed 6/26/13; MOF, "Annual Fiscal Report 1391," accessed 6/20/2013; MOF, "1392 National Budget," accessed 7/1/13; MOF, "Monthly Fiscal Bulletin, Month 2," 5/18/13, accessed 6/24/2013.

remain a major impediment to private sector growth, as is difficulty navigating Afghanistan's land, tax and customs regimes. Additionally, registering a new company is not as problematic as extending an existing business license, which the survey indicates is a particularly acute challenge. Expanded follow-on surveys are planned.<sup>393</sup>

## Trade

The State Department's FY 2014 budget request includes \$20.9 million for programs that aim to further integrate Afghanistan's economy into the central Asia region. Funding will target improving regional cooperation on trade, transit of goods and services, energy resources, water and other natural resources, and governance along trade and transit corridors.<sup>394</sup>

## **World Trade Organization Accession: Update**

On May 4, 2013, Afghanistan reaffirmed its commitment to finalizing its bilateral market negotiations by July 2013 and completing World Trade Organization (WTO) accession at the organization's 9th Ministerial Conference in early December 2013.<sup>395</sup>

Afghanistan drafted 22 out of 26 required laws, which were submitted to the WTO, but must still pass Afghanistan's parliament. Afghanistan is also currently conducting bilateral market-access negotiations with eight WTO members and has launched six institutional initiatives to comply with WTO requirements.<sup>396</sup> Negotiations are part of the final stage before the accession package is sent to the WTO General Council or Ministerial Conference for final approval.<sup>397</sup>

While Afghanistan wants accession to the WTO by the end of 2013, the State Department deems it unlikely, given the National Assembly's legislative backlog.<sup>398</sup> Accession by the end of 2014 is an Inclusive and Sustained Growth and Development indicator under the Tokyo Mutual Accountability Framework.<sup>399</sup>

For more information about the U.S. Agency for International Development's (USAID) trade-accession assistance to Afghanistan, see page 173.

## **EXTENDED CREDIT FACILITY ARRANGEMENT**

The Afghan government's poor performance in completing specific banking and financial structural reforms, and in meeting the quantitative macro-economic targets set forth under the International Monetary Fund's (IMF) Extended Credit Facility (ECF) Arrangement, have delayed IMF Board reviews and accompanying disbursement of funds. Neither the second review, originally planned for December 2012, nor the third, originally planned for March 2013, has been completed.<sup>400</sup>

According to Treasury, the Afghan government has not yet submitted a revised Anti-Money Laundering/Countering Financing of Terrorism Law to parliament, nor has it taken sufficient corrective actions to address its recent underperformance on quantitative targets, according to Treasury. Other missed targets for end-FY 1391, as reported to SIGAR.<sup>401</sup>

- FY 1391 (March 2012 to December 2012) revenue target of 85.1 billion afghanis (Afs) missed by Afs 8.7 billion.
- Revised FY 1392 (December 2012 to December 2013) revenue targets believed to have been missed in the first two quarters.
- The central bank —Da Afghanistan Bank (DAB)—missed its net international reserve floor target for end-FY 1391 (approximately \$7.05 billion) by more than \$575 million.
- The ceiling on net central bank credit to the government was missed for end-FY 1391.

Quantitative targets achieved for end-FY 1391, as reported to SIGAR (“zero ceiling” provisos bar the Afghan government from taking any of the steps noted beyond the terms of the IMF agreement):<sup>402</sup>

- Ceiling on reserve money
- Zero ceiling on contracting of new medium or long-term non-concessional debt by public sector
- Zero ceiling on short-term external debt owed or guaranteed by the public sector
- Zero ceiling on net external payment arrears
- Zero ceiling on lending from state-owned banks or the central bank to, or government guaranteed borrowing by, public enterprises in need of restructuring; and
- Zero ceiling on government guarantees

IMF staff will assess Afghanistan’s progress on these and other measures during the next fiscal quarter to determine whether to present its reviews to the IMF Executive Board.<sup>403</sup>

The three-year, \$129 million ECF loan agreement signed in November 2011 is conditions-based. Disbursements are contingent upon completion of program reviews, as determined by IMF Management and the Executive Board. The IMF has released two disbursements of \$18.2 million—the first at initial ECF approval, the second in June 2012 despite a first review that characterized Afghan reform as weak and slow.<sup>404</sup>

**Afghanistan’s IMF Program is financed from the Poverty Reduction and Growth Trust, to which the United States does not contribute.**

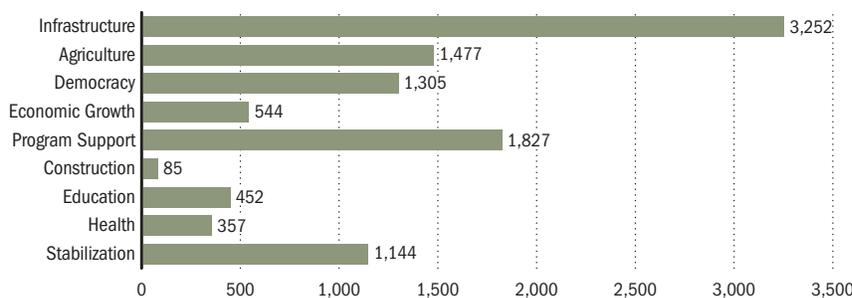
Source: Treasury, response to SIGAR data call, 6/26/2013.

## U.S. ECONOMIC SUPPORT STRATEGY

The U.S. economic transition strategy in Afghanistan seeks to mitigate the negative economic impact of the withdrawal of most international security forces by 2014 and the expected accompanying reduction in donor assistance. It also seeks to help Afghanistan develop its resources for sustainable growth.<sup>405</sup> Figure 3.32 shows USAID assistance by sector.

FIGURE 3.32

USAID DEVELOPMENT ASSISTANCE, AS OF JUNE 30, 2013 (\$ MILLIONS)

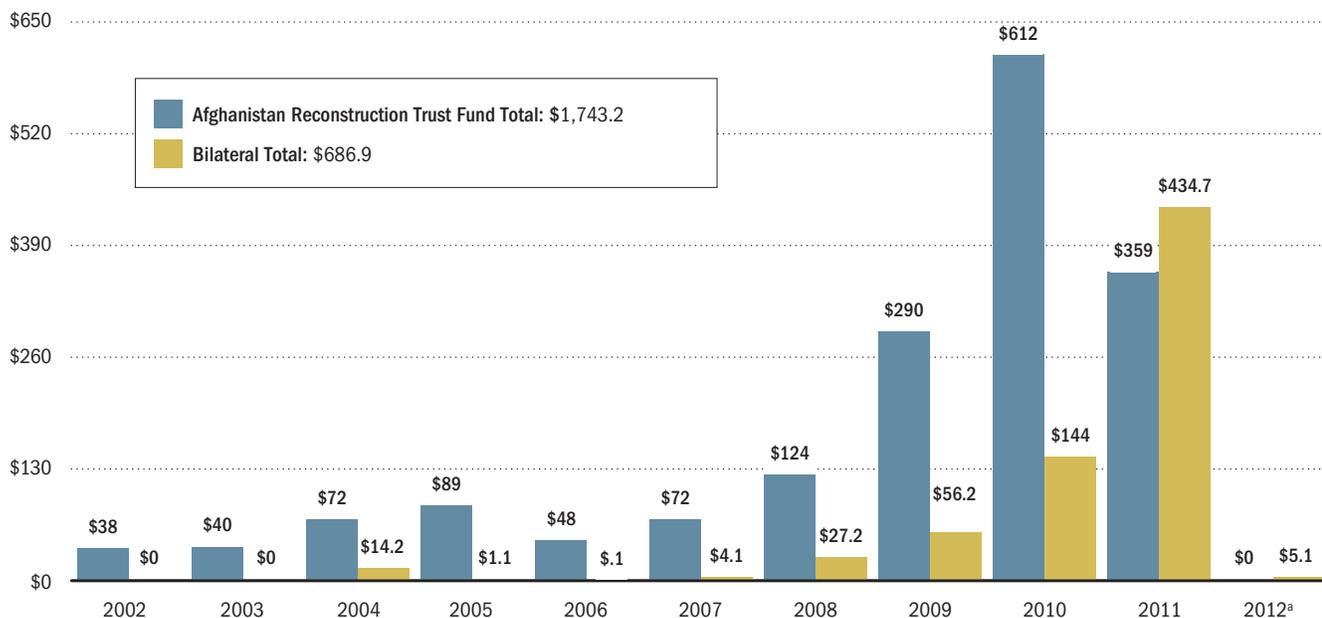


Note: Numbers rounded.

Source: USAID, response to SIGAR data call 7/10/2013.

FIGURE 3.33

USAID ON-BUDGET ASSISTANCE OBLIGATED, FY 2002–FY 2012 (\$ MILLIONS)



Notes: Numbers have been rounded.

<sup>a</sup> Most FY 2012 USAID funding for on-budget assistance had not been obligated as of June 25, 2013.

Sources: USAID, responses to SIGAR data call, 7/16/2013 and 4/1/2013.

“Trends in public finance deserve attention: more on-budget aid poses challenges [to] the Government’s capacity to execute an increasing budget.”

Source: World Bank, “Afghanistan Economic Update,” 4/2013.

## U.S. Direct Assistance to the Afghan Government

In line with donor commitments made at the 2012 Tokyo Conference, the United States has been gradually increasing the amount of development assistance it provides directly to the Afghan government. This quarter, USAID obligated approximately \$235 million in on-budget assistance, primarily from prior fiscal-year funds, for a total of more than \$2.4 billion, as of June 30, 2013, as shown in Figure 3.33.<sup>406</sup>

## Transition Planning

SIGAR is concerned about the safety of all U.S. agency personnel in Afghanistan as security responsibility increasingly is being transferred to the Afghan Public Protection Force (APPF). SIGAR is also concerned about the ability of U.S. implementing agencies to provide effective oversight over development programs as most international combat forces transition out of Afghanistan in 2014.<sup>407</sup>

A 2012 review of USAID/Afghanistan’s monitoring and evaluation system by the USAID Office of Inspector General stated that managing development programs in high-threat environments like Afghanistan presents special oversight risks and challenges. It described the security situation in Afghanistan as “[a] significant and continuing constraint to USAID/Afghanistan’s program monitoring and evaluation,” a sentiment echoed repeatedly by Mission personnel in Afghanistan to their counterparts in Washington, DC.<sup>408</sup>

However, USAID told SIGAR that it expects any impact from the security transition to be minimal since all implementing partners are already required to operate independently of U.S. government services, including those provided by International Security Assistance Force (ISAF) forces. In the lead-up to the March 2012 transfer of security responsibility to the APPF, USAID requested contingency security plans from all of its implementing partners, and stayed in frequent contact with them throughout the process. USAID also reported no project shut-downs and no reduction in mobility from its development project staff as a result of the transition, and fully expects to be able to continue providing effective oversight and management of its programs through third-party monitoring.<sup>409</sup> While using third-party monitors may mitigate some security-related access issues—e.g., local nationals are less likely to attract hostile attention than foreigners—SIGAR is concerned that the practice may raise new issues such as vetting, accuracy, effectiveness, and accountability.

For its priority development projects, USAID reports it is able to execute site visits as needed.<sup>410</sup>

So far, USAID completed two APPF cost analyses for its 31 implementing partners currently using their security services: the first in July 2012 for the quarter immediately following transition, and the second in June 2013. The average monthly cost to the implementing partners for APPF services is approximately \$1.4 million.<sup>411</sup>

## **The U.S. Civil-Military Strategic Framework for Afghanistan**

The U.S. Civil-Military Strategic Framework for Afghanistan, last updated in October 2012 and now under revision, will emphasize transition to Afghan control. U.S. efforts will shift from providing security to advising and preserving gains, will aim to gain additional clarity on the Transformation Decade (2015–2024) once the post-2014 coalition military footprint is established and better converge with Afghanistan’s national planning strategies. The U.S. government aims to replace its Civil-Military Strategic Framework in 2014 with a multi-year Integrated Country Strategy that will include policy priorities, objectives, and the means for achieving them.<sup>412</sup>

## **SIGAR AUDIT**

This quarter, SIGAR published a follow-up audit on the impact of the transition from private security companies to the Afghan Public Protection Force on USAID reconstruction and assistance programs. In its findings, SIGAR expressed concerns about potentially high APPF costs. For more information, see Section 2, page 34.

## Award Closeouts

USAID’s Office of Acquisition and Assistance (OAA) is actively identifying grants and contracts for closeout. Priority is given to awards that have the highest funding amounts to deobligate, followed by awards that have long expired. Over the last year, OAA closed out more than 72 awards and deobligated approximately \$29 million in excess funds. OAA is experiencing some challenges including difficulty locating implementing-partner points of contact for long-expired awards, and an audits backlog to determine final indirect cost rates needed to finalize a closeout. According to OAA, closing out awards should be and is being given higher priority than in the past, and an automated reporting and tracking system should be used to ensure all awards scheduled for closeout are accounted for.<sup>413</sup>

## DEBT RELIEF

Afghanistan currently has approximately \$1.16 billion in outstanding debt, which needs to be restructured or forgiven through Paris Club and Enhanced Highly Indebted Poor Country (HIPC) initiative agreements. These debts are owed to four countries, one commercial entity, and one private party, as seen in Table 3.10.<sup>414</sup>

TABLE 3.10

AFGHANISTAN’S OUTSTANDING DEBTS (\$ MILLIONS)		
Country	Owed	Note
Bulgaria	\$56	Agreement reached in principle to restructure this debt.
Iran	\$10	
Kuwait Fund	\$22	
Russia	\$1,000	Represents residual amount remaining (and accrued interest) after first round of debt relief.
Euro-Pacific (Old Czech Debt)	\$68	Transferred to a private party who unsuccessfully sued Afghanistan’s Central Bank about it in a German Court. It is shown as a potential liability since the plaintiff may sue in another jurisdiction.
France Telecom	\$4	

Note: Amounts are approximate.

Source: Treasury, response to SIGAR data call, 6/26/2013.

Treasury’s Office of Technical Assistance (OTA) had previously helped Afghanistan successfully navigate the HIPC process, which it completed in March 2010. HIPC was designed for countries with unsustainable debt burdens, for whom traditional debt reduction or rescheduling mechanisms would not be sufficient. Countries under the HIPC designation receive assistance in lowering their debt burden to sustainable levels and reducing poverty.<sup>415</sup>

**The Paris Club is an informal group of official creditors—including the United States, which is a permanent member—whose role is to find coordinated and sustainable solutions to the payment difficulties experienced by debtor countries. Solutions include debt rescheduling and reduction in debt-service obligations.**

**The Comparable Treatment clause requires debtor countries to seek debt solutions from non-Paris Club or private creditors on terms comparable to Paris Club agreements.**

Source: Paris Club, <http://www.clubdeparis.org>, accessed 7/3/2013.

No payments have been made on any of Afghanistan's debts since the early 1990s. In accordance with standard Paris Club and international procedures, payments are deferred until the creditor agrees to Paris Club/HIPC-comparable treatment and a bilateral agreement has been signed. OTA has one part-time advisor from its Government Debt Issuance and Management team providing technical assistance to Afghanistan on debt management issues, including forgiveness, debt-management process issues and strategy, and organization. Treasury's FY 2013 allocation toward this effort is \$38,987.<sup>416</sup>

## **MONEY LAUNDERING**

This quarter, the Basel Institute on Governance released its second annual Anti-Money Laundering Index—a review of countries at risk for money laundering and terrorist financing activity. Afghanistan ranked most vulnerable, followed by Iran, which held the top position in 2012. Rankings were based on five risk categories: money laundering/terrorist financing; corruption; financial transparency and standards; public transparency and accountability; and political and legal.<sup>417</sup>

The State Department's recent International Narcotics Control Strategy Report listed Afghanistan as a major money-laundering country in 2012. The report says illegal financial activities “continue to pose serious threats to the security and development of Afghanistan.” This is largely perpetuated by informal, honor-based “hawala” methods of transferring money without moving it. Afghans rely upon hawala networks because of official corruption and weakness in the banking sector. Unlicensed and unregulated hawala brokers in drug-producing areas like Helmand are responsible for much of the money laundering through Afghanistan's financial system. But Afghan business consortiums that own hawalas and banks are complicit, too—the depreciation of the Iranian rial in 2012 led to increased cash smuggling from Afghanistan to satisfy increased Iranian demand for U.S. dollars, according to the report.<sup>418</sup>

## **BANKING AND FINANCE**

Private-sector development depends on establishing solid financial institutions to provide capital and facilitate the exchange of money for goods and services. However, Afghanistan's financial sector remains largely underdeveloped, makes limited capital investments in businesses, and contributes little to Afghanistan's private-sector activity.<sup>419</sup>

Afghanistan's banking and financial sector has not fully recovered from the 2010 near-collapse of Kabul Bank, and suffers from a loss of consumer confidence. Audits of major banks in Afghanistan conducted in the wake of the Kabul Bank scandal revealed “systemic fragility and vulnerability in all

“The handing down of relatively light sentences to 21 people involved in the collapse of the Kabul Bank must not signal the end of accountability in this scandal. Robust and ongoing action, in particular on asset recovery and sound financial regulation, are essential. Demonstrations of commitment to sound institutional and financial fundamentals will be critical to ensuring sustained international assistance.”

Source: UN Secretary-General, “The Situation in Afghanistan and its Implications for International Peace and Security,” 6/13/2013, p. 15.

areas of banking governance and operations,” according to a World Bank report released this quarter.<sup>420</sup>

Total assets in the banking sector declined from \$5.5 billion in 2010 to \$4.4 billion in 2012. The average growth rate of demand deposits was 80% from 2005 to 2009, but declined to 12.5% growth over the last three years. Commercial loans grew an average 40% annually before the 2010 crisis, but have been declining to -20% since 2010. The World Bank characterized this trend as a “change in the risk perception of the commercial banks and a declining performance of the banking sector.”<sup>421</sup> The Bank is also tracking negative trajectories in the microfinance sector. It noted that several institutions have left the country, other institutions are in danger of bankruptcy, loan portfolio growth has slowed since 2008, and there are fewer active borrowers.<sup>422</sup>

## Currency

Afghanistan’s currency, the afghani (Afs), depreciated by 8% against the U.S. dollar in 2012. It cost 47.9 afghanis to buy a U.S. dollar in 2011, but 51.8 afghanis in 2012. The World Bank attributed the depreciation largely to security concerns and uncertain business-sector conditions in the lead-up to the political and security transitions in 2014.

U.S. dollars are in higher demand than Afs. Afghanistan’s central bank—Da Afghanistan Bank (DAB)—curbed reserve money growth at 4% in 2012, and manages the floating exchange rate via foreign-exchange transactions to limit excessive Afs depreciation.<sup>423</sup> Depreciation typically improves the price competitiveness of a country’s exports, but Afghanistan has limited export opportunities and limited domestic substitutes for some imports, and its exports actually declined in 2012. The country is not self-sufficient in cereal grains and imports large quantities of fuel.<sup>424</sup> Under these circumstances, further depreciation, which typically narrows trade deficits, could help to widen it.

## The Kabul Bank

On March 5, 2013, the Special Tribunal of the Supreme Court on Kabul Bank issued its judgment on 21 individuals charged with fraud. Afghanistan’s Attorney General’s Office (AGO) appealed the verdict on March 16.<sup>425</sup> The Attorney General is seeking longer prison terms and additional convictions for the two leaders of the fraud, ex-chairman Sher Khan Farnood and ex-CEO Khalilullah Ferozi, who were given modest five-year prison sentences and ordered to pay only partial restitution.

According to the U.S. Department of Justice (DOJ), the Attorney General requested additional convictions for Farnood and Ferozi to include embezzlement and money laundering under Afghanistan’s Anti-Money Laundering and Proceeds of Crime Law, which carries with it a confiscation order to recover stolen funds. The Attorney General is seeking additional

convictions for the remaining defendants, but is not asking for penalties other than those initially ordered by the Tribunal.<sup>426</sup>

Kabul Bank had been Afghanistan's largest banking service provider, distributing most civil salaries on behalf of the Afghan government. The Bank's 2010 near-collapse brought to light the theft of more than \$935 million, over 92% of which went to 19 individuals and companies. Afghanistan's central bank, Da Afghanistan Bank, covered these losses, equivalent to 5-6% of Afghanistan's total GDP.<sup>427</sup>

## **Cash and Asset Recoveries: Update**

The Afghan government claimed cash recoveries of \$142.3 million on March 1, 2013, compared to the \$138 million that was reported to SIGAR in April. As of July 3, 2013, the Kabul Bank Receivership reported \$173.2 million in cash recoveries, according to the Senior Officials Meeting Joint Report (on Tokyo Mutual Accountability Framework implementation).<sup>428</sup> Even this larger figure amounts to less than 20% of the total stolen funds.

