

SIGAR

Special Inspector General for
Afghanistan Reconstruction

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2014

— 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.

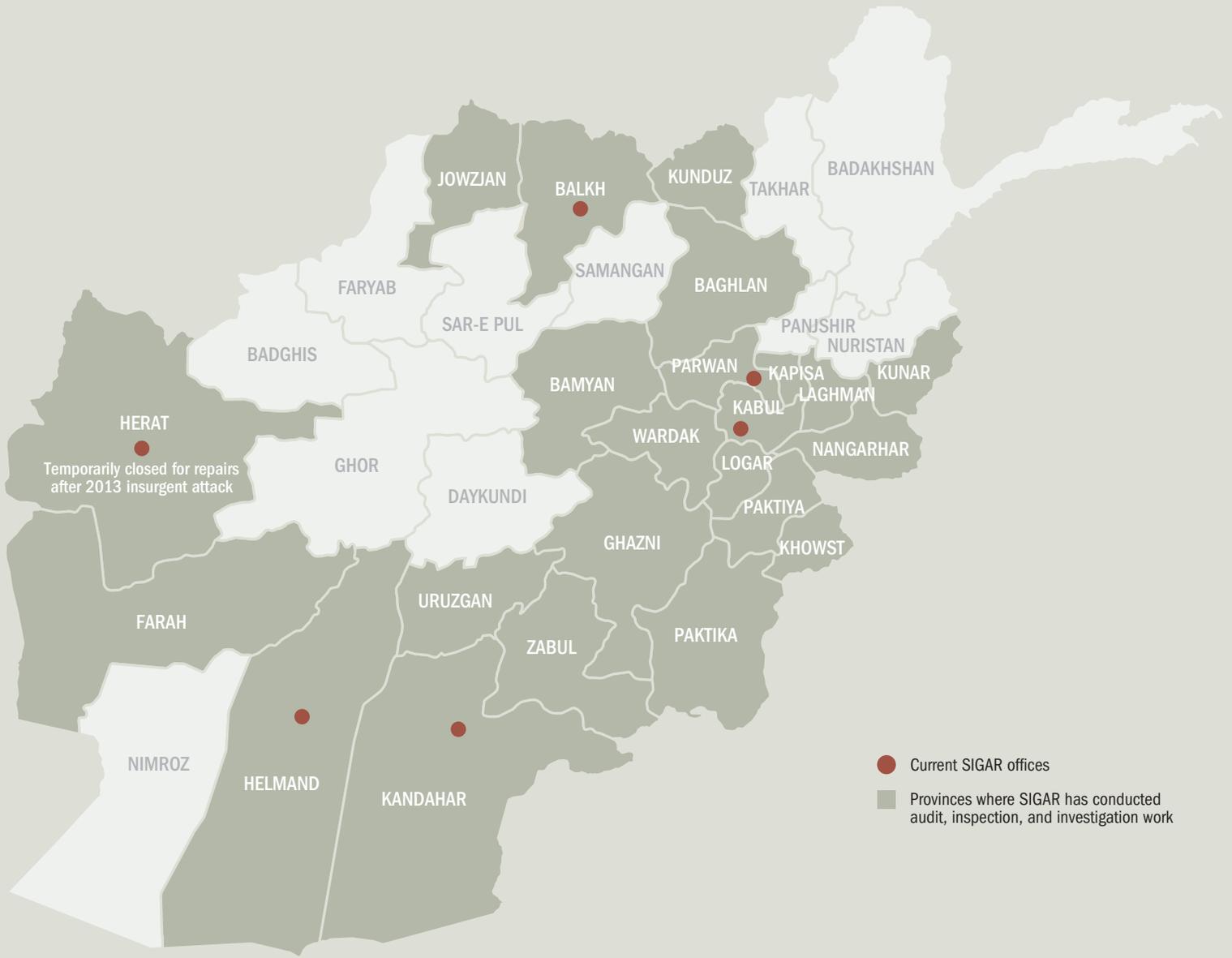
Afghanistan reconstruction includes any major contract, grant, agreement, or other funding mechanism entered into by any department or agency of the U.S. government that involves the use of amounts appropriated or otherwise made available for the reconstruction of Afghanistan.