## **Prosecutions: Update**

Since the Special Tribunal of the Supreme Court on Kabul Bank issued its March 5, 2013, verdict against 21 individuals charged with fraud, no effort has been made to hold anyone else accountable. At that time, the Special Tribunal ordered the arrest and prosecution of 16 additional individuals with existing warrants: 13 Kabul Bank executives and/or shareholders and three Central Bank officials. Most of the 16 have fled Afghanistan and the Afghan government has made no decisive attempt to pursue them, according to the DOJ.<sup>429</sup>

The Special Tribunal's order also directed the investigation and prosecution of 16 other recipients of illegal loans, including five Kabul Bank shareholders and six related companies. However, DOJ reported that the chief of the investigative prosecutors at the AGO Anti-Corruption Unit was unaware of any plans to pursue further investigations. The Deputy Attorney General, after being given a copy of the Special Tribunal's order, promised charges and investigations, but he, along with the Attorney General and others within the AGO, indicated to DOJ that any new investigations will focus on international actors, who are both beyond the reach of Afghan law enforcement, and whose criminal responsibility is highly suspect. As of June 30, 2013, no new investigations were opened into the identified individuals or entities.<sup>430</sup>

Several news reports this quarter stated that the AGO will prosecute four companies that audited Kabul Bank in the years leading up to the 2010 crisis, including PricewaterhouseCoopers and Deloitte Consulting.<sup>431</sup> Even though Afghanistan's Independent Joint Anti-Corruption Monitoring and Evaluation Committee (MEC) accused these companies of wrongly



**In a June 2013** lecture at SIGAR, Clare Lockhart, co-founder of the Institute for State Effectiveness, spoke on a range of topics, including the importance of stabilizing the Afghan economy. (SIGAR photo)

attesting to Kabul Bank's compliance with Afghan law, and failing to identify and follow up on reports of fraudulent activity at the bank, the MEC feels this is an imprudent strategy and use of resources. Instead, the MEC recommends that the AGO work with other countries to gather the necessary evidence and focus on investigating those with a more direct role in the fraud.<sup>432</sup>

## DEVELOPMENT OF NATURAL RESOURCES

The United States, the Afghan government, and the international donor community count on developing Afghanistan's natural resources to underpin future economic growth in the face of declining external aid. Although mining has contributed less than 2% to the country's GDP to date, the Afghan government expects to receive significant revenues from large-scale investments in the Aynak (copper) and Hajigak (iron-ore) mines, and from oil and gas fields in the Afghan-Tajik basin.<sup>433</sup> However, SIGAR has consistently cautioned that the Afghan government may not be able to earn revenues from Afghanistan's minerals, coal, petroleum, and natural gas resources any time soon because of the considerable infrastructure investment required to develop them.

The World Bank also warned that the potential for direct job creation from mining is limited and demographically uneven. Afghanistan can expect to create between 15,000 and 20,000 direct jobs from oil, gas, and mining activities, with 2,000 to 4,000 jobs at a major mine and fewer jobs at oil and gas operations. Of these, approximately 70% will be skilled and semi-skilled labor, largely benefitting urban areas where skilled laborers typically live. Rural communities will generally fill the remaining available unskilled positions.<sup>434</sup>

The United States, through DOD's Task Force for Business and Stability Operations (TFBSO), has supported the Afghan government's efforts to attract investment in the mining sector. Out of \$10.2 million total for mining-sector development in FY 2013, TFBSO obligated \$9.7 million, as of June 30, 2013. Last quarter, TFBSO reported \$6.8 million in total mining assistance, with \$4.8 million obligated.<sup>435</sup> Additionally, USAID is scheduled to launch its Mining Investment and Development for Afghan Sustainability (MIDAS) project, having awarded a contract on March 31, 2013. With a total estimated cost of \$41 million—descoped from \$90 million reported last quarter—it will focus on legal and regulatory reform, technical assistance to the Ministry of Mines and Petroleum (MOMP), small and medium enterprise development, assistance in geo-science field investigation, and other support as needed.<sup>436</sup> MIDAS will also absorb some of TFBSO's extractives programs as it transitions out of Afghanistan.<sup>437</sup>

## Impact on Afghan Businesses and Investors

Development of the mining, oil, and gas sectors could stimulate local businesses. For example, the World Bank estimates that \$800 million worth of needed goods and services for Aynak copper mine and Amu Darya oil and gas deposits can be procured from local Afghan suppliers. However, Afghan businesses operate under imperfect economic conditions. These suppliers require support and investment to ensure they deliver quality goods in sufficient quantities. Since Afghan manufacturing is negligible and in some cases of questionable quality, most consumable goods, construction materials, and equipment are imported.<sup>438</sup>

## New Minerals Law: Update

On June 24, 2013, the Ministry of Justice officially submitted the draft Minerals Law to the Ministry of Parliamentary Affairs for transmittal to the lower house of parliament. Once passed by both the lower and upper houses, it will be sent to the president for final approval. An unofficial copy of the law has already been distributed to expedite review.<sup>439</sup> The law would, among other things, link exploration and extraction rights. DOD's TFBSO has previously warned that without that legislative provision many companies will not bid on new tenders and will not sign contracts on existing awards.<sup>440</sup> A July 1, 2013, news report quoted a MOMP advisor who said four major mining contracts are on hold pending passage of the new minerals law—Hajigak (iron ore); Zarkashan (gold); Badakhshan (gold); and Balkhab (copper).<sup>441</sup>

Passing a revised minerals law is an IMF and Tokyo Mutual Accountability Framework benchmark.<sup>442</sup> Updating the law is meant to better protect Afghan resources, encourage investors, and align regulations to international best practices.<sup>443</sup> Its delay has significantly hindered private-sector investment, according to TFBSO, which said mining companies value political and legal stability even more than security.<sup>444</sup>

## Assistance to the Ministry of Mines and Petroleum, and the Afghanistan Geological Survey

This quarter, the United States continued to provide technical assistance to the MOMP and Afghan Geological Survey (AGS) through TFBSO and the U.S. Geological Survey (USGS). These organizations are providing support for mineral and hydrocarbon tenders and oil-and-gas data management, including geology reports, seismic data, well logs, and production logs. They are also assisting MOMP and AGS with visits to U.S. mines, participation in official meetings, and attendance at international conferences related to resource development. As of June 30, 2013, TFBSO obligated \$9.7 million out of \$10.2 million allocated in FY 2013 for mining sector development. Most of those funds are for technical assistance and advisory services.<sup>445</sup>

TFBSO contributes subject-matter expert advisors who provide geological reports, legal documentation, and financial-transaction services to

the MOMP for its international mining and hydrocarbon-tender programs. TFBSO also works with the AGS to refine and expand their drilling and data-collection programs for future tenders, and develop a cadre of Afghan geologists who can explore areas for future tender. TFBSO, along with USGS, is training AGS employees on updated remote-sensing techniques and geographic-data software, and is helping move Afghanistan's geological data off USGS servers and onto their own. TFBSO helped develop a regulatory and legal framework for the sale of natural gas from the Sheberghan-Mazar pipeline and provided training programs in welding, construction safety, program management, equipment maintenance, and other midstream transportation operations.<sup>446</sup>

## **Aynak Copper Mine: Update**

Metallurgical Corporation of China (MCC) was awarded the contract for extraction rights at the Mes Aynak copper mine in Logar province in 2008, but has not yet begun excavation. Development of the mine remains delayed by the discovery of cultural relics in the area, difficulties in land acquisition, lack of primary infrastructure, and security concerns.<sup>447</sup>

According to published summaries of the contract, MCC has agreed to pay the government \$808 million in pre-royalty payments and royalty rates of up to 19.5% of revenues, build a 400 MW coal-fired power plant, and develop an associated coal mine. MCC has the option to renegotiate its contract in 2013, and may defer further investment until it evaluates the results of Afghanistan's 2014 presidential election and post-transition security environment.<sup>448</sup>

MOMP and the Ministry of Information and Culture (MOIC) are working with approximately 30 international archeologists at Aynak to excavate and transfer culturally significant artifacts before mining begins. This Mes Aynak Archaeological Project is financed by the World Bank's International Development Association, and supported by the Delegation Archeologique Francaise en Afghanistan. Archaeological work is scheduled through July 2013 and may be extended.<sup>449</sup>

## **Hajigak Iron-ore Mine: Update**

Contract negotiations for the Hajigak iron-ore concessions continue. The MOMP awarded three blocks to AFISCO, a seven-member Indian consortium led by state-owned Steel Authority of India Ltd. in November 2011, and one block to Canadian Kilo Iron Ore, a subsidiary of Kilo Goldmines. Kilo Iron Ore has consented in principle to all contract negotiating terms. Both firms are awaiting parliamentary approval of the new Minerals Law before signing. AFISCO is also still in negotiations about surrounding infrastructure, including a steel plant and a power plant. AFISCO may also be experiencing investor and financial difficulties, according to TFBSO.<sup>450</sup>

## Hydrocarbons

Afghanistan's efforts to develop its oil and gas reserves focus on the Amu Darya Basin and Afghan-Tajik Basin, both in northern Afghanistan. This quarter, TFBSO continued its technical assistance to the MOMP and AGS.

### Amu Darya Basin Production: Update

The three awarded blocks of the Amu Darya Basin are estimated to contain 87 million barrels of crude oil, according to the State Department and TFBSO.<sup>451</sup> The China National Petroleum Corporation Watan Energy Afghanistan (CNPCI-W) produced approximately 10,709 barrels of crude from three blocks as of June 1, 2013. The Afghan government has received \$4.66 million in royalty and surface rental fees as of June 3, 2013.<sup>452</sup>

State reported that although CNPCI-W is able to continue production, it is currently producing no oil while it works to secure a buyer for its output. CNPCI-W began export agreement negotiations with regional refineries in April 2013 to purchase its Amu Darya oil, with bids being assessed this quarter. Government revenues from Amu Darya will depend on future production rates and market values. While technically capable, CNPCI-W's low-level production to date makes it unlikely to reach its legally required FY 2013 production rate of 1.65 million barrels.<sup>453</sup>

The Amu Darya Petroleum Authority, which manages the Amu Darya contract, evolved into the Afghanistan Petroleum Directorate (APD) in early 2013. TFBSO helped develop APD's organizational chart, and advised their hiring of accounting, finance, human resources, and technical areas staff. TFBSO also provides subject-matter expert support to the APD—technical (oil and gas engineering), legal (contract implementation), and financial (accounting and analysis)—to assist in the oversight of TFBSO-supported contracts.<sup>454</sup>

## AGRICULTURE

Since 2002, USAID has obligated about \$29 million to build capacity at the Ministry of Agriculture, Irrigation, and Livestock (MAIL), increase access to markets, and provide alternatives to poppy cultivation.<sup>455</sup> Agriculture plays a dominant role in the Afghan economy. Only 12% of the land is arable and less than 6% is cultivated, yet 80% of Afghans directly and indirectly earn a living from agriculture.<sup>456</sup> Given its importance to the labor force, agriculture could be a catalyst for GDP growth, improved food security, and more stable employment opportunities.<sup>457</sup> A United Nations-Afghan-World Bank jobs conference this quarter emphasized that Afghanistan's national strategy for economic growth and sustainable job creation should focus on the agriculture sector.<sup>458</sup>



**Participants in a May 2013** conference focused on the importance of vocational training and the agricultural sector to the Afghan economy. (UNAMA photo)

USAID provides assistance to the agriculture sector through several programs. The three highest priorities, worth more than \$350 million total, are:<sup>459</sup>

- Agricultural Development Fund (ADF) and Agricultural Credit Enhancement (ACE)
- Incentives Driving Economic Alternatives—North, East, and West (IDEA-NEW)
- Commercial Horticulture and Agricultural Marketing Program (CHAMP)

These three programs are providing lessons learned for USAID as it works to award five new regional agriculture-development programs.

## **Agricultural Development Fund and Agricultural Credit Enhancement**

Agricultural Development Fund and Agricultural Credit Enhancement (ADF-ACE), a \$150 million agricultural-credit project, has two complementary activities that aim to support MAIL's efforts to provide loans and build MAIL's capacity to manage them. The \$100 million, on-budget ADF was established to provide loans across the agricultural value chain through banks, farm stores, leasing companies, and food processors, which in turn provide agricultural credits to farmers. ADF-ACE designed and launched nine innovative financial lending products, one exclusively for women. Of ADF's \$50.4 million total allocation (revised downward from \$75 million last quarter), \$29 million has been obligated (compared to \$64.6 million reported last quarter) and \$9 million has been disbursed (compared to \$53.7 million last quarter), as of June 30, 2013.<sup>460</sup>

The \$50 million, off-budget ACE is the technical-assistance component that manages all ADF lending activities and helps build MAIL capacity. According to USAID, ADF has over 20,000 clients in 30 of Afghanistan's 34 provinces. A total of \$67.8 million in loans have been approved, and of that, \$32 million has been disbursed. USAID reports a loan default rate of only 4%. Despite these successes, USAID noted that Afghan political and legal obstacles delayed ADF legal registration and access to lending funds, which, in turn, reduced the number of loans approved and the number of beneficiaries. Of USAID's \$68.4 million total allocation for ACE, \$43.6 million was obligated (from \$20 million last quarter) and fully disbursed (from \$5.8 million last quarter), as of June 30, 2013.<sup>461</sup>

## **Incentives Driving Economic Alternatives-North, East, and West**

Incentives Driving Economic Alternatives-North, East, and West (IDEA-NEW) is a five-year, \$160 million, cooperative-agreement project that provides agricultural assistance and economic alternatives to growing poppies in select provinces in eastern Afghanistan and in poppy regions in the northern and western parts of the country. As of June 30, 2013, USAID has

allocated \$154.6 million, obligated \$131.1 million to the IDEA-NEW program (\$4 million more than reported last quarter) and has disbursed \$125.1 million (\$6.9 million more than last quarter). IDEA-NEW helps farmers shift to legal agricultural production by increasing commercial opportunities, extending access to financial services, and promoting value-chain development for key regional industries and trade corridors. It also facilitates connections between producers, traders, and buyers through market-information activities and sales promotion.<sup>462</sup>

USAID reported 52,242 households have directly benefitted from IDEA-NEW (revised from 950,000 households reported last quarter), which resulted in over 46,000 full-time jobs and \$4.7 million in agricultural exports. IDEA-NEW is planning a poppy-impact assessment to determine what, if any, impact the program has had on poppy cultivation.<sup>463</sup>

According to USAID implementers, oversight remains a challenge. Even though USAID says that it can provide oversight with third-party monitors, in its data-call response to SIGAR it acknowledged that safety and site access are becoming more acute concerns as provincial reconstruction teams and foreign combat forces leave Afghanistan.<sup>464</sup> SIGAR has consistently expressed concern about this constraint.

## Commercial Horticulture and Agricultural Marketing Program

Commercial Horticulture and Agricultural Marketing Program (CHAMP), a \$40 million program begun in 2010, aims to help farmers plant and operate more profitable orchards and vineyards. CHAMP works with farmers to improve crop quality and promotes export and trade corridors. The program also works with traders to improve harvesting, packing, cold storage, and shipping methods.<sup>465</sup>

USAID reported more than 13,000 households have directly benefited from CHAMP, while 2.7 million fruit trees have been planted over 5,000 hectares of land. As CHAMP approaches the 2014 transition, it will shift focus to post-harvest commercialization of high-value crops. It aims to increase exports through marketing, and promote import substitution domestically.

Of the almost \$37.8 million that USAID has allocated to CHAMP, \$30.3 million has been obligated (\$6 million more than last quarter) and almost \$26.5 million has been disbursed (\$3.2 million more than last quarter), as of June 30, 2013. However, USAID said that insecurity continues to be CHAMP's most acute challenge to full implementation and material distribution. Insurgent groups threaten both CHAMP staff and farmers, particularly in Kandahar, Helmand, Zabul, Wardak, Logar, and Ghazni provinces.<sup>466</sup>

## ESSENTIAL SERVICES/DEVELOPMENT

Since 2002, the United States has provided reconstruction funds to increase electricity, build roads and bridges, and improve health and education. This

section addresses key developments in U.S. efforts to improve the government's ability to deliver essential services such as electricity, transportation, health, and education.



**An Afghan electric-utility staffer** welcomes a SIGAR team at the Kajaki Dam power plant. (SIGAR photo)

## Energy

Electricity is critical to Afghanistan's development. In collaboration with the Afghan government and in line with its stated priorities, the United States has made developing an integrated energy sector one of its top reconstruction priorities since 2002. From 2002–2011, USAID alone has provided close to \$2 billion from the ESF to build generators, substations, and transmission lines, and provide technical assistance to the sector. It plans to spend at least \$900 million more over the next few years.<sup>467</sup> In addition, DOD has provided \$292 million for electricity projects through CERP and \$530 million through the Afghanistan Infrastructure Fund (AIF), which is jointly managed by DOD and State.<sup>468</sup> This assistance has lifted the number of Afghans with access to electricity from 5% of the population in 2001 to 30% in 2012.<sup>469</sup>

Afghanistan currently has nine separate power systems. The primary two are the Northeast Power System (NEPS) and the Southeast Power System (SEPS). USAID has three projects to connect and increase the electricity supply in both systems—Sheberghan; Kandahar-Helmand Power Project, which includes Kajaki Dam hydropower; and the Power Transmission Expansion and Connectivity Program. The Afghan government, coordinating closely with USAID, prioritized these programs with the goal of increasing the availability of affordable, grid-based power.<sup>470</sup>

## Sheberghan Program

The Sheberghan project is a critical first step in identifying and managing gas resources and adding domestic power generation for Afghanistan, which currently imports more than 70% of its energy needs, according to USAID.<sup>471</sup> USAID is implementing its part of the Sheberghan Program through two mechanisms: the \$90 million, on-budget Sheberghan Gas Development Project (SGDP), and the \$35 million, off-budget Sheberghan Gas Generation Activity. As of June 15, 2013, \$30 million has been obligated for SGDP, with none disbursed; while \$20.5 million has been obligated for Sheberghan Gas Generation Activity, of which almost \$7.4 million was disbursed.<sup>472</sup>

USAID is funding 21% of the Sheberghan program; the Overseas Private Investment Corporation is backing financing of a \$300 million privately funded 200 MW gas-fired power plant (52% of total funding); the Asian Development Bank (ADB) will support construction of the associated transmission lines (22% of total funding); and the MOMP will cover the remaining 5%.<sup>473</sup>

A second round of bids for the drilling and rehabilitation of SGDP were received and evaluated this quarter. The project was descoped from

four wells to three. Companies view this job as a small return on investment given the security and political risks. An award is scheduled to be announced in August 2013.<sup>474</sup> Additionally, after a mid-contract review this quarter, USAID exercised its option to extend a second 18-month option for Advanced Engineering Associates International, which is providing technical assistance to the MOMP and its Gas Business Unit, as well as Da Afghanistan Bereshna Sherkat (DABS) employees. USAID said Afghanistan currently lacks the technical competence to produce gas, negotiate energy sales, and execute operations-and-maintenance programs.<sup>475</sup>

In a separate development this quarter, the United States, with TFBSO assistance, signed two Memorandums of Understanding (MOU) with the MOMP. One is to rehabilitate the existing 89 km Sheberghan to Mazar gas pipeline, which supplies the Northern Fertilizer Power Plant in Mazar-e-Sharif. The other is to build a new, 94 km pipeline between Sheberghan and Mazar-e-Sharif, and install a gas refinery in Yateemtaq. The total estimated cost of these projects is \$32 million. Scheduled to be completed in June 2014, the projects will be implemented by state-owned Afghan Gas Enterprise.<sup>476</sup>

## Kandahar-Helmand Power Project

The Kandahar-Helmand Power Project (KHPP) is intended to increase the power supply in Kandahar and make power more accessible to the population. It was designed to support interim diesel power for critical needs, increase long-term sustainable hydro power, and reduce losses while strengthening the southern transmission and distribution system.<sup>477</sup> In 2010, USAID awarded a \$266 million contract to Black & Veatch to rehabilitate power substations, upgrade the medium-voltage distribution system in Kandahar City, install a third turbine at the Kajaki Dam, and design and install new, yet temporary, diesel-powered generators. DOD is committed to funding the fuel for these and other U.S. Army Corps of Engineers-installed generators through 2014 using AIF. This fuel subsidy will be extended, but USAID expects it to decrease as Afghanistan's national utility, DABS, takes the required steps to secure the revenue needed to sustain the fuel costs.<sup>478</sup>

As of June 15, 2013, USAID had obligated \$229.6 million of ESF funds for the KHPP, and of that, approximately \$176.6 million had been disbursed, an increase of \$24.4 million from last quarter.<sup>479</sup>

Last quarter, USAID transitioned responsibility for installing the third Kajaki turbine to Afghanistan's national utility, DABS, and committed to fund it on-budget. The turbine could provide an additional 18.5 MW of power. In May 2013, USAID signed a bilateral, on-budget implementation letter with the Afghan government, and committed \$75 million for the project. DABS solicited requests for proposals to install the third turbine and for a construction-management consultant. Bids were due in June and are being evaluated. This implementation strategy of on-budget



**Parts for the third turbine** at the Kajaki Dam power plant have languished outdoors under tarps for years, awaiting installation. (SIGAR photo)

assistance has shifted the timeline for completion to late 2015. Black & Veatch is available to provide technical assistance and site security until its contract expires in September 2013. The most recent insurgent attack on Kajaki transmission lines occurred in May 2013 and resulted in an eight-day power outage.<sup>480</sup>

U.S. Forces-Afghanistan, the U.S. Army Corps of Engineers, and USAID are working closely on related power-infrastructure efforts within SEPS. KHPP continued to encounter logistical difficulties this quarter. USAID reported two shipping containers carrying equipment critical for Kandahar medium-voltage distribution upgrades are still being held indefinitely in Pakistan. Additionally, the APPF, which provides site security along SEPS, has been unilaterally changing contract terms, conditions, and unit pricing due to leadership and contracting-officer turnover at its headquarters. According to USAID, contracts and guard salaries have consequently been delayed, at times compromising site security.<sup>481</sup>

## **Power Transmission Expansion and Connectivity Program**

Power Transmission Expansion and Connectivity (PTEC), a U.S.-funded program designed to strengthen and expand the power-generation, transmission, and distribution systems, directly supports the National Energy Supply Program of the Afghanistan National Development Strategy. The strategy calls for improving the collection rate against energy billings and increasing the supply of power.<sup>482</sup>

A key component of PTEC is funding to construct a transmission line between Kabul and Kandahar to connect NEPS with SEPS. This 530 km connection, together with the rehabilitation of the Kajaki Hydropower Plant, was identified in 2010 as the only viable, long-term solution to displace costly and unsustainable diesel-power generation in Kandahar. Connecting NEPS to SEPS is a multi-donor effort. The ADB is responsible for the first 40 km Kabul–Arghandi substation connector. DOD, through the U.S. Army Corps of Engineers, is constructing the transmission line from Arghandi to Pul-e Alam and Gardez. USAID will fund construction of the 120 km section from Arghandi to Ghazni through on-budget aid to DABS.<sup>483</sup>

USAID plans to contribute \$417 million from its \$814 million PTEC project to ADB's Afghanistan Infrastructure Trust Fund (AITF), of which approximately \$290 million will be used to construct the remaining transmission line from Ghazni to Kandahar to complete the NEPS to SEPS connection. The ADB established the AITF in December 2010, to allow bilateral, multilateral, and individual contributors to partner with the ADB in financing infrastructure investments. AITF will fund projects on-budget through DABS or other Afghan government ministries. Current contributors to AITF also include the UK's Department for International Development and the Japanese Embassy. As of June 6, 2013, USAID obligated \$180 million to AITF and disbursed \$45 million.<sup>484</sup>

## DOD-Funded Programs

Reliable and sustainable power generation and transmission is the linchpin to security, stability, and economic growth in Afghanistan, according to DOD. This quarter, DOD continued implementing several priority energy-sector projects using FY 2012 and FY 2013 AIF money. These included:<sup>485</sup>

- the Kandahar Power Bridging Solution
- Kandahar–Durai Junction transmission lines
- Charikar–Bazirak and Charikar–Mahmood Raqi transmission lines and power substations

## Kandahar Power Bridging Solution

This project provides fuel for the diesel power generators in Kandahar City until the KHPP has been completed. Funding levels have not changed from last quarter. FY 2012 funding remains at \$79.8 million for fuel and operations and maintenance (O&M). The estimated FY 2013 cost is \$100 million, which includes \$90 million for fuel and \$10 million for O&M.<sup>486</sup> DOD plans to continue purchasing fuel and providing O&M support into FY 2015.<sup>487</sup>

It sees this electricity as critical to the counterinsurgency strategy to help stabilize Kandahar by supporting economic development and improving citizens' quality of life. DOD said the Kandahar Bridging Solution is a central to the Afghanistan Electrification Plan and the State Department's development plan for Afghanistan.<sup>488</sup>

## Kandahar to Durai Junction Transmission Lines

Part of the effort to expand SEPS, this project continues earlier efforts to install or repair transmission lines from Kandahar City to Durai Junction and to construct or repair substations at Maiwand and Pashmul. The project cost remains \$40 million in FY 2012 funds. This transmission line will help address the need for reliable electricity in Afghanistan's south and southeast and constitutes a key element for the larger PTEC project linking SEPS and NEPS. DOD's goal is to promote economic growth, security, stability, and capacity-building efforts within DABS to improve the commercialization of power that will allow it to generate sufficient revenues to fund capital improvements to the grid. Completion of this project is essential to distribute power generated by the third turbine awaiting installation at Kajaki Dam, according to DOD.<sup>489</sup>

## Charikar–Bazirak and Charikar–Mahmood Raqi Transmission Lines and Power Substations

This project will install 83 km of transmission lines from Charikar to Bazirak and from Charikar to Mahmood Raqi, and will build three power substations to expand NEPS. The \$48 million allocated for the project was moved to FY 2013 with another \$22 million added, for a total estimated cost of \$71 million, according to a DOD notification to Congress. Annual

estimated costs are \$580,000. DOD told Congress the project will bring reliable electricity to 1.15 million Afghans across three provinces and help fuel private-sector growth, especially in the agriculture, processing, manufacturing, and mining sectors. DOD assumes that DABS will take over responsibility for national-grid O&M as well as for completed infrastructure improvements, and will be able to sustain them with improved revenue sources and capacity.<sup>490</sup> However, SIGAR has raised questions about DABS's capacity, and other audits have said Afghanistan lacks the resources necessary to pay for O&M.<sup>491</sup>

## CERP Projects in the Electricity Sector

DOD also uses CERP funds to pay for small-scale electricity projects, such as installing generators, solar panel systems, and utility poles. During the second quarter of FY 2013, 10 new CERP-funded electricity projects were obligated (valued at \$33,240). The largest of these newly obligated projects (\$5,000) was installing six solar panels for the district center in Logar, benefitting 10,000 locals. Of \$89,553 obligated in FY 2013, \$75,836 has been disbursed as of March 31, 2013.<sup>492</sup>

## TRANSPORTATION

Afghanistan's lack of transportation infrastructure hinders trade and economic growth. The country has one of the worst road systems in the world. It has less than 100 miles of railroad, and is 2,000 km from the nearest seaport—one of the longest distances from a seaport among all landlocked developing countries, according to World Bank analysis. The Bank said restoring the transportation sector is imperative for economic recovery and development.<sup>493</sup>

Afghanistan's infrastructure shortcomings are especially problematic for the service and agriculture sectors, which currently contribute most to GDP. They also hold back the extractives industry, whose future revenues the Afghan government and international donor community are counting on to supplement declining aid.<sup>494</sup> This quarter, the United States continued its efforts to develop transportation laws, ministry capacity, and compliance with international standards.

### Rail

The United States and its international partners have been helping Afghanistan develop its rail sector, with the goal of building a profitable and sustainable system. Currently, Afghanistan has no meaningful railroad development, operational experience, or capacity. Only one completed rail line exists—a 75 km line from Hairatan, on the border with Uzbekistan, to Mazar-e-Sharif.<sup>495</sup> The country needs to expand the 75 km line if it is to further the New Silk Road vision of regional and economic

connectivity. The next component of this rail—an interlinking 400 km line between Afghanistan, Turkmenistan, and Tajikistan—was inaugurated this quarter.<sup>496</sup>

This quarter also saw the release of a national railway plan for Afghanistan. U.S. government civilian and military personnel worked with representatives of the railway industry and academia to develop it.<sup>497</sup> This macro-level, assumption-based plan supports Afghanistan's National and Regional Resource Corridors Program, which, in part, calls for rehabilitating and upgrading regional trade and transportation links between Afghanistan, Pakistan, and Iran, as well as China and Central Asia.<sup>498</sup>

The rail plan describes its recommendations as economically viable, and technically and financially feasible, yet sensitive to multiple risk elements which it says the plan mitigates to an acceptable level.<sup>499</sup> The plan is predicated on Afghanistan leveraging its vast iron-ore and copper resources for sustainable economic growth and for the railway's commercial viability. Mining is expected to account for about 76% of total rail freight traffic, with Hajigak alone accounting for about 60%. The plan's drafters said their analysis showed that railway operations revenues from mineral transport have the potential to reach \$54 billion from 2017 to 2040 and for government revenues from royalties and taxes to reach \$45 billion in that same period.<sup>500</sup>

However, the plan acknowledges that to realize that return, Afghanistan must be competitive with low-cost producers of iron ore like Brazil and Australia, which extract, rail-transport, and ship to Asian markets for as little as \$39 per metric ton. If Afghan ore is not competitive, revenue will be insufficient to expand and sustain the railway. The plan's authors also said that Afghanistan must use efficient routes to sea ports and avoid different rail-line gauges, which will necessitate the off-loading and transfer of cargo, adding time and cost. This will be a major challenge because Afghanistan is surrounded by three different size track gauges: Russian (Turkmenistan, Uzbekistan, Kyrgyzstan, and Tajikistan), Standard (Iran and China), and Indian Broad (Pakistan and India), as shown in Figure 3.34 on the following page.<sup>501</sup>

Figure 3.34 also shows the preferred rail design, which consists of two primary lines: a southern route in proximity to major mining areas that can transport mineral freight to seaports in Iran and Pakistan for shipments to global markets using standard-width rail gauge; and a northern route using Russian rail gauge that can transport commercial freight. The southern line is expected to be more economically viable, bringing in a potential \$56.1 billion in revenue from 2017 to 2040. Under this plan Iran is the preferred destination for mineral exports because the route is more efficient and Iran's rail infrastructure is in better condition than Pakistan's.<sup>502</sup>

The northern line would be less economically viable with potential revenues at \$12.6 billion in that same time frame. Both lines facilitate trade with Iran. The northern line would expand trade between the Central Asian Republics and Iran—potentially 3 million metric tons a year from 2017



**In his May 2013 trip** to Afghanistan, Special IG Sopko examines the Afghan rail connection to Uzbekistan. (SIGAR photo)

FIGURE 3.34

HIGH PRIORITY RAIL DESIGN AND REGIONAL CONNECTIVITY REQUIREMENTS - AFGHANISTAN NATIONAL RAILWAY



Note: "Gauge" is the inside distance between rails.

Source: GIROA, The Afghanistan National Railway Plan, 7/1/2013.

to 2040—using Afghanistan as a conduit. Potential for additional commercial rail traffic between Iran, China, and Europe is also possible.<sup>503</sup>

Future developments in U.S. policy toward Iran could, obviously, affect the prospects for both aspects of the rail plan.

## EDUCATION

According to the most recent data available to USAID from the Ministry of Education's Information Management System (EMIS)—SY 1390

(March 2011–March 2012)—Afghanistan has a total of 13,556 primary, lower secondary, and upper secondary schools. Of these 2,204 are girls' schools, 4,097 are boys' schools, and 7,255 are co-educational. Since 2002, USAID has funded construction and refurbishment of 696 schools as well as several teacher-training colleges. Approximately 500 schools were closed in SY 1391 (March 2012–December 2012), mostly in conflict-ridden provinces like Zabul, Helmand, parts of Ghazni, Wardak, Kandahar, and Uruzgan, according to the Ministry of Education. These statistics are not reported in EMIS and thus cannot be verified.<sup>504</sup>

There were approximately 7.6 million students in primary, government lower secondary, and government upper secondary schools, according to SY 1390 EMIS data—4.6 million male and 3 million female. Additionally, there were approximately 77,600 students in government universities—62,800 male and 14,800 female.<sup>505</sup> However, when incorporating all education programs, including general, religious, cross-border, technical, vocational, and literacy students, the total number of students in Afghanistan was reported as more than 8.3 million—5.16 million male and 3.16 million female.<sup>506</sup>

USAID said there is some concern about the reliability of Ministry of Education/EMIS data, citing common school practice to keep student names on record for up to two years after they drop out. In the past, USAID had verified the metrics in its project areas through implementing-partner contractors. With more USAID assistance now going on-budget, USAID relies primarily on Ministry of Education data, verified by a third-party contractor not affiliated with the Afghan government.<sup>507</sup>

There were more than 185,250 teachers—128,600 male and 56,650 female—across all education programs in Afghanistan, according to SY 1390 Ministry of Education data. Most teach general education, followed by Islamic education. According to USAID, main challenges in building Afghanistan's education system include low teacher competency, lack of monitoring and supervision, lack of security, insufficient class materials, and low ministerial capacity and coordination with the provinces.<sup>508</sup>

USAID's ongoing priority programs in the Education sector funded through the ESF this quarter include:

- Basic Education, Literacy and Technical-Vocational Education and Training (BELT)
- Higher Education Project (HEP)
- American University of Afghanistan (AUAF)

USAID selected these three programs as its highest priorities through extensive coordination with the Ministries of Education and Higher Education, and after assessing how best to leverage its strengths relative to other donors so that Afghanistan's national education priorities and needs are met.<sup>509</sup>

## Basic Education, Literacy, and Technical-Vocational Education and Training

Basic Education, Literacy, and Technical-Vocational Education and Training (BELT) is a three-year (December 2011–October 2014), \$173 million, on-budget program that aims to improve access to quality basic education in communities typically beyond the reach of the government. The program provides technical-vocational education and training, as well as literacy programs. As of June 30, 2013, USAID obligated \$20 million and of that, disbursed approximately \$5.8 million, an increase of \$1.1 million from last quarter.<sup>510</sup>

Technical Vocational Education and Training (TVET) is a forthcoming component of BELT. Its objective will be to provide quality education and training to Afghan children to make them more employable, especially girls in rural and remote areas. USAID and the Ministry of Education are still discussing performance milestones—number of schools, teachers, and students that will be targeted—that, if reached, will trigger on-budget disbursement of funds. An implementation letter that would spell out these milestones, means of verification, and the funding level associated with each milestone was to be signed in May 2013, but is delayed.<sup>511</sup>

BELT TVET is another on-budget component of this effort to build the quality and professionalism of TVET educators. It aims to provide graduate, secondary, and post-secondary students with accredited, certified skills, and will set up a national accreditation system for and equivalency for TVET in the Ministry of Education.<sup>512</sup> USAID reported no changes on project goals, successes and challenges this quarter.<sup>513</sup>

However, USAID extended through July 31, 2017, an existing award to the International School of Kabul (ISK) that was scheduled to expire in August 2013. The extension of \$3.1 million brings the total estimated cost of this phase to \$7.3 million. USAID has been supporting ISK since 2005, with an initial infusion of \$9.6 million. ISK is a co-educational, U.S.-accredited, English-language, K-12 institution.<sup>514</sup>

## Higher Education Project

Since the Higher Education Project (HEP) project began in 2006, it has supported the Ministry of Higher Education in executing its National Higher Education Strategic Plan. HEP's latest phase, scheduled to end in August 2013, provides technical assistance to increase ministry capacity through professional training, quality assurance and accreditation, curriculum review, university partnerships, academic policies, and regulation. USAID had previously said that as it operates in an environment replete with logistical and security challenges, HEP does not have significant outcome data to quantify its impact of more than \$13 million spent on the program. USAID reported no changes on project



**A speaker addresses** the audience at AUA's ribbon-cutting ceremony for a new women's center at the university. (U.S. Embassy Kabul photo)

goals, successes and challenges this quarter.<sup>515</sup> It is unclear whether USAID has made any progress in considering an evaluation design for the follow-on HEP (2013–2017) that will include greater attention to outcome measures and data collection.<sup>516</sup> As of June 30, 2013, USAID had obligated \$21.2 million toward HEP and disbursed \$13.4 million, an increase of \$1 million from last quarter.<sup>517</sup>

## American University of Afghanistan

This five-year (August 2008–July 2013), \$42 million program is designed to support development of American University of Afghanistan's (AUA) English-language undergraduate and continuing-education programs, with a concentration on liberal arts. Undergraduate degrees include business administration, information technology and computer science, political science and public administration, and mass communication. AUA also offers a master's degree in business administration. USAID reported no changes on project goals, successes and challenges this quarter.<sup>518</sup> As of June 30, 2013, USAID had obligated approximately \$42.1 million—\$2.5 million more than reported last quarter—and disbursed \$39.7 million—\$2.1 million more than last quarter—toward this effort. USAID is aiming to finalize a new \$40 million, five-year cooperative agreement by July 31, 2013, to ensure no gap in support.<sup>519</sup>

## LABOR

Assessing donor aid and the transition's impact on Afghanistan's labor market is difficult given the limited and inconclusive available data, according to

the World Bank. For example, 2009 figures showed just 6.8% of Afghans were unemployed, but more than 48% were underemployed (working fewer than 35 hours a week, on average). According to World Bank analysis, underemployment is particularly acute in conflict provinces, likely due to temporary jobs created by provincial reconstruction teams (PRT).<sup>520</sup> With the closure of several PRTs, and more planned, unemployment in these areas could rise. As of 2011, the World Bank reported 80% of Afghan males aged 15 or older participated in the labor force, compared to 16% of females.<sup>521</sup>

## HEALTH

Afghanistan has experienced extraordinary improvements in its health indicators since 2002. Although the country still has one of the highest mother-and-child mortality rates in the world, life expectancy has improved by as much as 20 years to an average 62–64 years, according to the USAID-funded Afghanistan Mortality Study 2010.<sup>522</sup> Some observers have questioned the accuracy of that survey, and as of May 2013, the CIA World Factbook gives the Afghan life expectancy from birth as 50.11 years. The World Bank, which calculated life expectancy at 48, did not include Afghanistan Mortality Study figures in its international comparative analysis because the study doesn't contain time-series data for the last 10 years.<sup>523</sup>

From FY 2002 through FY 2011, U.S. on- and off-budget assistance to Afghanistan's health sector totaled \$926 million. On-budget assistance to the Ministry of Public Health (MOPH) includes salary payments to workers in U.S.-funded facilities, medical and non-medical supplies, in-service training, minor renovations of facilities, medical equipment, and monitoring and supervision. Off-budget assistance comprises pharmaceuticals and contraceptives.<sup>524</sup>

USAID's highest-priority programs in the health sector this quarter include:

- Partnership Contracts for Health (PCH) Services
- Health Policy Project (HPP)
- Leadership, Management, Governance Project (LMG)

All three were extended until October 31, 2014.<sup>525</sup>

## Partnership Contracts for Health Services

A six-year (2008–2014), \$218 million on-budget program, Partnership Contracts for Health (PCH) supports the MOPH's efforts to provide the Basic Package of Health Services and the Essential Package of Hospital Services across Afghanistan. The United States supports 545 of these health facilities.<sup>526</sup> USAID reports no changes this quarter to project descriptions, goals, challenges, successes, or metrics. As of June 30, 2013, USAID had obligated \$190.3 million to this program and disbursed \$136.1 million, an increase of \$14.8 million from last quarter.<sup>527</sup>

PCH delivers health care ranging from basic to highly specialized diagnostic and treatment services. It also supports Community Midwifery Education contracts, which help reduce both maternal and child mortality. USAID had previously reported several challenges to better program implementation, including insecurity, an increasing unavailability of air transportation to monitor activities in kinetic areas, political interference in PCH priorities, and shortages of female health staff at all levels.<sup>528</sup>

## Health Policy Project

The Health Policy Project (HPP), a 28-month (June 2012–October 2014), \$18 million program, is building MOPH capacity to address basic health needs through public-private partnerships. USAID reports no changes this quarter to project descriptions, goals, challenges, successes, or metrics. As of June 30, 2013, USAID had obligated \$15.5 million to the program—an increase of \$6.7 million over last quarter. HPP works to expand private-sector capacity to deliver high-quality services, improve HIV care and prevention policies, and promote behavioral change through social-media marketing. Past accomplishments of the HPP include fully staffing a Public Private Partnership Unit within the MOPH, completing an assessment of Jumhoriat Hospital’s commercial viability and value, and providing technical assistance to the Afghanistan Social Marketing Organization’s board of directors. Challenges to implementation included insecurity in provinces, the lack of a legal framework governing public-private partnerships, and private industry’s difficulty in navigating the bureaucratic morass of the Afghan government.<sup>529</sup>

## Leadership, Management, Governance Project

The 26-month (September 2012–October 2014), \$25 million Leadership, Management, Governance (LMG) Project works with the MOPH and the Ministry of Education, at the provincial and central levels to build leadership, management, and governance capacity within Afghanistan’s health and education systems. It also aims to improve transparency and accountability within the MOPH and helps both ministries manage on-budget assistance. As of June 30, 2013, USAID had obligated \$20.7 million, an increase of \$4.4 million for the program.<sup>530</sup>

USAID reported last quarter that all 14 LMG participatory hospitals have gone from controlling no part of their budgets to managing 76–100%. The agency also said these facilities established management committees and formed four provincial maternal and child health committees. The MOPH developed governance guides and an assessment tool for provincial and district health coordination, and trained all 74 departments at the ministry on standardized reporting techniques. USAID reported no specific security threats to the program on a provincial level, but stressed

the need to monitor potential security vacuums in some communities once U.S. forces withdraw.<sup>531</sup>

## PRIVATE SECTOR DEVELOPMENT

The United States is supporting private-sector development through the ESF, TFBSO, and CERP. USAID's priority economic-growth projects, funded through the ESF, include:<sup>532</sup>