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:

An armored vehicle of the U.S. 9th Marine Regiment moves through the desert during a patrolling operation in Helmand Province, Afghanistan, December 20, 2013. (USMC photo)



- Current SIGAR offices
- Provinces where SIGAR has conducted audit, inspection, and investigation work



SPECIAL INSPECTOR GENERAL FOR
AFGHANISTAN RECONSTRUCTION

I am pleased to submit to Congress, and to the Secretaries of State and Defense, SIGAR's 22nd quarterly report on the status of the U.S. reconstruction effort in Afghanistan.

The United States plans to complete the withdrawal of most of its combat forces from Afghanistan by the end of this critical transition year. However, the most expensive reconstruction effort ever undertaken in a single country will continue. Achieving U.S. strategic goals in Afghanistan now rests, more than ever, on the effective use of funds appropriated to build competent Afghan security forces, foster a legitimate government, and promote economic and social development.

This quarter, President Obama signed the National Defense Authorization Act for fiscal year (FY) 2014 and the FY 2014 Consolidated Appropriations Act, which pushes U.S. support for Afghan reconstruction past the \$100 billion mark. The FY 2014 appropriation, which is significantly less than the President had requested for the major reconstruction funds, recognizes that implementing agencies still have about \$14 billion in unspent funds from prior years' appropriations.

The legislation also includes provisions highlighted by SIGAR's work, and is designed to better safeguard taxpayer dollars, such as by expanding the prohibition on contracting with the enemy, providing that U.S. assistance must be exempt from Afghan taxation, and establishing conditions for on-budget assistance to the Afghan government.

During this reporting period, SIGAR issued 25 audit, inspection, and other reports identifying failures of oversight, construction deficiencies, and poor planning, as well as raising concerns about a program to develop the capabilities of the Afghan security forces and the capacity of Afghan ministries. Section 2 of this report summarizes our findings and recommendations.

The United States and other donors have promised to provide at least 50% of their development aid as on-budget assistance if the Afghan government makes progress towards fighting corruption, improving public finance, and protecting women's rights, among other goals. The United States and other donors agree that increased on-budget aid would help the Afghan government expand its ability to plan, budget, allocate, manage, and track funds, thereby building its capacity and legitimacy. The issue is whether the Afghan government can effectively use and account for increased on-budget assistance.

A SIGAR audit report published this quarter concluded that USAID has not fully implemented measures designed to fix significant problems within Afghan ministries that will receive over \$1 billion in direct, government-to-government assistance. In addition, a SIGAR Special Project report found that the Defense Department has committed more than \$4 billion to the Afghan Ministry of Defense and Ministry of Interior without conducting a comprehensive risk assessment of the two ministries' financial-management capabilities.

Since my last report to Congress, SIGAR has opened 51 new investigations and closed 39, bringing the total number of ongoing cases to 318. SIGAR investigations this quarter saved the U.S. government some \$1.7 million, while criminal fines and restitutions brought about by SIGAR amounted to approximately \$5.3 million. Based on evidence developed in Afghanistan and the United States, SIGAR also referred 10 individuals and 24 companies for possible suspension or debarment. SIGAR has increased its focus on money laundering,

and we are investing in information technology to enable our agents to better follow money obtained illicitly from fraud, corruption, and narcotics.

On January 15 this year, I testified before the Senate Caucus on International Narcotics Control about the perilous state of the U.S. counternarcotics effort in Afghanistan. The United States has invested about \$10 billion in programs intended, at least in part, to combat narcotics. Yet, Afghan farmers are growing more opium poppies today than at any time in their modern history. The drug trade is one of the biggest risk factors for the U.S. and international donor investment in Afghanistan.

SIGAR began a new audit this quarter to assess the extent to which U.S. assistance has helped build capable and sustainable provincial units of the Counter Narcotics Police of Afghanistan. SIGAR also plans a comprehensive audit of the U.S. counternarcotics effort to determine how U.S. funds have been spent, assess the degree to which U.S.-funded programs have achieved their purposes, and examine the extent to which these programs have been integrated under a cohesive strategy.