- Assistance in Building Afghanistan by Developing Enterprises (ABADE)
- Economic Growth and Governance Initiative (EGGI)
- Trade Accession and Facilitation for Afghanistan (TAFA) I and II

USAID deemed these programs as having the highest probability of creating lasting economic gains in job creation and revenue turnover. Each program area was also considered in relation to strategic plans.<sup>533</sup>

### Assistance in Building Afghanistan by Developing Enterprises

USAID's \$105 million Assistance in Building Afghanistan by Developing Enterprises (ABADE) program is focused on helping productive, Afghan-registered, small-to-medium enterprises add jobs, increase investment, and improve sales of domestic products and services through public-private partnerships. ABADE will support private-sector businesses that offer the best leverage and opportunity for sustained economic growth. Since ABADE's launch in February 2013, five public-private partnerships have been approved and awarded—two of which involve women-owned businesses—and 15 applications are awaiting approval. Additionally, business-outreach and government capacity-building efforts continued this quarter, as did an action plan to support the Business Development Services (BDS) sector began, including two surveys to identify BDS capabilities and unmet demand for such services. No implementation challenges have been reported. As of June 17, 2013, USAID obligated \$17.6 million in Economic Support Funds, and disbursed approximately \$7.5 million.<sup>534</sup>

### Economic Growth and Governance Initiative

The \$92 million Economic Growth and Governance Initiative (EGGI) program aims to strengthen government capacity to conduct more effective public financial management. It provides assistance for national budgeting, tax administration, and revenue generation. Thirty-eight government-program budgetary units developed and submitted their 2012-2013 budgets on time to Budget Committee with EGGI assistance, while EGGI's provincial training program helped 88% of the provincial directorates submit their first-round budgets on time, improving to 98% in the second round.<sup>535</sup>

EGGI also provides Women in Government internships to increase women's civil-service participation to 30%, the Millennium Development

Goal. As of June 5, 2013, 313 women had graduated the internship program, 105 more than reported last quarter. Of those graduates, 67% found full-time employment through EGGI assistance. EGGI is scheduled to conclude in August 2013, and an on-budget follow-on project is planned. As of June 17, 2013, USAID obligated approximately \$88.8 million in Economic Support Funds, and disbursed \$69.8 million.<sup>536</sup>

## Trade Accession and Facilitation for Afghanistan I and II

Parts I and II of Trade Accession and Facilitation for Afghanistan (TAFAs), at a combined cost of \$83.8 million, are designed to generate economic growth, trade, and investment by improving the conditions for international trade and transit for both the government and private sector. TAFAs assist the Afghan government in three areas: trade-policy liberalization, customs reform, and trade facilitation. TAFAs promote the New Silk Road initiative by facilitating Afghanistan's accession to the World Trade Organization (discussed on page 146), developing bilateral and regional trade agreements, and streamlining customs and export procedures.<sup>537</sup>

TAFAs are scheduled to end in August 2013. While a follow-on project is planned, USAID is concerned about whether new implementing partners can provide appropriate TAFAs-level support. As of June 17, 2013, USAID had obligated all \$83.7 million to TAFAs I & II—compared to \$19.8 million reported last quarter—while \$67.1 million has been disbursed, compared to \$4 million last quarter.<sup>538</sup>

## COMMUNICATIONS

Afghanistan's private-sector-led telecommunications sector is growing rapidly and is one of the country's economic success stories. The World Bank expects strong recorded growth for 2012.<sup>539</sup> In 2010/2011, telecom contributed 45% of total tax revenue to the government and is expected to be less susceptible to any future economic contraction.<sup>540</sup> However, a survey of the telecom industry by the Afghanistan Investment Support Agency found that high tax rates were the primary impediment to internet service and mobile network providers, followed by security issues and a shortage of skilled labor.<sup>541</sup>

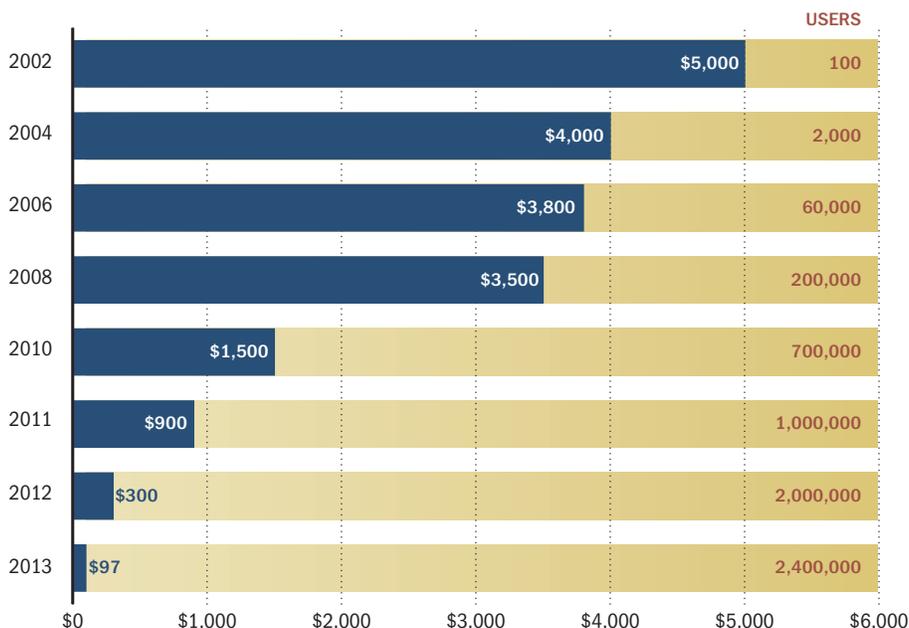
With the steady reduction of internet prices, the Ministry of Communications and Information Technology (MCIT) expects the number of users to reach 2.4 million in 2013. The cost of 1 mbps (megabyte per second) access was \$5,000/month in 2002, dropping to \$97/month in 2013, as shown in Figure 3.35 on the following page.<sup>542</sup>

## SIGAR AUDIT

This quarter, SIGAR initiated an audit to examine USAID and DHS programs designed to enhance the Afghan government's ability to generate customs revenue. As part of this audit, SIGAR will assess whether or not TAFAs I and II achieved the intended outcomes. For more information, see Section 2, page 40.

FIGURE 3.35

PRICE FOR 1MEGABYTE/SECOND INTERNET SERVICE, US\$/MONTH



Note: Until 2008, telecommunications services were only available via satellite. In 2008, fiber optic cable became available. Sources: MCIT, "Internet Price of 1MB/Month," accessed 6/17/2013; MCIT, "Internet Users," accessed 6/17/2013.

## Mobile Money

As of June 30, 2013, USAID has obligated and disbursed almost \$15.2 million on-budget to the MCIT, but currently provides no direct, on-going assistance to the ministry.<sup>543</sup>

However, USAID is providing off-budget assistance to the telecommunications sector through its Mobile Money program, which seeks to increase access to safe, secure financial services through the use of cell phones to store currency, pay for goods, and receive and transfer funds. USAID actively supports both mobile electricity and mobile teacher-salary payments initiatives. This quarter, 200 Afghan teachers in Kabul registered for this service, and 100,000 Etisalat telecom customers in Kabul can now pay their electricity bills by phone. Afghanistan's electric utility company, DABS, expects 200,000 additional customers to be registered by the end of 2013.<sup>544</sup>

USAID's Mobile Solutions team is also designing a program in conjunction with non-profit FHI 360 called Mobile Solutions Technical Assistance and Research, which will provide technical assistance and training to increase access to and use of mobile technologies, including mobile money. Also this quarter, USAID released a study on women's access to mobile technology.<sup>545</sup>

DOD's Telecom Advisory Team (TAT), in coordination with USAID, provides ongoing technical advice and assistance to MCIT, the Afghanistan Telecom Regulatory Agency (ATRA), and telecom industry groups. DOD is helping build capacity at MCIT and ATRA, expand Afghanistan's fiber network and wireless coverage, develop requirements of Afghanistan's satellite slot, and its planning efforts. In April 2013, TAT delivered a draft MOU to the Ministry of Interior on installing cell towers in the 46 most dangerous districts. The hope is that uninterrupted cellular service will promote security and stability in these areas.<sup>546</sup>

**Mobile Money Applications**

Here are some of the mobile money applications that are already being enjoyed in Afghanistan. More applications will soon be offered by your favorite mobile telephone company.

**Electricity Bill Payment**  
Kabul residents can now receive and pay their electricity bill through the mobile phone. No more late bills, no more trips to the bank or electricity company just to pay.

**Salary Payment**  
Teachers can now receive their salaries in full, on time and where they are (delivered to their school) or at a mobile money agent nearest them.

**Money Transfer**  
Sending money can be done in a flash to anyone anywhere in Afghanistan, or beyond.

**Business-to-Business Transactions**  
Moving funds to suppliers or traders just got easier with mobile money transfer.

**Business-to-Government Transactions**  
Fast, easy and transparent way of paying taxes, customs duties, or municipality taxes.

**AMMOA**  
Association of Mobile Money Operators in Afghanistan

www.ammoa.org  
info@ammoa.org  
+93(0) 797649815  
Sarak-E-Hawa Shenasi, Airport Road  
Kabul, Afghanistan

**AMMOA MEMBERS**  
Etisalat, Hawala, ATR, Roshan

**USAID**  
FROM THE AMERICAN PEOPLE

This brochure is made possible by the support of the American People through the United States Agency for International Development (USAID). The contents of this brochure are the sole responsibility of AMMOA and do not necessarily reflect the views of USAID or the United States Government.

**Mobile Money**

*Like money on wings?*

Yes! And more . . .

It's money on the go - *whenever, wherever!*

Send, receive, buy, pay and do other transactions using your mobile phone.

It's *safe, easy, transparent.*

And if you don't have quick access to banks, your mobile phone becomes your *virtual bank.*

Learn how this technology is shaping the financial landscape of Afghanistan ... and why this technology is *perfect for you!*

English version of brochure promoting cell phone money transactions to Afghans. (USAID image)



# 4 OTHER AGENCY OVERSIGHT



# OTHER AGENCY OVERSIGHT CONTENTS

<b>Completed Oversight Activities</b>	<b>180</b>
<b>Ongoing Oversight Activities</b>	<b>184</b>

**Photo on previous page**

A helicopter flyover yields an aerial view of a construction site in Kabul, May 2013.  
(DOD photo)

## OTHER AGENCY OVERSIGHT

SIGAR's enabling legislation requires it to keep the Secretary of State and the Secretary of Defense fully informed about problems relating to the administration of reconstruction programs, and to submit a report to Congress on SIGAR's oversight work and on the status of the U.S. reconstruction effort no later than 30 days after the end of each fiscal quarter. Each quarter, SIGAR requests updates from other agencies on completed and ongoing oversight activities. This section contains these updates.

The descriptions appear as submitted, with minor changes to maintain consistency with other sections of this report: acronyms and abbreviations in place of full names; standardized capitalization, hyphenation, punctuation, and preferred spellings; and third-person instead of first-person construction.

These agencies perform oversight activities in Afghanistan and provide results to SIGAR:

- Department of Defense Office of Inspector General (DOD OIG)
- Department of State Office of Inspector General (State OIG)
- Government Accountability Office (GAO)
- U.S. Army Audit Agency (USAAA)
- U.S. Agency for International Development Office of Inspector General (USAID OIG)

# OTHER AGENCY OVERSIGHT

## COMPLETED OVERSIGHT ACTIVITIES

Table 4.1 lists the six oversight projects related to reconstruction that participating agencies reported as completed this quarter.

TABLE 4.1

RECENTLY COMPLETED OVERSIGHT ACTIVITIES OF OTHER U.S. AGENCIES, AS OF JUNE 30, 2013			
Agency	Report Number	Date Issued	Project Title
DOD OIG	DODIG-2013-095	6/27/2013	Award and Administration of Radio Contracts for the Afghan National Security Forces Need Improvement
DOD OIG	DODIG-2013-093	6/25/2013	DOD Needs to Improve Oversight of the Afghan National Police Training/Mentoring and Logistics Support Contract
DOD OIG	DODIG-2013-094	6/24/2013	Assessment of U.S. and Coalition Efforts to Develop Leaders in the Afghan National Army
DOD OIG	DODIG-2013-081	5/24/2013	Assessment of U.S. Government and Coalition Efforts to Train, Equip, and Advise the Afghan Border Police
GAO	GAO-13-381	4/30/2013	Security Force Assistance: More Detailed Planning and Improved Access to Information Needed to Guide Efforts of Advisor Teams in Afghanistan
GAO	GAO-13-319R	4/1/2013	National Defense: DOD Procurement of Mi-17 Helicopters

Sources: DOD OIG, response to SIGAR data call, 6/20/2013; State OIG, response to SIGAR data call, 6/14/2013; GAO, response to SIGAR data call, 6/22/2013; USAAA, response to SIGAR data call 5/28/2013; USAID OIG, response to SIGAR data call, 6/18/2013.

### U.S. Department of Defense Office of Inspector General

During this quarter, DOD OIG issued four reports related to Afghanistan reconstruction.

#### **Award and Administration of Radio Contracts for the Afghan National Security Forces Need Improvement**

(Report No. DODIG-2013-095, Issued June 27, 2013)

This report is For Official Use Only.

#### **DOD Needs to Improve Oversight of the Afghan National Police Training/Mentoring and Logistics Support Contract**

(Report No. DODIG-2013-093, Issued June 25, 2013)

The Defense Contract Management Agency (DCMA), the NATO Training Mission-Afghanistan/Combined Security Transition Command-Afghanistan (NTM-A/CSTC-A), and Army officials did not implement adequate oversight of the Afghan National Police (ANP) contract. This occurred because DCMA did not coordinate oversight procedures with program or contracting personnel and did not implement quality assurance requirements that DCMA management considered critical to mission success.

Contracting officer's representatives (CORs) for the ANP contract did not conduct effective contractor oversight. This occurred because DCMA personnel did not review COR audit checklists, provide CORs feedback on completed audit checklists, or train CORs on oversight responsibilities.

DCMA and International Security Assistance Force (ISAF) Joint Command officials did not perform adequate oversight of fielded mentors for the ANP contract. This occurred because quality assurance representatives did not always provide training and follow up on audit checklists

received from the CORs. NTM-A/CSTC-A and Red River Army Depot (RRAD) personnel nominated six CORs DOD OIG interviewed who were not effectively providing oversight of the ANP contract. This occurred because NTM-A/CSTC-A personnel developed a memorandum of agreement with RRAD that did not identify appropriate COR qualifications. As a result, contractor performance at ANP training sites where the six RRAD CORs were appointed was not adequately measured and assessed.

In addition, the Army could not determine whether the contractor fully delivered \$439 million in services or provided effective training of the ANP.

## **Assessment of U.S. and Coalition Efforts to Develop Leaders in the Afghan National Army**

(Report No. DODIG-2013-094, Issued June 24, 2013)

Coalition's programs for the Afghan National Army (ANA) leader development were generally effective and on track for transition to the Afghans. The establishment of a non-commissioned officer corps, and the roles and responsibilities accompanying this enlisted leadership position, was not completely embraced by senior ANA and General Staff personnel. The lack of a true merit-based personnel promotion and assignment system negatively impacted the further development of a new generation of ANA leaders.

Among Coalition advisors to the ANA, at both training schools and operational units, there was a wide variation in the selection for assignment and specific advisor training preparation. Coalition Command data assessment practices and categories did not appear to have been updated to reflect the change in mission emphasis from building the ANA to improving its quality.

Of special note was the ANA literacy program. In a country with a very low national literacy rate, this educational program serves not just as an immediate benefit to the ANA, but also eventually the larger nation of Afghanistan by, as one senior officer said, "...allows Afghans to be more discerning."

## **Assessment of U.S. Government and Coalition Efforts to Train, Equip, and Advise the Afghan Border Police**

(Report No. DODIG-2013-081, Issued May 24, 2013)

DOD OIG continues its series of reports on training and equipping of Iraq, Afghan, and Pakistan forces. DOD OIG identified that although work remains to be accomplished, there were several noteworthy areas of progress including Coalition Coordination, Joint Border Coordination Centers, and Ministry of Interior Logistics System Development. In addition, DOD OIG identified progress in Female Border Police Recruitment and Professional Development in the North and in the Development and Use of Afghan Trainers. Despite the progress, DOD OIG also identified areas of concern in planning and execution including Tashkil Authorizations, Funding for Canine Program, and Corruption at Border Crossings.

## **U.S. Department of State Office of Inspector General–Middle East Regional Office**

During this quarter, State OIG issued no reports related to Afghanistan reconstruction.

## **Government Accountability Office**

During this quarter, GAO issued two reports related to Afghanistan reconstruction.

## **Security Force Assistance: More Detailed Planning and Improved Access to Information Needed to Guide Efforts of Advisor Teams in Afghanistan**

(Report No. GAO-13-381, Issued April 30, 2013)

DOD and ISAF have defined the mission and broad goals for Security Force Assistance (SFA) advisor teams. However, teams varied in the extent to which their approaches for developing their Afghan National Security Force (ANSF) units identified activities based on specific objectives or end states that were clearly linked with established goals. SFA guidance states that to be successful, advisors must have an end or goal in mind, and establish objectives that support higher-command plans. Theater commanders have outlined goals aimed at strengthening specific capabilities such as logistics, and it is largely left to the teams to then develop their approach for working with their counterparts. GAO found some advisor teams had developed structured advising approaches drawing from these goals, such as identifying monthly objectives and milestones for their team.

Other teams GAO met with used less structured approaches, such as relying on interactions with ANSF counterparts to identify priorities and using this input to develop activities on an ad hoc basis, rather than as part of a longer-term, more structured approach to achieve broad goals. Officials from several teams stated that the guidance they received lacked specificity regarding desired end states for the development of their ANSF counterpart units. Without a more structured approach with clear linkages between end states, objectives, and milestones that are in support of broad goals for ANSF units, theater commanders cannot be assured that the advisor team activities are making progress toward these goals.

The Army and Marine Corps have been able to fill requests for SFA advisor teams, using various approaches such as tasking non-deployed brigades to form advisor teams or creating teams using personnel already deployed in Afghanistan. According to Army and Marine Corps officials, the ability to substitute an individual at one rank above or below the request has helped the services meet rank and skill requirements. The Army's reliance on brigades to provide a portion of their personnel to form advisor teams has enabled them to meet requirements but resulted in leaving large numbers of personnel at the brigades' home stations. To manage these large rear

detachments, brigades undertook significant planning to ensure that enough stay-behind leadership existed to maintain a sufficient command structure and provide certain training.

The Army and Marine Corps have developed training programs for SFA advisor teams, but teams varied in the extent to which they had specific information to help prepare them for their mission prior to deployment. SFA guidance states that an in-depth understanding of the operational environment and of foreign security force capabilities is critical to planning and conducting effective SFA. Advisor teams may access such information from a variety of sources such as conducting video teleconferences with the teams they will replace, using secure networks to gather information, or sending personnel on predeployment site surveys, although teams varied in the extent to which they were actually able to gain access to these sources. For example, GAO found that while teams had access to a certain secure network at training sites, only some had access at home station, enabling them to shape their training and mission analysis earlier in predeployment training or after training but prior to deploying. Having limited access to this information prior to arriving in Afghanistan may result in advisor teams needing more time after deploying to maximize their impact as advisors.

## **National Defense: DOD Procurement of Mi-17 Helicopters**

(Report No. GAO-13-319R, Issued April 1, 2013)

In summary, DOD's Office of the Secretary of Defense directed the Navy to cancel its competitive solicitation for 21 civilian Mi-17s because Russian authorities told DOD in late 2010 that, in accordance with Russian law, they would sell the helicopters only through Rosoboronexport since they were intended for military end use. Specifically, in response to letters written by the U.S. Ambassador to Russia, the Russian Ministry of Foreign Affairs confirmed to DOD that it considered the Mi-17s to be military because they were for use by the Afghan Air Force, and therefore could be sold only through Rosoboronexport, the sole entity responsible for Russian military exports.

DOD did not assess alternative means for procuring Mi-17s after verifying that Russia would sell the helicopters to the United States only through Rosoboronexport. The Navy's original procurement strategy in 2010 was to purchase civilian Mi-17s and subsequently add weapons to them for use in Afghanistan. However, given the Russian government's determination, DOD officials stated that no alternative approaches to procure the helicopters were available to them as any attempt to procure a new civilian aircraft could be blocked by Rosoboronexport if DOD did not go through them, and purchasing used helicopters posed safety concerns. Although some potential vendors told us that, if awarded a contract, they could provide these aircraft to DOD at a lower cost, an Army analysis determined that the price paid to Rosoboronexport for the Mi-17s was reasonable and fell within the historical range of the unit price paid for similar aircraft.