I spent two weeks in Afghanistan this quarter visiting projects and talking to American and international officials as well as Afghan citizens about the enormous challenges they face as the U.S. and Coalition presence shrinks. Everyone I spoke with sees 2014 as a pivotal year that will reveal the degree to which U.S. reconstruction efforts have established a foundation for a responsible government and expanding economy in Afghanistan. SIGAR has identified critical issues in security, governance, economic development, narcotics, and corruption as well as on-budget assistance. We have ongoing and planned work in each of these areas.

SIGAR is also extremely concerned that oversight could suffer as the United States shrinks its military and civilian footprint. For this reason, SIGAR, in collaboration with the United States Institute of Peace, is hosting a symposium in February to identify best practices for remote management and monitoring in insecure environments. SIGAR will publish its conclusions as a reference tool for government agencies and nongovernment organizations.

This quarter, I again reiterate my concerns—which I raised in our last three quarterly reports—about the policies of the U.S. Army's suspension and debarment program. The Army's refusal to suspend or debar supporters of the insurgency from receiving government contracts because the information supporting these recommendations is classified is not only legally wrong but also contrary to sound public policy and national security goals. I continue to urge Congress to change this faulty policy and enforce the rule of common sense in the Army's suspension and debarment program.

This quarterly report highlights the risks and uncertainties confronting the U.S. reconstruction effort during this pivotal year. As the U.S. drawdown continues, implementing agencies and oversight bodies will have far less visibility over the reconstruction programs than in the past. Effective oversight has never been more important than now. I will continue to work with the implementing agencies and other oversight bodies as well as with Congress to ensure that the enormous U.S. investment in the reconstruction of Afghanistan is not wasted.

Respectfully,

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

John F. Sopko
Special Inspector General for Afghanistan Reconstruction

EXECUTIVE SUMMARY

This report provides a summary of SIGAR’s oversight work and an update on developments in the three major sectors of Afghanistan’s reconstruction effort. It also includes a discussion of the risks and uncertainties facing the country as the Coalition withdraws most of its troops in this pivotal year of military and political transition. During this reporting period, SIGAR published 25 audits, inspections, alert letters, and other reports assessing the U.S. efforts to build the Afghan security forces, improve governance, and facilitate economic and social development. These reports identified a number of problems, including weaknesses of management and oversight, poor planning, construction deficiencies, and other threats to health and safety. SIGAR investigations saved the U.S. government some \$1.7 million, while criminal fines and restitutions brought about by SIGAR amounted to approximately \$5.3 million. SIGAR investigations also resulted in three criminal informations, five plea agreements, and six sentencing in the United States and two subjects being arrested and charged in Afghanistan.

SIGAR OVERVIEW

Political and military transitions make 2014 a pivotal year for Afghanistan. National elections in April will be a test of government effectiveness and, if successful, could ease ethnic tensions and increase public acceptance by providing the first democratic and peaceful hand-off of executive power in the country’s history. Meanwhile, the drawdown of foreign military forces continues. This year will give Americans fresh indications of how well the 12-year, nearly \$100 billion U.S. reconstruction effort—running in parallel with America’s longest war—may have succeeded. SIGAR’s work, together with a broad survey of reports, analyses, and expert opinion, reveals uncertainties and risks surrounding many aspects of Afghan life and society, including but not confined to: security, elections, governance, narcotics, corruption, economy, and international aid, including on-budget assistance. The most pressing questions are whether the Afghan security forces can stand firm against the insurgency with increasingly limited international support, and whether the Afghan government can hold open and honest elections to facilitate a peaceful political transition and build public acceptance of its legitimacy and effectiveness.

AUDITS

SIGAR produced four performance audits, eight financial audits, and three inspections this quarter. The **performance audits** found:

- The Afghan central bank’s capacity to regulate commercial banks remains weak.
- The State Department’s programs to support the Afghan justice sector need better management and stronger oversight.

- Despite reported successes, concerns remain about the results, contract oversight, transition, and sustainment of the Afghan National Security Forces (ANSF) literacy programs.
- The United States Agency for International Development (USAID) has not fully implemented measures designed to fix significant problems within Afghan ministries that will receive over \$1 billion in direct, government-to-government assistance.

The **financial audits** identified more than \$10.7 million in questioned costs as a result of internal control deficiencies and noncompliance issues. These deficiencies and noncompliance issues included, among other things, reclassification of costs in excess of line item budgets, ineligible personnel costs, missing timesheets, failure to conduct vendor suspension and debarment checks, property loss due to theft and fire, poor record retention, lack of supporting documentation, unapproved international travel and property purchases, and failure to adhere to procurement procedures.

The **inspection reports** of U.S.-funded facilities found the following problems:

- \$5.4 million was spent for inoperable incinerators, prolonging the use of potentially hazardous open-air burn pits at Forward Operating Base (FOB) Sharana.
- An education facility in Balkh remains unfinished and is unsafe to occupy after nearly five years.
- A lack of water and power and major construction deficiencies at Salang Hospital compromise Afghan citizens’ access to safe, reliable health care.

EXECUTIVE SUMMARY

NEW AUDITS

This quarter, SIGAR initiated four new performance audits and three new financial audits. The four performance audits begun this quarter will assess:

- U.S. support for Afghanistan's Information and Communication Technology Sector
- U.S. support for the Afghan Air Force
- Department of Defense (DOD) efforts to train, equip, and sustain the National Engineer Brigade
- U.S. efforts to develop and strengthen the provincial units of the Counter Narcotics Police of Afghanistan

The three new financial audits will examine DOD-funded contracts with combined incurred costs of approximately \$500.6 million, bringing the total number of ongoing financial audits to 20, with more than \$2.1 billion in costs incurred.

SPECIAL PROJECTS

During this reporting period, the Office of Special Projects issued:

- a special report on the safeguards created by DOD to protect \$4 billion provided directly to Afghanistan's Ministries of Defense and Interior
- an alert letter concerning evidence that a contractor identified as supporting the insurgency had gained access to a Coalition-controlled facility
- an alert letter concerning possible weaknesses in oversight provisions in a USAID agreement for providing direct, bilateral assistance funds to Afghanistan's national power utility
- a fact sheet identifying USAID's largest implementing partners
- a fact sheet identifying reconstruction projects that will not be readily accessible to oversight after the U.S. troop drawdown in 2014
- letters to nongovernmental organizations working with federal agencies in Afghanistan to identify best practices
- three letters to DOD: requesting information about the Commanders' Emergency Response Program; announcing that SIGAR is reopening its investigation of the decisions that led to the construction of a 64,000-square-foot building at Camp Leatherneck in Helmand Province that the military will be using;

and announcing that SIGAR has started a review of the terminated plan to provide G-222 aircraft to the Afghan Air Force.

INVESTIGATIONS

During this reporting period, a SIGAR investigation saved the U.S. government approximately \$1.7 million. SIGAR investigations also resulted in three criminal informations, five plea agreements, and six sentencing in the United States. In Afghanistan, two subjects were arrested and charged. Criminal fines and restitutions brought about by SIGAR amounted to approximately \$5.3 million. SIGAR initiated 51 new investigations and closed 39, bringing the total number of ongoing cases to 318. In addition, SIGAR's suspension and debarment program referred 10 individuals and 24 companies for suspension or debarment based on evidence developed as part of investigations conducted by SIGAR in Afghanistan and the United States.

Investigations highlights include:

- a former U.S. Army staff sergeant sentenced after pleading guilty to conspiracy to commit mail fraud, theft, and conversion of government property
- a sting operation at FOB Ghazni resulting in two arrests
- a U.S. Army sergeant first class pleading guilty to bribery and theft schemes
- a fraud investigation resulting in four criminal convictions
- two sentenced for fuel theft
- a U.S. Army sergeant convicted for theft of government funds

FUNDING UPDATE

The Consolidated Appropriations Act, 2014, provided an additional \$5.4 billion for relief and reconstruction in Afghanistan, increasing cumulative appropriations since FY 2002 to approximately \$102 billion. This figure excludes appropriations for State and USAID accounts, which had not been finalized when this report went to press. Approximately \$19 billion of the amount appropriated for the seven major reconstruction funds highlighted in this report remained to be disbursed, as of December 31, 2013.