# OTHER AGENCY OVERSIGHT

DOD determined that the Rosoboronexport contract offered the Army greater access to technical information from the original equipment manufacturer and increased assurance of safety compared to previous Mi-17 contracts. However, the risk of counterfeiting may be similar. The 2011 contract with Rosoboronexport provided Army officials with extensive access to the original equipment manufacturer's facilities and allowed for technical discussions on the aircraft's design, testing, and manufacturing processes. This level of insight enabled the Army to determine that the Russians' process was sufficient by U.S. standards to certify airworthiness. However, both Rosoboronexport and other vendors have purchased new Mi-17s that came from the original equipment manufacturer—a practice used to decrease the risk of counterfeiting. Therefore, GAO found no evidence that shows how Rosoboronexport would decrease the risk of counterfeit parts over other vendors if aircraft were purchased new from the original equipment manufacturer.

## **U.S. Army Audit Agency**

The USAAA did not complete any audits related to Afghanistan reconstruction this quarter.

## **U.S. Agency for International Development Office of Inspector General**

During this quarter, USAID OIG did not complete any reports related to Afghanistan reconstruction.

## **ONGOING OVERSIGHT ACTIVITIES**

As of June 30, 2013, the participating agencies reported 25 ongoing oversight activities related to reconstruction in Afghanistan. The activities reported are listed in Table 4.2 and described in the following sections by agency.

### **Department of Defense Office of Inspector General**

The Department of Defense continues to face many challenges in executing its Overseas Contingency Operations (OCO). The Department of Defense Office of Inspector General (DOD OIG) has identified priorities based on those challenges and high-risks. In FY 2013, DOD OIG is focusing oversight on overseas contingency operations with a majority of resources supporting operations in Afghanistan. DOD OIG focus in Afghanistan continues in the areas of the management and execution of the Afghanistan Security Forces Fund, military construction, safety of personnel, and the administration and oversight of contracts supporting coalition forces. In addition, DOD OIG oversight in Afghanistan will also address matters pertaining to the draw-down of forces in Afghanistan and shifting of operations.

# OTHER AGENCY OVERSIGHT

TABLE 4.2

ONGOING OVERSIGHT ACTIVITIES OF OTHER U.S. AGENCIES, AS OF JUNE 30, 2013			
Agency	Project Number	Date Initiated	Project Title
DOD OIG	D2013-D00SPO-0181.000	6/13/2013	Assessment of U.S. Government Efforts to Transition Security Cooperation and Assistance Activities Supporting the Government of the Islamic Republic of Afghanistan from Department of Defense Authority to Department of State Authority
DOD OIG	D2013-D00SPO-0154.000	4/26/2013	Assessment of the U.S. Military and Coalition Efforts to Develop Effective and Sustainable Healthcare Capability for the Afghan National Police
DOD OIG	D2013-D000AS-0097.000	2/8/2013	Mi-17 Cockpit Modifications Under Task Order W58RGZ-09-D-0130-0102
DOD OIG	D2013-D000AT-0083.000	1/3/2012	Price Reasonableness Determinations for Datron World Communications, Inc. Contracts Awarded by the U.S. Army Contracting Command for the Afghan National Security Forces
DOD OIG	D2013-D00SPO-0087.000	12/18/2012	Assessment of Planning for the Effective Development and Transition of Critical Afghanistan National Security Forces Enablers to Post-2014 Capabilities
DOD OIG	D2013-D000FL-0056.000	12/3/2012	Examination of Department of Defense Execution of North Atlantic Treaty Organization Contributing Countries Donations to Afghanistan National Army Trust Fund for Approval Sustainment Projects as of September 30, 2012
DOD OIG	D2013-D000AS-0052.000	11/1/2012	Shindand Training Contracts
DOD OIG	D2013-D000AS-0001.000	10/5/2012	Surveillance Structure on Contracts Supporting the Afghanistan Rotary Wing Program for the U.S. Transportation Command
DOD OIG	D2012-D000JA-0221.000	9/28/2012	Contract Management and Oversight of Military Construction Projects for the Special Operation Forces Complexes at Bagram Airfield, Afghanistan
DOD OIG	D2012-DT0TAD-0002.000	2/14/2012	Technical Assessment of Military Construction Compliance with Fire Protection Standards of U.S. Controlled and Occupied Facilities in Afghanistan
DOD OIG	D2012-DT0TAD-0001.000	2/14/2012	Technical Assessment of Military Construction Compliance with Electrical Standards of U.S. Controlled and Occupied Facilities in Afghanistan
DOD OIG	D2012-D000AS-0075.000	12/7/2011	Task Orders for Mi-17 Overhauls and Cockpit Modifications
State OIG-MERO	13AUD082	6/13/2013	Audit of Bureau of International Narcotics and Law Enforcement Affairs Counternarcotics Assistance to Afghanistan
State OIG-MERO	13AUD52	2/2013	Audit of Bureau of Diplomatic Security Worldwide Protective Services Contract Task Orders 2, 9, and 11 for Movement and Static Security Services in Jerusalem and Afghanistan
State OIG-MERO	12AUD79	12/2012	Audit of the Department of State Transition Planning for a Reduced Military Presence in Afghanistan
State OIG- MERO	12AUD30	12/2011	Audit of the Bureau of International Narcotics and Law Enforcement Affairs' Correction System Support Program in Afghanistan
GAO	121119	3/6/2013	Department of State and U.S. Agency for International Development Contingency Contracting
GAO	351798	1/18/2013	Afghanistan Equipment Reduction and Base Closures
GAO	320962	1/14/2013	Afghan Insider Attacks
USAID OIG	FF100113	4/1/2013	Audit of USAID/Afghanistan's Electoral Reform and Civic Advocacy Program
USAID OIG	FF100712	11/28/2012	Audit of USAID/Afghanistan's Transition Plans
USAID OIG	FF101412	10/14/2012	Review of USAID/Afghanistan's Use of Third Country National Employees
USAID OIG	FF100612	10/9/2012	Audit of USAID/Afghanistan's Management Controls over Premium Pay
USAID OIG	FF101112	5/1/2012	Audit of USAID/Afghanistan's Kandahar Power Initiative
USAID OIG	FF101712	10/25/2012	Review of USAID/Afghanistan's Use of the Commander's Emergency Response Program Funds for Selected Projects

Sources: DOD OIG, response to SIGAR data call, 6/20/2013; State OIG, response to SIGAR data call, 6/14/2013; GAO, response to SIGAR data call, 6/22/2013; USAAA, response to SIGAR data call 5/28/2013; USAID OIG, response to SIGAR data call, 6/18/2013.

# OTHER AGENCY OVERSIGHT

As billions of dollars continue to be spent in Afghanistan, a top priority will continue to be the monitoring and oversight of acquisition and contracting processes focused on training, equipping, and sustaining Afghanistan Security Forces (ASF). DOD OIG planned oversight efforts address the administration and oversight of contracts for equipping ASF, such as rotary-wing aircraft, airplanes, ammunition, radios, and night-vision devices. DOD OIG will also continue to review and assess the Department's efforts in managing and executing contracts to train the Afghan National Police.

As military construction continues in Afghanistan to build or renovate new living areas, dining and recreation facilities, medical clinics, base expansions, and police stations, DOD OIG will continue to provide aggressive oversight of contract administration and military construction projects. DOD OIG will also continue to focus on the accountability of property, such as contractor-managed government-owned property and Army high-demand items; the Department's efforts to strengthen institutional capacity at the Afghan Ministry of Defense; and financial management controls.

DOD OIG led Southwest Asia Joint Planning Group coordinates and deconflicts federal and DOD OCO-related oversight activities. DOD OIG, working with the SIGAR as well as fellow Inspectors General and Defense oversight community members, has begun to develop the Fiscal Year 2014 strategic audit plan for the oversight community working in Afghanistan. A key theme in the FY 2014 plan development is the anticipated force restructuring/drawdown of operations in Afghanistan.

## **Office of the Deputy Inspector General for Auditing**

Ongoing Operation Enduring Freedom-related oversight addresses the safety of personnel with regard to construction efforts; force protection programs for U.S. personnel; accountability of property; improper payments; contract administration and management including construction projects; oversight of the contract for training the Afghan police; logistical distribution within Afghanistan; retrograde operations, health care; and acquisition planning and controls over funding for ASF.

## **Assessment of U.S. Government Efforts to Transition Security Cooperation and Assistance Activities Supporting the Government of the Islamic Republic of Afghanistan from Department of Defense Authority to Department of State Authority**

(Project No. 2013-D00SPO-0181.000, Initiated June 13, 2013)

DOD OIG is assessing plans and activities that have been accomplished or implemented thus far to transfer the security cooperation and assistance activities in Afghanistan from DOD to State authority, and to make recommendations to facilitate or improve the transition of these functions to State in accordance with existing security cooperation guidance and security

assistance regulations that may pertain. Specific objectives are to determine whether:

- a. U.S. government goals; objectives, plans, and guidance are sufficient, issued and operative for the transition of the CSTC-A security assistance activities in Afghanistan from DOD authority to a security cooperation organization under Department of State authority.
- b. Ongoing efforts by U.S. forces to provide security assistance to the Government of Afghanistan are adversely impacted by the implementation of drawdown plans for U.S. Forces-Afghanistan and the transition of ISAF and ISAF Joint Command (IJC) to a command organization under NATO authority.

## **Assessment of the U.S. Military and Coalition Efforts to Develop Effective and Sustainable Healthcare Capability for the Afghan National Police**

(Project No. D2013-D00SPO-0154.000, Initiated April 26, 2013)

DOD OIG is assessing the progress of U.S. and Coalition efforts to develop effective and sustainable healthcare capability in support of the ANP.

Specifically, the assessment will determine whether:

- plans to develop effective and sustainable healthcare services to the ANP are sufficiently comprehensive, coordinated with the Government of Afghanistan, and being implemented so as to meet the timeline for transition goals,
- advisory resources are sufficient and appropriate in order to develop the healthcare services necessary to support the medical needs of the ANP, and
- developmental efforts are on schedule and effective in ensuring there is adequate medical capability to provide proper medical support to ANP personnel from the point of injury to the next required level of care.

## **Mi-17 Cockpit Modifications under Task Order W58RGZ-09D-0130-0102**

(Project No. D2013-D000AS-0097.000, Initiated February 8, 2013)

DOD OIG is conducting a follow-on audit to the Audit of Task Orders for Mi-17 Overhauls and Cockpit Modifications (Project No. D2012-D000AS-0075.000). In this follow-on audit, DOD OIG is determining whether DOD officials properly awarded and administered indefinite-delivery, indefinite-quantity contract W58RGZ-09-D-0130, Task Order 0102, for the modification of DOD-owned Mi-17 variant aircraft in accordance with federal and DOD regulations and policies. Under the prior project, DOD OIG reviewed the procurement of overhaul services and parts for Pakistan-owned Mi-17 variant aircraft, awarded by modification to Task Order 0102.

## **Price Reasonableness Determinations for Datron World Communications, Inc. Contracts Awarded by the U.S. Army Contracting Command for the Afghan National Security Forces**

(Project No. 2013-D000AT-0083.000, Initiated January 3, 2013)

DOD OIG is determining whether the U.S. Army Contracting Command obtained fair and reasonable prices for communications equipment and components procured from Datron World Communications Inc. for the Afghan National Security Forces (ANSF). This project is the second in a series of audits focusing on Datron World Communications Inc. contracts. The first audit in this series is D2012-D000AT-0129.000.

## **Assessment of Planning for the Effective Development and Transition of Critical Afghanistan National Security Forces Enablers to Post-2014 Capabilities**

(Project No. D2013-D00SPO-0087.000, Initiated December 18, 2012)

DOD OIG is determining whether U.S. and Coalition goals, objectives, plans, guidance, and resources are sufficient to effectively develop, manage, and transition critical ANSF operational enablers to ANA and ANP capabilities. In addition DOD OIG is determining what critical enabling task capabilities will require further development beyond the end of 2014. Also, DOD OIG is determining whether mitigating actions are planned and what they consist of for any critical ANSF enabling capabilities that are expected to be or may still be under development after 2014. In essence, DOD OIG will review what plans and activities are in place to mature enabling force functions deemed critical for the ANSF to conduct and sustain independent operations.

## **Examination of Department of Defense Execution of North Atlantic Treaty Organization Contributing Countries Donations to Afghanistan National Army Trust Fund for Approval Sustainment Projects as of September 30, 2012**

(Project No. D2013-D000FL-0056.000, Initiated December 3, 2012)

The Under Secretary of Defense (Comptroller)/Chief Financial Officer, DOD [USD(C)/CFO] requested this examination. The USD(C)/CFO plans to assert that the following schedules are fairly presented in all material respects:

- Schedule of Contributing Country Donations to Afghanistan National Army Trust Fund Approved Sustainment Projects as of September 30, 2012
- Schedule of Financial Status of Contributing Country Donations to Afghanistan National Army Trust Fund Transferred to the United States of America for Approved Sustainment Projects as of September 30, 2012

DOD OIG is determining whether the USD(C)/CFO fairly presented receipts and expenditures of funds contributed to the Afghanistan National Army Trust Fund and transferred to DOD for execution under the terms of the Memorandum of Understanding Among the United

States of America and North Atlantic Treaty Organization and Supreme Headquarters Allied Powers-Europe Regarding Management and Administration of Trust Fund Donations for Support and Sustainment of the Afghanistan National Army. In addition, DOD OIG will review internal controls over financial reporting and compliance with laws and regulations as it relates to its engagement objective. The USD(C)/CFO is responsible for the aforementioned schedules. DOD OIG's responsibility is to express an opinion based on its examination.

## **Shindand Training Contracts**

(Project No. D2013-D000AS-0052.000, Initiated November 1, 2012)

DOD OIG is determining whether pilot-training contracts for fixed-wing and rotary-wing aircraft at Shindand Air Base are properly managed and administered in accordance with federal and DOD requirements. Specifically, DOD OIG will determine whether contract requirements are being met and evaluate the effectiveness of contract oversight.

## **Surveillance Structure on Contracts Supporting the Afghanistan Rotary Wing Program for the U.S. Transportation Command**

(Project No. D2013-D000AS-0001.000, Initiated October 5, 2012)

DOD OIG is conducting its second in a series of audits on the Afghanistan rotary-wing transport contracts. The overall objective is to determine whether U.S. Transportation Command and U.S. Central Command officials have adequate oversight of processes and procedures for the contracts. The first audit was "Afghanistan Rotary Wing Transport Contracts for the U.S. Transportation Command" (D2012-D000AS-0031.000).

## **Contract Management and Oversight of Military Construction Projects for the Special Operation Forces Complexes at Bagram Airfield, Afghanistan**

(Project No. D2012-D000JA-0221.000, Initiated September 28, 2012)

DOD OIG is determining whether DOD is providing effective oversight of military construction projects in Afghanistan. Specifically, DOD OIG will determine whether the U.S. Army Corps of Engineers is properly monitoring contractor performance and adequately performing quality-assurance oversight responsibilities for construction projects for Special Operations Forces at Bagram Airfield.

## **Technical Assessment of Military Construction Compliance with Fire Protection Standards of U.S. Controlled and Occupied Facilities in Afghanistan**

(Project No. D2012-DT0TAD-0002.000, Initiated February 14, 2012)

DOD OIG is determining whether fire suppression systems in selected U.S. controlled and occupied facilities in Afghanistan are in compliance with

# OTHER AGENCY OVERSIGHT

the Unified Facilities Criteria and National Fire Protection Association standards. DOD OIG will assess U.S. controlled and occupied facilities at Kandahar Air Field, Bagram Air Field, Camp Eggers, and other locations as necessary. DOD OIG will also assess the status of DOD OIG recommended corrective actions from previous fire protection systems assessments. This project will be enjoined with the assessment of electrical standards (Project No. D2012-DT0TAD-0001.000). A report is expected in July to address electrical and fire protection systems at Kandahar and Bagram Airfields.

## **Technical Assessment of Military Construction Compliance with Electrical Standards of U.S. Controlled and Occupied Facilities in Afghanistan**

(Project No. D2012-DT0TAD-0001.000, Initiated February 14, 2012)

DOD OIG is determining whether electrical systems in selected U.S. controlled and occupied facilities in Afghanistan are in compliance with Unified Facilities Criteria and National Electrical Code standards. DOD OIG will assess U.S. controlled and occupied facilities at Kandahar Air Field, Bagram Air Field, Camp Eggers, and other locations as necessary. DOD OIG will also assess the status of DOD OIG recommended corrective actions from previous electrical system assessments. This project will be enjoined with the assessment of fire protection systems standards (Project No. D2012-DT0TAD-0002.000). A report is expected in July to address electrical and fire protection systems at Kandahar and Bagram Airfields. The second report will address Kabul Base Cluster.

## **Task Orders for Mi-17 Overhauls and Cockpit Modifications**

(Project No. D2012-D000AS-0075.000, Initiated December 7, 2011)

DOD OIG is determining whether DOD officials properly awarded and administered task orders for the overhaul and modification of Mi-17 aircraft in accordance with federal and DOD regulations and policies. Contracting officers issued the task orders under IDIQ contract number W58RGZ-09-D-0130.

## **Department of State Office of Inspector General–Middle East Regional Office**

State OIG initiated one new project this quarter related to Afghanistan reconstruction.

## **Audit of Bureau of International Narcotics and Law Enforcement Affairs Counternarcotics Assistance to Afghanistan**

(Project No. 13AUD082, Initiated June 2013)

The audit objective is to evaluate the management and oversight of the Bureau of International Narcotics and Law Enforcement Affairs (INL) counternarcotics program for Afghanistan, including whether INL has

achieved intended and sustainable outcomes and whether INL has applied adequate internal controls over the administration of direct assistance for the Afghanistan counternarcotics program.

## **Audit of Bureau of Diplomatic Security Worldwide Protective Services Contract Task Orders 2, 9, and 11 for Movement and Static Security Services in Jerusalem and Afghanistan**

(Project No. 13AUD52, Initiated February 2013)

The overall audit objective is to determine the effectiveness of the Department's management and oversight of the WPS Contract Task Orders 2, 9, and 11. Specifically, the audit team will determine whether the contractor is performing in accordance with contract terms and conditions, the contractor's work is adequately monitored, and invoice review and approval procedures are in place to ensure accuracy and completeness of costs.

## **Audit of the Department of State Transition Planning for a Reduced Military Presence in Afghanistan**

(Project No. 12AUD79, Initiated December 2012)

The overall audit objective is to evaluate the Department's planning for the transition from a predominately military to a civilian-led mission in Afghanistan. Specifically, OIG will determine whether the Department has adequately defined its mission and support requirements, evaluated its personnel and funding needs, and integrated its planning with the Department of Defense and other relevant U.S. agencies, the Government of Afghanistan, and other non-U.S. government agencies. OIG will also determine whether planning has incorporated lessons learned from the transition in Iraq.

## **Audit of the Bureau of International Narcotics and Law Enforcement Affairs' Correction System Support Program in Afghanistan**

(Project No. 12AUD30, Initiated December 2011)

The audit objective is to evaluate the effectiveness of the INL Correction System Support Program (CSSP) in building a safe, secure, and humane prison system that meets international standards and Afghan cultural requirements. Specifically, OIG will evaluate whether INL is achieving intended and sustainable results through the following CSSP components: training and mentoring; capacity building; Counter-Narcotics Justice Center and Judicial Security Unit compound operations and maintenance; Pol-i-Charkhi management and stabilization team; Central Prison Directorate engagement and reintegration team; and Kandahar expansion and support team.

# OTHER AGENCY OVERSIGHT

## Government Accountability Office

### **Department of State and U.S. Agency for International Development Contingency Contracting**

(Project No. 121119, Initiated March 6, 2013)

The Department of State (State) and USAID have relied extensively on contractors in Iraq and Afghanistan. While the use of contractors in such contingency operations is not new, GAO and others have found that State and USAID experienced challenges managing contracts in these operations. The project will ask, to what extent have State and USAID: (1) assessed their organizational structures related to contracting for contingency operations and determined whether related changes are needed; (2) assessed their contract award and management policies for contingency operations and determined whether changes to those policies are needed; and (3) assessed their workforces, including reliance on contractors, for contingency operations and determined whether changes are needed.

### **Afghanistan Equipment Reduction and Base Closures**

(Project No. 351798, Initiated January 18, 2013)

DOD has stated that it will cost at least \$5.7 billion to draw down an estimated 90,000 containers of material and 50,000 vehicles from Afghanistan. Given the large number of bases and difficult conditions in Afghanistan, an efficient and cost-effective drawdown will likely depend on DOD knowing how much equipment it has in Afghanistan and making cost-effective decisions about its disposition. Key Questions: To what extent (1) has DOD implemented base-closure procedures, including the accountability of equipment, to meet command-established objectives and timelines? (2) Are command-established objectives and timelines for the Afghanistan equipment drawdown supported by DOD facilities and processes? (3) Is DOD using cost and other information to help ensure it is making cost-effective disposition decisions?