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“The longer this uncertainty about the future international commitment to Afghanistan continues, the more anxiety will increase, potentially dominating the upcoming presidential elections, threatening to turn these into a polarizing, rather than a unifying, experience in the country. Prolonged uncertainty over the BSA will also erode larger international support for Afghanistan.”

—*Special Representative to Afghanistan*
James Dobbins

1 2014: A PIVOTAL YEAR OF RISK AND UNCERTAINTY



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NATO foreign ministers and non-NATO participants in the International Security Assistance Force (ISAF) discuss Afghanistan security issues in a meeting at NATO headquarters in Brussels on December 4, 2013. Under United Nations Security Council resolutions, NATO leads the ISAF. The United States supplies about two-third of ISAF's 57,000 troops in Afghanistan. (State Department photo)

2014: A PIVOTAL YEAR OF RISK AND UNCERTAINTY

Political and military transitions make 2014 a pivotal year for Afghanistan. National elections in April will be a test of government effectiveness and, if successful, could ease ethnic tensions and increase public acceptance by providing the first democratic and peaceful handoff of executive power in the country's history. Meanwhile, the drawdown of foreign military forces continues. About 39,000 U.S. military personnel remain in Afghanistan, down from 66,000 at the start of 2013.¹ Afghan forces formally took the lead in combat operations in June, and most U.S. and other North Atlantic Treaty Organization (NATO) troops will leave by the end of 2014.

Foreign troops are leaving, but Afghanistan's social and economic problems, a U.S. pledge of billions of dollars in aid for years to come, and a tough and persistent insurgency all remain. This pivotal transition year will give Americans fresh indications of how well the 12-year, more than \$100 billion U.S. reconstruction effort—running in parallel with America's longest war—may have succeeded. The stakes involve much more than reckoning return on investment. As the Congressional Research Service observed in its most recent report on Afghanistan:

This is a critical time for U.S. efforts in the war in Afghanistan. ... While troop levels tend to steal the headlines, more fundamentally at stake is what it would take to ensure the long-term protection of U.S. interests in Afghanistan and the region. Arguably, the United States may have a number of different interests at stake in the region: countering al Qaeda and other violent extremists; preventing nuclear proliferation; preventing nuclear confrontation between nuclear-armed states; standing up for American values, including basic human rights and the protection of women; and preserving the United States' ability to exercise leadership on the world stage.²

SIGAR's work, together with a broad survey of reports, analyses, and expert opinion reveal uncertainties and risks surrounding many aspects of Afghan life and society, including but not confined to:

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- Security
- Elections
- Governance
- Narcotics
- Corruption
- Economy
- International aid, including on-budget assistance

The most pressing questions are whether the Afghan security forces can stand firm against the insurgency with increasingly limited international support, and whether the Afghan government can hold open and honest elections to facilitate a peaceful political transition and build public acceptance of its legitimacy and effectiveness.

SECURITY

More than half of all U.S. reconstruction dollars—\$59 billion—have gone toward building up the Afghan National Security Forces (ANSF) to prevent al-Qaeda and other terrorist groups from establishing sanctuaries in Afghanistan. Although the ANSF—composed of the Afghan National Army and the Afghan National Police—assumed lead responsibility for security operations in June 2013, the United States and its NATO allies have planned to keep several thousand military personnel in Afghanistan to provide training and support to the Afghan security forces, as well as to conduct small counter-terrorism operations after 2014.

Coalition officials say the ANSF will continue to need NATO mentoring after most international combat troops have departed. Moreover, the Afghan government does not have the financial resources to pay salaries, purchase equipment, maintain facilities, and mount ANSF operations. NATO has estimated that it could cost as much as \$5 billion a year to sustain the ANSF.