### **Afghan Insider Attacks**

(Project No. 320962, Initiated January 14, 2013)

ANSF personnel and impersonators have attacked DOD personnel repeatedly since 2007. GAO reported in April 2012 on steps DOD, NATO, and ANSF were taking to track attacks, identify and address their causes, and develop safeguards to protect DOD personnel. The pace of attacks has since accelerated, with the number in 2012 exceeding the total from prior years. Key Questions: (1) To what extent have DOD, NATO, and ANSF identified the causes of attacks by ANSF and impersonators on DOD personnel? (2) What additional safeguards against attacks, if any, have they established since the 2012 review and how have they been implemented? (3) What progress, if any, has DOD made in obtaining access to the Afghan government's biometric and background information on ANSF candidates and personnel?

## **U.S. Army Audit Agency**

This quarter, the USAAA has no ongoing audits related to reconstruction initiatives.

## **U.S. Agency for International Development Office of Inspector General**

### **Audit of USAID/Afghanistan's Electoral Reform and Civic Advocacy Program**

(Project No. FF100113, Initiated April 1, 2013)

Audit Objectives:

- To determine whether USAID's assistance strengthened the ability of the Government of the Islamic Republic of Afghanistan institutions, Afghan civil society, and other organizations to enable credible, inclusive, and transparent presidential and provincial council elections in 2014.
- To determine if USAID's assistance contributed to Afghan solutions to the longer-term issues identified in the OIG's previous audit of elections assistance (Report No. F-306-11-003-P, June 19, 2011).

### **Audit of USAID/Afghanistan's Transition Plans**

(Project No. FF100712, Initiated November 28, 2012)

Objective: Does USAID/Afghanistan have plans to address contingencies related to the U.S. Government's transition in Afghanistan?

### **Review of USAID/Afghanistan's Use of Third Country National Employees**

(Project No. FF101412, Initiated October 14, 2012)

Objective: Determine if USAID/Afghanistan is employing third-country nationals in accordance with U.S. government strategy for Afghanistan, and with applicable laws and regulations.

### **Audit of USAID/Afghanistan's Management Controls Over Premium Pay**

(Project No. FF100612, Initiated October 9, 2012)

Objective: To determine if USAID/Afghanistan is using sufficient management controls over the submission, authorization, approval, and certification of premium-pay benefits for its staff in accordance with federal time-and-attendance policies and procedures.

# OTHER AGENCY OVERSIGHT

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## **Audit of USAID/Afghanistan's Kandahar Power Initiative**

(Project No. FF101112, Initiated May 1, 2012)

Objective: Did USAID/Afghanistan adequately manage performance, plan for sustainability, and comply with environmental requirements in its management of the Kandahar Helmand Power Project.

## **Review of USAID/Afghanistan's Use of the Commander's Emergency Response Program Funds for Selected Projects**

(Project No. FF101712, Initiated October 25, 2012)

Objective: To determine whether the Commander's Emergency Response Program (CERP) funds distributed by U.S. Forces-Afghanistan to USAID for specific projects were used for their intended purposes, and were in compliance with applicable laws and regulations.

# OTHER AGENCY OVERSIGHT

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### **The Official Seal of SIGAR**

The Official Seal of SIGAR represents the coordination of efforts between the United States and Afghanistan to provide accountability and oversight of reconstruction activities. The phrase along the top side of the seal's center is in Dari and reads "SIGAR." The phrase along the bottom side of the seal's center is in Pashtu and has the same meaning.

# APPENDICES AND ENDNOTES



# APPENDICES

## APPENDIX A

### CROSS-REFERENCE OF REPORT TO STATUTORY REQUIREMENTS

This appendix cross-references the pages of this report to the quarterly reporting and related requirements under SIGAR’s enabling legislation, the National Defense Authorization Act for Fiscal Year 2008, P.L. 110-181, § 1229 (Table A.1).

TABLE A.1

<b>CROSS-REFERENCE TO SIGAR QUARTERLY REPORTING REQUIREMENTS UNDER P.L. 110-181, § 1229</b>			
<b>Public Law Section</b>	<b>SIGAR Enabling Language</b>	<b>SIGAR Action</b>	<b>Report Section</b>
<b>Purpose</b>			
Section 1229(a)(3)	To provide for an independent and objective means of keeping the Secretary of State and the Secretary of Defense fully and currently informed about problems and deficiencies relating to the administration of such programs and operations and the necessity for and progress on corrective action.	Ongoing; quarterly report	Full report
<b>Supervision</b>			
Section 1229(e)(1)	The Inspector General shall report directly to, and be under the general supervision of, the Secretary of State and the Secretary of Defense	Report to the Secretary of State and the Secretary of Defense	Full report
<b>Duties</b>			
Section 1229(f)(1)	<b>OVERSIGHT OF AFGHANISTAN RECONSTRUCTION –</b> It shall be the duty of the Inspector General to conduct, supervise, and coordinate audits and investigations of the treatment, handling, and expenditure of amounts appropriated or otherwise made available for the reconstruction of Afghanistan, and of the programs, operations, and contracts carried out utilizing such funds, including subsections (A) through (G) below.	Review appropriated/ available funds  Review programs, operations, contracts using appropriated/ available funds	Full report
Section 1229(f)(1)(A)	The oversight and accounting of the obligation and expenditure of such funds	Review obligations and expenditures of appropriated/ available funds	SIGAR Oversight Funding
Section 1229(f)(1)(B)	The monitoring and review of reconstruction activities funded by such funds	Review reconstruction activities funded by appropriations and donations	SIGAR Oversight
Section 1229(f)(1)(C)	The monitoring and review of contracts funded by such funds	Review contracts using appropriated and available funds	Note 1
Section 1229(f)(1)(D)	The monitoring and review of the transfer of such funds and associated information between and among departments, agencies, and entities of the United States, and private and nongovernmental entities	Review internal and external transfers of appropriated/ available funds	Appendix B
Section 1229(f)(1)(E)	The maintenance of records on the use of such funds to facilitate future audits and investigations of the use of such fund[s]	Maintain audit records	SIGAR Oversight Appendix C Appendix D
Section 1229(f)(1)(F)	The monitoring and review of the effectiveness of United States coordination with the Governments of Afghanistan and other donor countries in the implementation of the Afghanistan Compact and the Afghanistan National Development Strategy	Monitoring and review as described	Audits

# APPENDICES

TABLE A.1 (CONTINUED)

<b>CROSS-REFERENCE TO SIGAR QUARTERLY REPORTING REQUIREMENTS UNDER P.L. 110-181, § 1229</b>			
<b>Public Law Section</b>	<b>SIGAR Enabling Language</b>	<b>SIGAR Action</b>	<b>Report Section</b>
Section 1229(f)(1)(G)	The investigation of overpayments such as duplicate payments or duplicate billing and any potential unethical or illegal actions of Federal employees, contractors, or affiliated entities, and the referral of such reports, as necessary, to the Department of Justice to ensure further investigations, prosecutions, recovery of further funds, or other remedies.	Conduct and reporting of investigations as described	Investigations
Section 1229(f)(2)	OTHER DUTIES RELATED TO OVERSIGHT – The Inspector General shall establish, maintain, and oversee such systems, procedures, and controls as the Inspector General considers appropriate to discharge the duties under paragraph (1)	Establish, maintain, and oversee systems, procedures, and controls	Full report
Section 1229(f)(3)	DUTIES AND RESPONSIBILITIES UNDER INSPECTOR GENERAL ACT OF 1978 – In addition, . . . the Inspector General shall also have the duties and responsibilities of inspectors general under the Inspector General Act of 1978	Duties as specified in Inspector General Act	Full report
Section 1229(f)(4)	COORDINATION OF EFFORTS – The Inspector General shall coordinate with, and receive the cooperation of, each of the following: (A) the Inspector General of the Department of Defense, (B) the Inspector General of the Department of State, and (C) the Inspector General of the United States Agency for International Development	Coordination with the inspectors general of DoD, DoS, and USAID	Other Agency Oversight
<b>Federal Support and Other Resources</b>			
Section 1229(h)(5)(A)	ASSISTANCE FROM FEDERAL AGENCIES – Upon request of the Inspector General for information or assistance from any department, agency, or other entity of the Federal Government, the head of such entity shall, insofar as is practicable and not in contravention of any existing law, furnish such information or assistance to the Inspector General, or an authorized designee	Expect support as requested	Full report
Section 1229(h)(5)(B)	REPORTING OF REFUSED ASSISTANCE – Whenever information or assistance requested by the Inspector General is, in the judgment of the Inspector General, unreasonably refused or not provided, the Inspector General shall report the circumstances to the Secretary of State or the Secretary of Defense, as appropriate, and to the appropriate congressional committees without delay.	None reported	N/A
<b>Reports</b>			
Section 1229(i)(1)	QUARTERLY REPORTS – Not later than 30 days after the end of each fiscal-year quarter, the Inspector General shall submit to the appropriate committees of Congress a report summarizing, for the period of that quarter and, to the extent possible, the period from the end of such quarter to the time of the submission of the report, the activities during such period of the Inspector General and the activities under programs and operations funded with amounts appropriated or otherwise made available for the reconstruction of Afghanistan. Each report shall include, for the period covered by such report, a detailed statement of all obligations, expenditures, and revenues associated with reconstruction and rehabilitation activities in Afghanistan, including the following –	Report – 30 days after the end of each calendar quarter  Summarize activities of the Inspector General  Detailed statement of all obligations, expenditures, and revenues	Full report Appendix B

# APPENDICES

TABLE A.1 (CONTINUED)

<b>CROSS-REFERENCE TO SIGAR QUARTERLY REPORTING REQUIREMENTS UNDER P.L. 110-181, § 1229</b>			
<b>Public Law Section</b>	<b>SIGAR Enabling Language</b>	<b>SIGAR Action</b>	<b>Report Section</b>
Section 1229(i)(1)(A)	Obligations and expenditures of appropriated/donated funds	Obligations and expenditures of appropriated/donated funds	Appendix B
Section 1229(i)(1)(B)	A project-by-project and program-by-program accounting of the costs incurred to date for the reconstruction of Afghanistan, together with the estimate of the Department of Defense, the Department of State, and the United States Agency for International Development, as applicable, of the costs to complete each project and each program	Project-by-project and program-by-program accounting of costs. List unexpended funds for each project or program	Funding Note 1
Section 1229(i)(1)(C)	Revenues attributable to or consisting of funds provided by foreign nations or international organizations to programs and projects funded by any department or agency of the United States Government, and any obligations or expenditures of such revenues	Revenues, obligations, and expenditures of donor funds	Funding
Section 1229(i)(1)(D)	Revenues attributable to or consisting of foreign assets seized or frozen that contribute to programs and projects funded by any U.S. government department or agency, and any obligations or expenditures of such revenues	Revenues, obligations, and expenditures of funds from seized or frozen assets	Funding
Section 1229(i)(1)(E)	Operating expenses of agencies or entities receiving amounts appropriated or otherwise made available for the reconstruction of Afghanistan	Operating expenses of agencies or any organization receiving appropriated funds	Funding Appendix B
Section 1229(i)(1)(F)	In the case of any contract, grant, agreement, or other funding mechanism described in paragraph (2)* – (i) The amount of the contract or other funding mechanism; (ii) A brief discussion of the scope of the contract or other funding mechanism; (iii) A discussion of how the department or agency of the United States Government involved in the contract, grant, agreement, or other funding mechanism identified and solicited offers from potential contractors to perform the contract, grant, agreement, or other funding mechanism, together with a list of the potential individuals or entities that were issued solicitations for the offers; and (iv) The justification and approval documents on which was based the determination to use procedures other than procedures that provide for full and open competition	Describe contract details	Note 1
Section 1229(i)(3)	<b>PUBLIC AVAILABILITY</b> – The Inspector General shall publish on a publicly available Internet website each report under paragraph (1) of this subsection in English and other languages that the Inspector General determines are widely used and understood in Afghanistan	Publish report as directed at <a href="http://www.sigar.mil">www.sigar.mil</a>  Dari and Pashtu translation in process	Full report
Section 1229(i)(4)	<b>FORM</b> – Each report required under this subsection shall be submitted in unclassified form, but may include a classified annex if the Inspector General considers it necessary	Publish report as directed	Full report

# APPENDICES

TABLE A.1 (CONTINUED)

<b>CROSS-REFERENCE TO SIGAR QUARTERLY REPORTING REQUIREMENTS UNDER P.L. 110-181, § 1229</b>			
<b>Public Law Section</b>	<b>SIGAR Enabling Language</b>	<b>SIGAR Action</b>	<b>Report Section</b>
Section 1229(j)(1)	Inspector General shall also submit each report required under subsection (i) to the Secretary of State and the Secretary of Defense.	Submit quarterly report	Full report

Note 1: Although this data is normally made available on SIGAR's website ([www.sigar.mil](http://www.sigar.mil)), the data SIGAR has received is in relatively raw form and is currently being reviewed, analyzed, and organized for all future SIGAR purposes.

\* Covered "contracts, grants, agreements, and funding mechanisms" are defined in paragraph (2) of Section 1229(i) of P.L. No. 110-181 as being—

"any major contract, grant, agreement, or other funding mechanism that is entered into by any department or agency of the United States Government that involves the use of amounts appropriated or otherwise made available for the reconstruction of Afghanistan with any public or private sector entity for any of the following purposes: To build or rebuild physical infrastructure of Afghanistan.

To establish or reestablish a political or societal institution of Afghanistan.

To provide products or services to the people of Afghanistan."

# APPENDICES

## APPENDIX B

### U.S. FUNDS FOR AFGHANISTAN RECONSTRUCTION (\$ MILLIONS)

Table B.1 lists funds appropriated for Afghanistan reconstruction by program, per year, as of June 30, 2013.

TABLE B.1

U.S. FUNDING SOURCES	AGENCY	TOTAL	FY 2002
<b>SECURITY</b>			
Afghanistan Security Forces Fund (ASFF)	DOD	52,776.72	0.00
Train & Equip (DOD)	DOD	440.00	0.00
Foreign Military Financing (FMF)	State	1,059.14	57.26
International Military Education and Training (IMET)	State	13.32	0.18
NDA Section 1207 Transfer	Other	9.90	0.00
<b>Total - Security</b>		<b>54,299.08</b>	<b>57.44</b>
<b>GOVERNANCE &amp; DEVELOPMENT</b>			
Commander's Emergency Response Program (CERP)	DOD	3,639.00	0.00
Afghanistan Infrastructure Fund (AIF)	DOD	1,024.00	0.00
Task Force for Business and Stability Operations (TFBSO)	DOD	684.59	0.00
Economic Support Fund (ESF)	USAID	16,653.68	117.51
Development Assistance (DA)	USAID	885.24	18.30
Afghanistan Freedom Support Act (AFSA)	DOD	550.00	0.00
Child Survival & Health (CSH + GHAI)	USAID	563.00	7.52
Commodity Credit Corp (CCC)	USAID	31.65	7.48
USAID (other)	USAID	48.48	0.00
Non-Proliferation, Antiterrorism, Demining & Related (NADR)	State	606.29	44.00
Provincial Reconstruction Team Advisors	USDA	5.70	0.00
Treasury Technical Assistance	Treasury	4.45	0.90
<b>Total - Governance &amp; Development</b>		<b>24,696.09</b>	<b>195.71</b>
<b>COUNTER-NARCOTICS</b>			
International Narcotics Control & Law Enforcement (INCLE)	State	4,147.05	60.00
Drug Interdiction & Counter-Drug Activities (DOD CN)	DOD	2,640.62	0.00
Drug Enforcement Administration (DEA)	DOJ	127.37	0.58
<b>Total - Counter-Narcotics</b>		<b>6,915.04</b>	<b>60.58</b>
<b>HUMANITARIAN</b>			
P.L. 480 Title I	USDA	5.00	0.00
P.L. 480 Title II	USAID	903.69	159.50
Disaster Assistance (IDA)	USAID	515.67	197.09
Transition Initiatives (TI)	USAID	36.26	8.07
Migration & Refugee Assistance (MRA)	State	834.84	135.47
Voluntary Peacekeeping (PKO)	State	69.33	23.93
Emergency Refugee & Migration Assistance (ERMA)	State	25.20	25.00
Food for Progress	USDA	109.49	0.00
416(b) Food Aid	USDA	95.18	46.46
Food for Education	USDA	50.49	0.00
Emerson Trust	USDA	22.40	0.00
<b>Total - Humanitarian</b>		<b>2,667.54</b>	<b>595.52</b>
<b>INTERNATIONAL AFFAIRS OPERATIONS</b>			
Oversight		231.30	0.00
Other		7,757.00	155.60
<b>Total - International Affairs Operations</b>		<b>7,988.30</b>	<b>155.60</b>
<b>TOTAL FUNDING</b>		<b>96,566.04</b>	<b>1,064.85</b>

Notes: Numbers have been rounded. FY 2013 figures for State and USAID accounts reflect draft allocation amounts and are subject to final Congressional approval. DOD reprogrammed \$1 billion from FY 2011 ASFF. DOD reprogrammed \$1 billion from FY 2012 ASFF. PL. 113-6 rescinded \$1 billion from FY 2012 ASFF. DOD transferred \$101 million from FY 2011 AIF to FY 2011 ESF to fund an infrastructure project to be implemented by USAID.

<sup>a</sup> Final appropriation figures for FY 2013 have not been determined for many accounts, including State and USAID accounts.

Sources: DOD, responses to SIGAR data call, 7/22/2013, 7/3/2013, 7/1/2013, 10/22/2012, 10/14/2009, and 10/1/2009; State, responses to SIGAR data call, 7/16/2013, 7/2/2013, 6/27/2013, 10/5/2012 and 6/27/2012; Treasury, response to SIGAR data call, 7/1/2013; OMB, response to SIGAR data call, 7/19/2013 and 1/4/2013; USAID, responses to SIGAR data call, 7/17/2013, 10/15/2010, 1/15/2010, and 10/9/2009; DOJ, response to SIGAR data call, 7/7/2009; USDA, response to SIGAR data call, 4/2009; PL. 113-6, 3/26/2013; PL. 112-74, 12/23/2011; PL. 112-10, 4/15/2011; PL. 111-212, 10/29/2010; PL. 111-118, 12/19/2009; FY 2010 Defense Explanatory Statement.

# APPENDICES

FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013 <sup>a</sup>
0.00	0.00	995.00	1,908.13	7,406.40	2,750.00	5,606.94	9,166.77	10,619.28	9,200.00	5,124.20
0.00	150.00	290.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
191.00	414.08	396.80	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
0.39	0.67	0.95	0.98	1.19	1.66	1.40	1.76	1.56	1.18	1.42
0.00	0.00	0.00	0.00	0.00	9.90	0.00	0.00	0.00	0.00	0.00
<b>191.39</b>	<b>564.75</b>	<b>1,682.75</b>	<b>1,909.11</b>	<b>7,407.59</b>	<b>2,761.56</b>	<b>5,608.34</b>	<b>9,168.53</b>	<b>10,620.84</b>	<b>9,201.18</b>	<b>5,125.62</b>
0.00	40.00	136.00	215.00	209.00	488.33	550.67	1,000.00	400.00	400.00	200.00
0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	299.00	400.00	325.00
0.00	0.00	0.00	0.00	0.00	0.00	14.44	59.26	239.24	241.82	129.84
223.79	893.83	1,287.06	473.39	1,210.71	1,399.51	2,073.46	3,346.00	2,168.51	1,836.76	1,623.15
42.54	153.14	169.34	184.99	166.81	149.43	0.40	0.30	0.00	0.00	0.00
300.00	150.00	100.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
49.68	33.40	46.43	41.45	100.77	63.07	58.23	92.30	69.91	0.00	0.25
1.33	0.00	0.00	0.00	0.00	10.77	4.22	4.22	3.09	0.55	0.00
0.50	5.00	0.00	0.00	0.00	20.00	2.81	4.90	6.25	7.18	1.84
34.70	66.90	40.65	35.72	36.72	29.72	59.92	70.74	69.30	65.32	52.60
0.00	0.00	0.00	0.00	0.00	0.00	5.70	0.00	0.00	0.00	0.00
1.00	0.06	0.95	0.19	0.13	0.75	0.47	0.00	0.00	0.00	0.00
<b>653.54</b>	<b>1,342.33</b>	<b>1,780.42</b>	<b>950.74</b>	<b>1,724.14</b>	<b>2,161.57</b>	<b>2,770.33</b>	<b>4,577.72</b>	<b>3,255.29</b>	<b>2,951.63</b>	<b>2,332.67</b>
0.00	220.00	709.28	232.65	251.74	307.57	484.00	589.00	400.00	324.00	568.81
0.00	71.80	224.54	108.05	290.97	192.81	230.06	392.27	376.53	420.47	333.11
2.87	3.72	16.77	23.66	20.38	40.59	18.80	0.00	0.00	0.00	0.00
<b>2.87</b>	<b>295.52</b>	<b>950.59</b>	<b>364.36</b>	<b>563.09</b>	<b>540.97</b>	<b>732.86</b>	<b>981.27</b>	<b>776.53</b>	<b>744.47</b>	<b>901.92</b>
5.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
46.10	49.20	56.60	60.00	60.00	177.00	65.41	58.13	112.55	59.20	0.00
85.52	11.16	4.22	0.04	0.03	16.90	27.13	29.73	66.68	61.40	15.77
11.69	11.22	1.60	0.00	0.00	0.00	0.75	0.87	1.09	0.63	0.34
61.50	63.30	47.10	41.80	53.80	44.25	76.79	81.48	65.00	99.35	65.00
9.90	20.00	15.50	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
0.00	0.00	0.00	0.00	0.00	0.00	0.20	0.00	0.00	0.00	0.00
4.96	9.08	30.10	23.24	9.47	20.55	12.09	0.00	0.00	0.00	0.00
14.14	34.58	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
9.27	6.12	10.02	25.08	0.00	0.00	0.00	0.00	0.00	0.00	0.00
0.00	0.00	0.00	0.00	0.00	22.40	0.00	0.00	0.00	0.00	0.00
<b>248.08</b>	<b>204.66</b>	<b>165.14</b>	<b>150.16</b>	<b>123.30</b>	<b>281.10</b>	<b>182.37</b>	<b>170.21</b>	<b>245.32</b>	<b>220.57</b>	<b>81.10</b>
0.00	0.00	0.00	0.00	2.50	14.30	25.20	34.40	37.20	59.00	58.70
35.30	211.16	136.29	131.90	207.80	435.13	1,060.70	1,761.70	905.10	1,427.41	1,288.90
<b>35.30</b>	<b>211.16</b>	<b>136.29</b>	<b>131.90</b>	<b>210.30</b>	<b>449.43</b>	<b>1,085.90</b>	<b>1,796.10</b>	<b>942.30</b>	<b>1,486.41</b>	<b>1,347.60</b>
<b>1,131.18</b>	<b>2,618.43</b>	<b>4,715.19</b>	<b>3,506.27</b>	<b>10,028.43</b>	<b>6,194.63</b>	<b>10,379.79</b>	<b>16,693.83</b>	<b>15,840.27</b>	<b>14,604.26</b>	<b>9,788.92</b>

## APPENDIX C

### SIGAR WRITTEN PRODUCTS

#### SIGAR AUDITS

##### Completed Audits

SIGAR completed six audits during this reporting period:

<b>COMPLETED SIGAR AUDITS AS OF JULY 30, 2013</b>		
<b>Report Identifier</b>	<b>Report Title</b>	<b>Date Issued</b>
SIGAR Audit 13-16	Stability in Key Areas (SIKA): After 16 Months and \$47 Million Spent, USAID Had Not Met Essential Program Objectives	7/2013
SIGAR Audit 13-15	Afghanistan Public Protection Force: Concerns Remain about Force's Capabilities and Cost	7/2013
SIGAR Audit 13-14	Contracting with the Enemy: State and USAID Need Stronger Authority to Terminate Contracts When Enemy Affiliations Are Identified	7/2013
SIGAR Audit 13-13	Afghan Special Mission Wing: DOD Moving Forward with \$771.8 Million Purchase of Aircraft that the Afghans Cannot Operate and Maintain	6/2013
SIGAR Audit 13-12	Department of State's Assistance Awards for Afghanistan Reconstruction Activities Are Largely Unaudited	7/2013
SIGAR Audit 13-8	Taxes: Afghan Government Has Levied Nearly a Billion Dollars in Business Taxes on Contractors Supporting U.S. Government Efforts in Afghanistan	5/2013

##### New Audits

SIGAR initiated five audits during this reporting period:

<b>NEW SIGAR AUDITS AS OF JULY 30, 2013</b>		
<b>Audit Identifier</b>	<b>Project Title</b>	<b>Date Initiated</b>
SIGAR 085A	Mobile Strike Force Vehicles for the Afghan National Army	7/2013
SIGAR 084A	Wire Transfer Fees Associated with Department of Defense Payments to Afghan Contractors	7/2013
SIGAR 083A	U.S. Agency for International Development (USAID) and Department of Homeland Security Customs and Border Protection (CBP) Efforts to Develop and Strengthen Afghanistan's Capacity to Assess and Collect Customs Revenue	7/2013
SIGAR 082A	U.S. Efforts to Develop and Strengthen the Capacity of Afghanistan's Central Bank	6/2013
SIGAR 078A	Accountability of Weapons and Equipment Provided to the Afghan National Security Forces (ANSF)	5/2013

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## Ongoing Audits

SIGAR had nine audits in progress during this reporting period:

ONGOING SIGAR AUDITS AS OF JULY 30, 2013		
Audit Identifier	Project Title	Date Initiated
SIGAR 081A	Assessments of Afghan Ministerial Capacity	4/2013
SIGAR 080A	U.S. Government Reconstruction Transition Plan	3/2013
SIGAR 079A	Reliability of Afghan National Security Forces Personnel Data	2/2013
SIGAR 077A	USAID Assistance to Afghanistan's Water Sector	2/2013
SIGAR 073A	Training of Afghan Justice Sector Personnel	12/2012
SIGAR 072A	Afghan National Security Literacy Training	11/2012
SIGAR 071A	\$230 Million in Missing Repair Parts	10/2012
SIGAR 070A	Afghan National Police Petroleum, Oils, and Lubricants	9/2012
SIGAR 069A	Ongoing Construction Projects for the ANSF	9/2012

## Completed Financial Audits

SIGAR completed 11 financial audits during this reporting period:

COMPLETED SIGAR FINANCIAL AUDITS AS OF JULY 30, 2013		
Report Identifier	Project Title	Date Issued
SIGAR Financial Audit 13-11	State Department's Afghanistan Media Project: Audit of Costs Incurred by HUDA Development Organization Afghanistan	7/2013
SIGAR Financial Audit 13-10	USAID's Alternative Livelihoods Program-Eastern Region: Audit of Costs Incurred by Development Alternatives Inc.	7/2013
SIGAR Financial Audit 13-9	USAID's Alternative Development Project South/West: Audit of Costs Incurred by Tetra Tech ARD	7/2013
SIGAR Financial Audit 13-8	USAID's Human Resources and Logistical Support Program: Audit of Costs Incurred by International Relief and Development Inc.	7/2013
SIGAR Financial Audit 13-7	Department of Defense Program to Support the Afghan National Army's Technical Equipment Maintenance Program: Audit of Costs Incurred by Afghan Integrated Support Services	7/2013
SIGAR Financial Audit 13-6	USDA's Program to Help Advance the Revitalization of Afghanistan's Agricultural Sector: Audit of Costs Incurred by Volunteers for Economic Growth Alliance	7/2013
SIGAR Financial Audit 13-5	USAID's Program to Support the Loya Jirga and Election Process in Afghanistan: Audit of Costs Incurred by The Asia Foundation	6/2013
SIGAR Financial Audit 13-4	USAID's Technical Support to the Central and Provincial Ministry of Public Health Project: Audit of Costs Incurred by Management Sciences for Health	6/2013
SIGAR Financial Audit 13-3	Audit of Costs Incurred by Futures Group International LLC in Support of USAID's Project for Expanding Access to Private Sector Health Products and Services in Afghanistan	6/2013
SIGAR Financial Audit 13-2	Audit of Costs Incurred by Cardno Emerging Markets Group LTD. in Support of USAID's Afghanistan State-Owned Enterprises Privatization, Excess Land Privatization, and Land Titling Project	6/2013
SIGAR Financial Audit 13-1	Audit of Costs Incurred by Chemonics International Inc. in Support of USAID's Alternative Livelihoods Program-Southern Region	6/2013

# APPENDICES

## New Financial Audits

SIGAR initiated two financial audits during this reporting period:

NEW SIGAR FINANCIAL AUDITS AS OF JULY 30, 2013		
Audit Identifier	Project Title	Date Initiated
F-024	USAID Contract with Chemonics for Afghanistan Stabilization Initiative to Support Counterinsurgency Operations by Improving Economic and Social Conditions in Afghanistan (Southern Region) & Accelerated Sustainable Agriculture Program (ASAP)	7/2013
F-023	USAID Contract with Development Alternatives Inc for Afghan Small and Medium Enterprise Development (ASMED) Project & Afghanistan Stabilization Initiative	7/2013

## Ongoing Financial Audits

SIGAR had 11 financial audits in progress during this reporting period:

ONGOING SIGAR FINANCIAL AUDITS AS OF JULY 30, 2013		
Audit Identifier	Project Title	Date Initiated
F-022	State Grants with Afghan Technical Consultants for the removal of land mines and unexploded ordinance in Afghanistan	4/2013
F-021	USAID Cooperative Agreement with World Vision for support to the Initiative to Promote Afghan Civil Society (I-PACS)	4/2013
F-020	USAID Cooperative Agreement with Counterpart International Inc. for support to the Initiative to Promote Afghan Civil Society (I-PACS)	4/2013
F-019	USAID Cooperative Agreement with World Council of Credit Unions for support to the Rural Finance and Cooperative Development Program in Southern and Eastern Afghanistan	4/2013
F-018	USAID Cooperative Agreement with CARE International for the Food Insecurity Response for Urban Populations Program (FIRUP) in Kabul	4/2013
F-017	USAID Cooperative Agreement with Mercy Corps for the Food Insecurity Response for Urban Populations Program (FIRUP) in Northern Afghanistan	4/2013
F-016	USAID Cooperative Agreement with JHPIEGO Corporation for support to the Health Service Support Project (HSSP)	4/2013
F-015	USAID Task Order and Cooperative Agreement with Creative Associates International for support to the Basic Education Program in Afghanistan	4/2013
F-014	USAID Task Orders with Checchi and Company Consulting Inc. to improve USAID's Afghanistan program information system and to provide technical support to the Rule of Law Stabilization Program	4/2013
F-013	USAID Cooperative Agreement with Central Asia Development Group Inc. (CADG) for the Food Insecurity Response for Urban Populations Program (FIRUP) in Southern and Eastern Afghanistan	4/2013
F-012	USAID Cooperative Agreement with International Relief and Development Inc for the Strategic Provincial Roads Project in Southern and Eastern Afghanistan	12/2012

## Audit Alert Letters

SIGAR issued five Audit Alert Letters during this reporting period:

NEW SIGAR AUDIT ALERT LETTERS ISSUED AS OF JULY 30, 2013		
Letter Identifier	Letter Title	Date Issued
Alert 13-6	Serious Deficiencies Noted in State Agreement with the International Development Law Organization	7/2013

# APPENDICES

<b>NEW SIGAR AUDIT ALERT LETTERS ISSUED AS OF JULY 30, 2013 (CONTINUED)</b>		
<b>Letter Identifier</b>	<b>Letter Title</b>	<b>Date Issued</b>
Alert 13-5	Concerns with Chemonics International Inc. Meeting Its Responsibilities Under a Federal Contract	7/2013
Alert 13-4	Camp Leatherneck Incinerators, Burn Pit Being Used	7/2013
Alert 13-3	Afghan Government Levying Additional Fines, Fees, and Penalties that May Cost U.S. Government Millions of Dollars	6/2013
Alert 13-2	Southern Regional Agricultural Development Program Had Poor Coordination, Waste, and Mismanagement	6/2013

## SIGAR INSPECTIONS

### Completed Inspections

SIGAR completed two inspections during this reporting period:

<b>COMPLETED SIGAR INSPECTIONS AS OF JULY 30, 2013</b>		
<b>Report Identifier</b>	<b>Report Title</b>	<b>Date Issued</b>
SIGAR Inspection 13-10	Bathkhak School: Unauthorized Contract Design Changes and Poor Construction Could Compromise Structural Integrity	7/2013
SIGAR Inspection 13-9	Sheberghan Teaching Training Facility: U.S. Army Corps of Engineers Paid Contractors and Released them from Contractual Obligations before Construction Was Completed and Without Resolving Serious Health and Safety Hazards	7/2013

## SIGAR SPECIAL PROJECTS

### Completed Special Projects

SIGAR issued one alert letter during this reporting period:

<b>COMPLETED SIGAR SPECIAL PROJECTS AS OF JULY 30, 2013</b>		
<b>Project Identifier</b>	<b>Project Title</b>	<b>Date Issued</b>
SP 13-8	Improvised Explosive Devices: Unclear Whether Culvert Denial Systems to Protect Troops Are Functioning Or Were Ever Installed	7/2013

### Special Project Alert Letters

SIGAR issued four Special Project Alert Letters this reporting period.

<b>NEW SIGAR SPECIAL PROJECT ALERT LETTERS ISSUED AS OF JULY 30, 2013</b>		
<b>Letter Identifier</b>	<b>Letter Title</b>	<b>Date Issued</b>
Management Alert SP 13-7	Command and Control Facility at Camp Leatherneck	7/2013
Safety Alert SP 13-6	Sheberghan Teacher Training Facility	6/2013
Safety Alert SP 13-5	Bathkhak School	6/2013
Management Alert SP 13-4	Subcontractor Nonpayment Issues	6/2013

## APPENDIX D

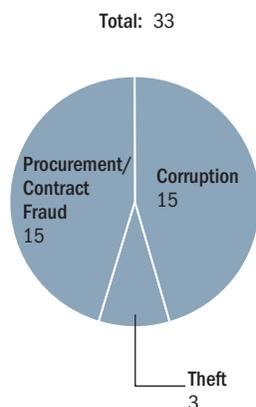
### SIGAR INVESTIGATIONS AND HOTLINE

#### SIGAR Investigations

This quarter, SIGAR opened 33 new investigations and closed 42, bringing the total number of open investigations to 289. Of the new investigations, most involved procurement/contract fraud and corruption/bribery, as shown in Figure D.1. Of the closed investigations, most were closed due to unfounded allegations, as shown in Figure D.2.

FIGURE D.1

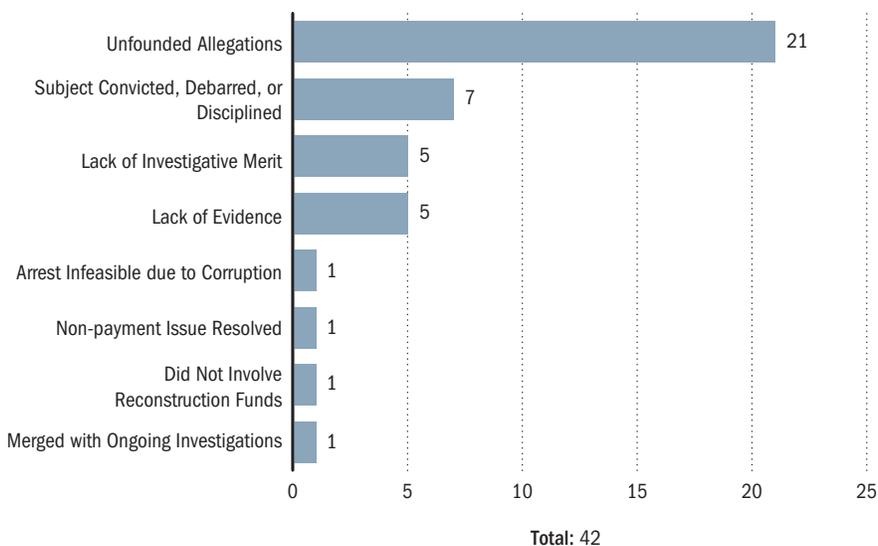
**NEW SIGAR INVESTIGATIONS,  
APRIL 1-JUNE 30, 2013**



Source: SIGAR Investigations Directorate, 7/10/2013.

FIGURE D.2

**SIGAR INVESTIGATIONS: CLOSED INVESTIGATIONS, APRIL 1-JUNE 30, 2013**



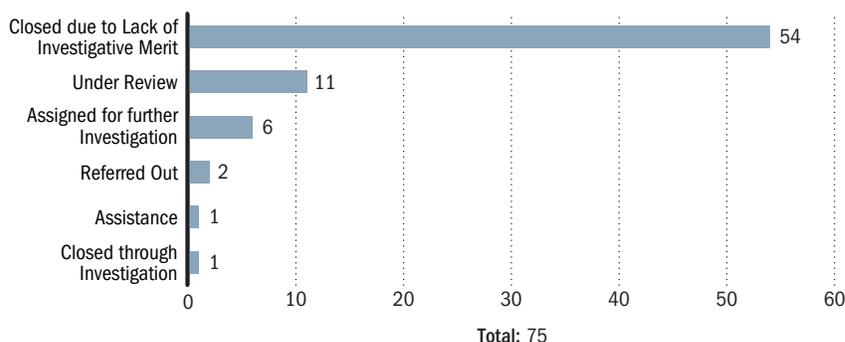
Source: SIGAR Investigations Directorate, 7/10/2013.

## SIGAR Hotline

Of the 75 Hotline complaints received this quarter, all were received electronically. Of these complaints, most were closed, as shown in Figure D.3.

FIGURE D.3

STATUS OF SIGAR HOTLINE COMPLAINTS: APRIL 1-JUNE 30, 2013



Source: SIGAR Investigations Directorate, 7/8/2013.

## Suspensions and Debarments From SIGAR Referrals

As of July 1, 2013, SIGAR's referrals for suspension and debarment have resulted in 59 suspensions and 68 debarments, as shown in chronological order in Table D.1.

TABLE D.1

SUSPENSIONS AND DEBARMENTS AS OF JULY 1, 2013	
Suspensions	Debarments
Al-Watan Construction Company	Farooqi, Hashmatullah
Basirat Construction Firm	Hamid Lais Construction Company
Brophy, Kenneth	Hamid Lais Group
Naqibullah, Nadeem	Lodin, Rohullah Farooqi
Rahman, Obaidur	Bennett & Fouch Associates LLC
Campbell, Neil Patrick	Brandon, Gary
Borcata, Raul A.	K5 Global
Close, Jarred Lee	Ahmad, Noor
Logistical Operations Worldwide	Noor Ahmad Yousufzai Construction Company
Robinson, Franz Martin	Ayeni, Sheryl Adenike
Taylor, Zachery Dustin	Cannon, Justin
Aaria Group Construction Company	Constantino, April Anne
Aaria Group	Constantino, Dee
Aaria Herai General Trading	Constantino, Ramil Palmes
Aaria M.E. General Trading LLC	Crilly, Braam
Aaria Middle East	Drotleff, Christopher

# APPENDICES

TABLE D.1 (CONTINUED)

<b>SUSPENSIONS AND DEBARMENTS AS OF JULY 1, 2013</b>	
<b>Suspensions</b>	<b>Debarments</b>
Aaria Middle East Company LLC	Fil-Tech Engineering and Construction Company
Aaria Middle East Company Ltd. – Herat	Handa, Sidharth
Aaria Supplies Company Ltd.	Jabak, Imad
Aaria Supply Services and Consultancy	Jamally, Rohullah
Aftech International	Khalid, Mohammad
Aftech International Pvt. Ltd.	Khan, Daro
Alam, Ahmed Farzad	Mariano, April Anne Perez
Albahar Logistics	McCabe, Elton Maurice
American Aaria Company LLC	Mihalczko, John
American Aaria LLC	Qasimi, Mohammed Indress
Barakzai, Nangialai	Radhi, Mohammad Khalid
Formid Supply and Services	Safi, Fazal Ahmed
Greenlight General Trading	Shin Gul Shaheen, a.k.a. “Sheen Gul Shaheen”
Kabul Hackle Logistics Company	Espinoza-Loor, Pedro Alfredo
Sharpway Logistics	Campbell, Neil Patrick*
United States California Logistics Company	Navarro, Wesley
Yousef, Najeebullah	Hazrati, Arash
Rahimi, Mohammad Edris	Midfield International
Wooten, Philip Steven	Moore, Robert G.
Domineck, Lavette Kaye	Noori, Noor Alam, a.k.a. “Noor Alam”
Markwith, James	Northern Reconstruction Organization
All Points International Distributors Inc.	Shamal Pamir Building and Road Construction Company
Cipolla, James	Wade, Desi D.
Hercules Global Logistics	Blue Planet Logistics Services
Schroeder, Robert	Mahmodi, Padres
AISC LLC	Mahmodi, Shikab
American International Security Corporation	Saber, Mohammed
Brothers, Richard S.	Watson, Brian Erik
David A Young Construction & Renovation Inc.	All Points International Distributors, Inc
Force Direct Solutions LLC	Hercules Global Logistics
Harris, Christopher	Schroeder, Robert
Hernando County Holdings LLC	Helmand Twinkle Construction Company
Hide-A-Wreck LLC	Waziri, Heward Omar
Panthers LLC	Zadran, Mohammad
Paper Mill Village Inc	Afghan Mercury Construction Company, d.b.a. “Afghan Mercury Construction & Logistics Company”
Shroud Line LLC	Mirzali Naseeb Construcion Company
Spada, Carol	Montes, Diyana

# APPENDICES

TABLE D.1 (CONTINUED)

<b>SUSPENSIONS AND DEBARMENTS AS OF JULY 1, 2013</b>	
<b>Suspensions</b>	<b>Debarments</b>
Taylor, Michael	Naseeb, Mirzali
Welventure LLC	Robinson, Franz Martin*
World Wide Trainers LLC	Smith, Nancy
Young, David	Sultani, Abdul Anas a.k.a. "Abdul Anas"
Espinoza, Mauricio	Faqiri, Shir
Young, Tonya	Hosmat, Haji
	Jim Black Construction Company
	Arya Ariana Aryayee Logistics, d.b.a. "AAA Logistics," d.b.a. "Somo Logistics"
	Garst, Donald
	Mukhtar, Abdul a.k.a. "Abdul Kubar"
	Noori Mahgir Construction Company
	Noori, Sherin Agha
	Long, Tonya*
	Isranuddin, Burhanuddin
	Rahimi, Mohammad Edris

Note: \* indicates previously in suspended status following criminal indictment. Final debarment imposed following criminal conviction in U.S. District Court.

# APPENDICES

## APPENDIX E

### ABBREVIATIONS AND ACRONYMS

ACRONYM OR ABBREVIATION	DEFINITION
4A	Assistance to Afghanistan's Anti-Corruption Authority
ABADE	Assistance in Building Afghanistan by Developing Enterprises
ABP	Afghan Border Police
ACE	Agricultural Credit Enhancement
ACERA	Afghanistan Electoral Reform and Civic Advocacy
ACU	Anti-Corruption Unit
ADB	Asian Development Bank
ADF	Agricultural Development Fund
AECOM	AECOM International Development Inc.
Afs	Afghanis (currency)
AGO	Attorney General's Office
AGS	Afghan Geological Survey
AIF	Afghanistan Infrastructure Fund
AIHRC	Afghanistan Independent Human Rights Commission
AISS	Afghan Integrated Support Services
AITF	Afghanistan Infrastructure Trust Fund
AIU	Contractor Air Interdiction Unit
AL	Alternative Livelihoods
ALP	Afghan Local Police
AMDEP	Afghanistan Media Development and Empowerment Project
ANA	Afghan National Army
ANCOP	Afghan National Civil Order of Police
ANP	Afghan National Police
ANRP	Afghanistan National Rail Plan
ANSF	Afghan National Security Forces
APD	Afghanistan Petroleum Directorate
APL	American President Lines LTD
APPF	Afghan Public Protection Force
APRP	Afghan Peace and Reintegration Plan
ARTF	Afghanistan Reconstruction Trust Fund
ASF	Afghanistan Security Forces
ASFF	Afghanistan Security Forces Fund
ATRA	Afghanistan Telecom Regulatory Agency
AUAF	American University of Afghanistan
AUP	Afghan Uniform Police
AWDP	Afghanistan Workforce Development Plan
BDS	Business Development Services
BELT	Basic Education, Literacy, and Technical-Vocational Education and Training
BSA	Bilateral Security Agreement
CBP	Customs and Border Protection (U.S.)
CENTCOM	U.S. Central Command
CERP	Commander's Emergency Response Program
CHAMP	Commercial Horticulture and Agricultural Marketing Program
Chemonics	Chemonics International, Inc.
CIA	U.S. Central Intelligence Agency
CID-MPFU	Army Criminal Investigation Command-Major Procurement Fraud Unit

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ACRONYM OR ABBREVIATION	DEFINITION
CIGIE	Council of the Inspectors General on Integrity and Efficiency
CJIATF	Combined Joint Interagency Task Force
C-JTSCC	US Central Command's Joint Theater Support Contracting Command
CM	Capability Milestone
CNG	Compressed Natural Gas
CNPA	Counter-Narcotics Police of Afghanistan
CNPCI-W	China National Petroleum Corporation Watan energy Afghanistan, Ltd.
CNPI	Counternarcotics Public Information Program
COR	Contracting Officer's Representative
CSSP	Correctional System Support Program
CSTC-A	Combined Security Transition Command-Afghanistan
CUAT	Commander's Unit Assessment Tool
DAB	Da Afghanistan Bank
DABS	Da Afghanistan Breshna Sherkat
DAI	Development Alternatives Inc.
DCIS	Defense Criminal Investigative Service (U.S.)
DCMA	Defense Contract Management Agency (U.S.)
DEA	Drug Enforcement Administration (U.S.)
DLA	Defense Logistics Agency (U.S.)
DOD	Department of Defense (U.S.)
DOD CN	Department of Defense Drug Interdiction and Counter-Drug Activities fund (U.S.)
DOD OIG	Department of Defense Office of Inspector General
DOD OIG	DOD Office of the Inspector General
DOE	Department of Energy
DOJ	Department of Justice (U.S.)
ECC	Electoral Complaints Commission
ECF	Extended Credit Facility
EGGI	Economic Growth and Governance Initiative
EMG	Cardno Emerging Markets Group Ltd.
EMIS	Ministry of Education's Information Management System (Afghan)
ESF	Economic Support Fund
EVAW	Elimination of Violence Against Women law
FAR	Federal Acquisition Regulation
FBI	Federal Bureau of Investigation (U.S.)
FDRC	Financial Disputes Resolution Commission
FMS	Foreign Military Sales
FOB	Forward Operating Base
Futures Group	Futures Group International Llc.
FY	Fiscal Year
GAGAS	Generally Accepted Government Auditing Standards
GAO	Government Accountability Office (U.S.)
GDA	Global Development Alliance
GDP	Gross Domestic Product
GDPDC	General Directorate of Prisons and Detention Centers
GLE	Governor-Led Eradication
GMT	Guzar Merbachakot Transportation
GPI	Good Performer's Initiative
GSCC	General Support Contracting Command
HCA	Head of a Contracting Activity
HEP	Higher Education Program
HIPC	Highly Indebted Poor Country
HOO	High Office of Oversight for Anti-Corruption (Afghan)

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ACRONYM OR ABBREVIATION	DEFINITION
HPP	Health Policy Project
HTCC	Helman Twincle Construction Company
HUDA	HUDA Development Organization Afghanistan
IDEA-NEW	Incentives Driving Economic Alternatives-North, East, and West
IDLG	Independent Directorate of Local Governance (Afghan)
IDLO	International Development Law Organization
IEC	Independent Election Commission (Afghan)
IED	Improvised Explosive Device
IJC	International Security Assistance Force Joint Command
IMF	International Monetary Fund
INCLE	International Narcotics Control and Law Enforcement (U.S.)
INL	Bureau of International Narcotics and Law Enforcement Affairs (U.S.)
IPACS	Initiative to Promote Afghan Civil Society
IRD	International Relief and Development Inc.
ISAF	International Security Assistance Force
JS	APRP Joint Secretariat
JSSP	Justice Sector Support Program
JTTP	Justice Training Transition Program
KCI	Kabul City Initiative
KHPP	Kandahar-Helmand Power Project
LMG	Leadership, Management, Governance Project
LOTFA	Law and Order Trust Fund for Afghanistan
MACU	Military Anti-Corruption Unit
MAIL	Ministry of Agriculture, Irrigation, and Livestock (Afghan)
MCC	China Metallurgical Group Corporation
MCIT	Ministry of Communications and Information Technology (Afghan)
MCN	Ministry of Counternarcotics (Afghan)
MEC	Monitoring and Evaluation Committee (Afghan)
MHM	Mayer Hoffman McCann P.C.
MIDAS	Mining Investment and Development for Afghan Sustainability
MLS	Military Logistics Support
MOD	Ministry of Defense (Afghan)
MOF	Ministry of Finance (Afghan)
MOI	Ministry of Interior (Afghan)
MOIC	Ministry of Information and Culture (Afghan)
MOJ	Ministry of Justice (Afghan)
MOMP	Ministry of Mines and Petroleum (Afghan)
MOPH	Ministry of Public Health (Afghan)
MOU	Memorandum of Understanding
MSFV	Mobile Strike Force Vehicle
MSH	Management Services for Health
NAO	National Audit Office
NATO	North Atlantic Treaty Organization
NCO	Noncommissioned Officer
NDA	National Defense Authorization Act
NEPS	Northeast Power System
NGO	Nongovernmental Organization
NIU	National Interdiction Unit
NPP	National Priority Program
NTM-A	NATO Training Mission-Afghanistan
O&M	Operations and Maintenance
OAA	Office of Acquisition Assistance

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<b>ACRONYM OR ABBREVIATION</b>	<b>DEFINITION</b>
OCO	Overseas Contingency Operations
OMB	Office of Management and Budget
OSD	Office of the Secretary of Defense
OTA	Office of Technical Assistance
PBGC-OIG	Pension Benefit Guarentee Corporation- Office of the Inspector General
PBGF	Performance Based Governance Fund
PCH	Partnership Contracts for Health Services
PGO	Provincial governor's office
PM/WRA	Bureau of Political-Military Affairs - Office of Weapons Removal and Abatement (U.S.)
PROMOTE	Promoting Gender Equality in the National Priority Program
PRT	Provincial Reconstruction Team
PSC	Private Security Contractor
PTEC	Power Transmission Expansion and Connectivity
QA	Quality Assurance
RAMP-UP	Regional Afghan Municipalities Program for Urban Populations
RC	Recurrent Cost
RMC	Risk Management Companies
RRAD	Red River Army Depot
SCC	Special Cases Committee (Afghan)
SEPS	Southeast Power System
SFA	Security Force Assistance
SGDP	Sheberghan Gas Development Program
SIGAR	Special Inspector General for Afghanistan Reconstruction
SIKA	Security in Key Areas
SIU	Sensitive Investigation Unit
SMW	Special Missions Wing (Afghan)
S-RAD	USAID's Southern Regional Agricultural Development Program
SRO	Stability and Reconstruction Operations
State OIG	State Office of the Inspector General
SY	Solar Year
TAFA	Trade Accession and Facilitation in Afghanistan
TAT	DOD's Telecom Advisory Team
TFBSO	Task Force for Business and Stability Operations in Afghanistan
TIU	Technical Investigation Unit
TMR	Transportation Movement Request
TVET	Technical Vocational Education and Training
UN	United Nations
UNAMA	United Nations Assistance Mission in Afghanistan
UNDP	United Nations Development Programme
UNODC	UN Office on Drugs and Crime
USAAA	U.S. Army Audit Agency
USACE	U.S. Army Corps of Engineers
USACE-TAN	USACE Afghanistan Engineer District North
USAID	U.S. Agency for International Development
USAID OIG	USAID Office of the Inspector General
USDA	U.S. Department of Agriculture
USFOR-A	U.S. Forces-Afghanistan
USGS	United States Geological Survey
VEGA	Volunteers for Economic Growth Alliance
VSO	Village Stability Operations
WTO	World Trade Organization

# ENDNOTES

1. A preliminary review of data submitted by agencies to SIGAR's Special Projects unit thus far indicates that from 2002 through February 2013, U.S. agencies have obligated nearly \$37 billion in contracts, grants, and cooperative agreement for Afghan reconstruction. The U.S. Department of Defense (DOD) obligated about \$25.7 billion for more than 12,000 contracts, while the U.S. Agency for International Development (USAID) obligated about \$11.2 billion for more than 280 contracts, cooperative agreements, and grants. Continuing data analysis is expected to increase these totals: among other tasks, analysts are conferring with Army personnel to distinguish between contracts executed in Afghanistan for U.S. forces as opposed to those supporting Afghan National Security Forces. The U.S. State Department has also obligated funds for Afghan-reconstruction contracting, but its data submissions are still under review. Total U.S. reconstruction obligations exceed contract obligations because some commitments, e.g., salaries for Afghan soldiers and police, are not implemented through contracts. A more definitive report will follow.
2. World Food Programme, "Jawzjan," [www.foodsecurityatlas.org/afg/country/provincial-Profile/Jawzjan](http://www.foodsecurityatlas.org/afg/country/provincial-Profile/Jawzjan), accessed July 5, 2013.
3. USAID, "Northern Economic Corridor Study," contracted study for agency review, March 2012, pp. 10, 24.
4. World Food Programme, "Jawzjan," [www.foodsecurityatlas.org/afg/country/provincial-Profile/Jawzjan](http://www.foodsecurityatlas.org/afg/country/provincial-Profile/Jawzjan), accessed July 5, 2013.
5. SIGAR Inspection 13-9, *Sheberghan Teacher Training Facility: U.S. Army Corps of Engineers Paid Contractors and Released Them from Contractual Obligations before Construction Was Completed and Without Resolving Serious Health and Safety Hazards*, July 2013, p. 1.
6. SIGAR Inspection 13-9, *Sheberghan Teacher Training Facility: U.S. Army Corps of Engineers Paid Contractors and Released Them from Contractual Obligations before Construction Was Completed and Without Resolving Serious Health and Safety Hazards*, July 2013, pp. 1-2.
7. SIGAR Inspection 13-9, *Sheberghan Teacher Training Facility: U.S. Army Corps of Engineers Paid Contractors and Released Them from Contractual Obligations before Construction Was Completed and Without Resolving Serious Health and Safety Hazards*, July 2013, pp. 3-4.
8. SIGAR Inspection 13-9, *Sheberghan Teacher Training Facility: U.S. Army Corps of Engineers Paid Contractors and Released Them from Contractual Obligations before Construction Was Completed and Without Resolving Serious Health and Safety Hazards*, July 2013, pp. 4-5.
9. SIGAR Inspection 13-10, *Bathkhak School: Unauthorized Contract Design Changes and Poor Construction Could Compromise Structural Integrity*, July 2013.
10. GAO, Testimony GAO-12-802T, *Afghanistan: USAID Oversight of Assistance Funds and Programs*, June 6, 2012.
11. DOD, *Office of the Deputy Assistant Secretary of Defense for Program Support, Operational Contract Support Action Plan FY 2013-2016*, April 2013, p. 3.
12. Congressional Research Service, Report R43074, *Department of Defense's Use of Contractors to Support Military Operations*, May 17, 2013, p. 24.
13. GAO, Report to Congressional Committees, GAO-13-283, *High-Risk Series: An Update*, February 2013, p. 213.
14. SIGAR Special Project Report SP-13-8, *Improvised Explosive Devices: Unclear Whether Culvert Denial Systems to Protect Troops Are Functioning or Were Ever Installed*, July 2013.
15. SIGAR Audit 13-13, *Afghan Special Mission Wing: DOD Moving Forward with \$771.8 Million Purchase of Aircraft that the Afghans Cannot Operate and Maintain*, June 2013.
16. SIGAR Audit 13-3, *Afghan Police Vehicle Maintenance Contract: Actions Needed to Prevent Millions of Dollars from Being Wasted*, January 2013.
17. SIGAR Financial Audit 13-6: *USDA's Program to Help Advance the Revitalization of Afghanistan's Agricultural Sector: Audit of Costs Incurred by Volunteers for Economic Growth Alliance*, July 3, 2013.
18. SIGAR Financial Audit 13-7: *Department of Defense Program to Support the Afghan National Army's Technical Equipment Maintenance Program: Audit of Costs Incurred by Afghan Integrated Support Services*, July 2013.
19. SIGAR Alert 13-2 to Ambassador Cunningham et al., regarding USAID's Southern Regional Agricultural Development Program, June 27, 2013.
20. DOD IG, Report No. DODIG-2012-089, *Better Contract Oversight Could Have Prevented. Deficiencies in the Detention Facility in Parwan, Afghanistan*, May 17, 2012.
21. DOD IG, Report No. DODIG-2013-052, *Inadequate Contract Oversight of Military Construction Projects in Afghanistan Resulted in Increased Hazards to Life and Safety of Coalition Forces*, March 8, 2013.
22. DOD IG Audit Report, DODIG-2013-093, *Acquisition Processes and Contract Management: DOD Needs to Improve Oversight of the Afghan National Police Training/Mentoring and Logistics Support Contract*, June 25, 2013.
23. DOD IG, Audit Report DODIG-2013-024, *U.S. Army Corps of Engineers Needs to Improve Contract Oversight of Military Construction Projects at Bagram Airfield, Afghanistan*, November 26, 2012.
24. USAID OIG, Report No. F-306-12-002-S, *Review of USAID/Afghanistan's Monitoring and Evaluation System*, September 26, 2012.
25. USAID OIG, Report No. F-306-12-004-P, *Audit of USAID/Afghanistan's Incentives Driving Economic Alternatives for the North, East, and West Program*, June 29, 2012.
26. GAO, Report to Congressional Addressees, GAO-13-218SP, *Afghanistan: Key Oversight Issues*, February 2013.
27. SIGIR, *Learning From Iraq: A Final Report from the Special Inspector General for Iraq Reconstruction*, March 2013, xiii.
28. Commission on Wartime Contracting in Iraq and Afghanistan, final report to Congress, *Transforming Wartime Contracting: Controlling Costs, Reducing Risks*, August 2011, p. 116.
29. U.S. Army Center of Military History, *Supplying Washington's Army*, 1981, Ch. 8, "From Commissaries to Contractors"; DOD IG, Report No. DODIG-2012-134, *Contingency Contracting: A Framework for Reform: 2012 Update*, September 18, 2012, p. 1: "For contingency operations, DOD routinely relies on contractors to provide front-line support and assist with the cradle-to-grave contracting process. These contractors perform vital tasks in support of U.S. defense and development objectives, including logistics support, equipment maintenance, fuel delivery, base operations support, and security." [Emphasis added.]

# ENDNOTES

30. See, for example, the discussion in CRS Report 7-5700, *Operational Contract Support: Learning from the Past and Preparing for the Future*, statement of Moshe Schwartz before the Committee on Armed Services, U.S. House of Representatives, September 12, 2012.
31. Congressional Research Service, Report R43074, *Department of Defense's Use of Contractors to Support Military Operations*, May 17, 2013, p. 24.
32. Harold W. Geisel, "U.S. Foreign Assistance: What Oversight Mechanisms Are in Place to Ensure Accountability?," testimony before the U.S. House Committee on Oversight and Government Reform, April 10, 2013.
33. GAO, Report GAO-13-283, *High-Risk Series: An Update*, February 2013.
34. For one summary of such recommendations, see SIGAR Audit-11-ISP, *Analysis of Recommendations Concerning Contracting in Afghanistan, as Mandated by Section 1219 of the Fiscal Year 2011 NDAA*, June 22, 2011.
35. CSTC-A, response to SIGAR data call, July 2, 2013.
36. USAID, Office of Acquisition and Assistance, response to SIGAR data call, July 2, 2013.
37. Daniel I. Gordon, Administrator, Office of Federal Procurement Policy (Office of Management and Budget), letter to Senator Joseph I. Lieberman, Chairman, U.S. Senate Committee on Homeland Security and Governmental Affairs, July 8, 2011.
38. DOD IG, Audit Report DODIG-2013-059, *Acquisition Processes and Contract Management: Air Force Needs Better Processes to Appropriately Justify and Manage Cost-Reimbursable Contracts*, March 21, 2013.
39. DOD IG, Audit Report DODIG-2013-059, *Acquisition Processes and Contract Management: Air Force Needs Better Processes to Appropriately Justify and Manage Cost-Reimbursable Contracts*, March 21, 2013.
40. Thomas Jefferson, letter to George Washington from Annapolis, MD, March 15, 1784, [http://avalon.law.yale.edu/18th\\_century/let23.asp](http://avalon.law.yale.edu/18th_century/let23.asp), accessed July 6, 2013. Jefferson was then U.S. Minister to France; Washington had returned to his plantation at Mount Vernon after relinquishing command of the Army in December 1783.
41. See Appendix B of this report.
42. DOD, "Justification for FY 2014 Overseas Contingency Operations, Afghanistan Security Forces Fund (ASFF)," 5/2013, p. 4.
43. DOD, response to SIGAR data call, 7/22/2013 and 4/16/2013; USAID, response to SIGAR data call, 4/17/2013; State, response to SIGAR data call, 7/15/2013; P.L. 112-74, 12/23/2011.
44. P.L. 111-32, "Supplemental Appropriations Act 2009," 6/24/2009.
45. DOD, response to SIGAR vetting, 7/20/2009.
46. See Appendix B of this report.
47. DOD, response to SIGAR data call, 7/22/2013.
48. DOD, responses to SIGAR data call, 7/22/2013 and 4/16/2013.
49. DOD OIG, "Distribution of Funds and the Validity of Obligations for the Management of the Afghanistan Security Forces Fund - Phase I," 11/5/2007, p. 2.
50. DOD, response to SIGAR data call, 7/22/2013.
51. DOD, response to SIGAR data call, 7/22/2013.
52. DOD, Financial Management Regulation, "Commander's Emergency Response Program: Vol. 12, Ch. 27," 1/2009, p. 27-3.
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Most of the fuel used in the Afghan economy, such as for this business truck in Herat, must be imported because the country's oil and natural-gas reserves have not been fully developed. See the economics section of this report for more information. (SIGAR photo)

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FRAUD, WASTE, OR ABUSE MAY BE REPORTED TO SIGAR'S HOTLINE

By Phone: Afghanistan  
Cell: 0700107300  
DSN: 318-237-3912 ext. 7303  
All voicemail is in Dari, Pashto, and English.

By Phone: United States  
Toll Free: 866-329-8893  
DSN: 312-664-0378  
All voicemail is in English and answered during business hours.

By Fax: 703-601-4065  
By E-mail: [sigar.hotline@mail.mil](mailto:sigar.hotline@mail.mil)  
By Web Submission: [www.sigar.mil/investigations/hotline/](http://www.sigar.mil/investigations/hotline/)