The post-2014 U.S. and NATO mission depends heavily on the Afghan government's agreeing to a new U.S.-Afghan Bilateral Security Agreement (BSA) that will define the role and legal status of foreign troops. A newly negotiated BSA has been approved by a *Loya Jirga* consultative assembly convened by President Hamid Karzai, but as of press time, he has refused to sign it.

U.S. Secretary of Defense Chuck Hagel warned that if Afghanistan does not accept the BSA, a total U.S. withdrawal—the so-called “zero option”—could occur at the end of 2014.³ “If we cannot conclude a BSA promptly,” a State Department briefer said in January 2014, “then we will initiate planning for a post-2014 future in which there would be no U.S. and—or no NATO troop presence in Afghanistan.” She added, “The further this slips into 2014, the more likely such an outcome is.”⁴



Soldiers of the U.S. 133rd Infantry Regiment patrol near the mountain village of Nengadesh, Afghanistan, in coordination with the Afghan 201st Corps. (U.S. Army photo)

NATO plans to leave an 8,000–12,000 soldier force in Afghanistan after 2014, but without a signed U.S.-Afghan BSA followed by a NATO-Afghan pact, “We don’t have a proper legal framework in place and it will not be possible to deploy a ‘train, advise, assist’ mission to Afghanistan,” said NATO Secretary General Anders Fogh Rasmussen.⁵ At the same time, the Chairman of the Joint Chiefs of Staff, General Martin Dempsey, has warned that a full withdrawal could contribute to regional instability: “All of us would be concerned about the possibility of ungoverned space producing safe havens for terrorism, so stability in the region is in our national interest.”⁶

The consequence of having no U.S. or other NATO troops in Afghanistan after 2014 for training, advising, or limited counter-terror responses could be dire for Afghan security. Rasmussen reported to the United Nations in December 2013 that the ANSF “is well on the way to becoming a completely fielded force, although its combat capability is not yet self-sustainable.” He added, however, that “much work remains to be done” to develop and maintain a modern army and national police, and to build ministerial capacity in military and police planning, budgets, program operation, acquisition, and personnel processes.⁷

A Brookings Institution scholar, Vanda Felbab-Brown, has observed that the Afghan security forces “continue to suffer from deeply inadequate logistical, sustainment, and other support capabilities and are also deeply pervaded by corruption, nepotism, and ethnic and patronage fissures.”⁸ Other challenges to ANSF effectiveness include widespread illiteracy, high rates of casualties and desertion, and the tenacity and resilience of its insurgent foes.

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A paratrooper of the U.S. 82nd Airborne Division takes tea with members of the Afghan National Police. (U.S. Army photo)

Because the United States has committed so much to developing the ANSF and views these forces as vital to the success of the U.S. mission, SIGAR continues to focus audit, inspection, and investigative work on programs to build the Afghan security forces. This quarter SIGAR published an audit report and a special project that raised concerns about the ANSF.

The NATO-led International Security Assistance Force (ISAF) has used a number of systems over the years to assess progress in manning, equipping, and training ANSF units. In July 2013, ISAF replaced the Commander's Unit Assessment Tool (CUAT) with the Regional Command/ANSF Status Report (RASR).

The RASR is intended to yield more accurate, consistent, and useful results than the CUAT system. A SIGAR audit now under way is examining whether the disparities and inconsistencies that limited the value of the CUAT persist under the RASR. Moreover, ISAF does not yet have a plan for ensuring continued collection, analysis, validation, and reporting of ANSF capability assessments as foreign forces draw down and the number of advisor teams shrinks.⁹ (More detail on SIGAR oversight reports appears in Section 2 of this Quarterly Report; full texts are posted on the SIGAR website, www.sigar.mil)

Another SIGAR audit issued during this reporting period identified a number of problems with three U.S.-funded contracts with a total value of \$200 million intended to increase ANSF literacy.

SIGAR found that not one of the contracts requires independent verification of literacy test results. Further, a definitive measure of current, overall literacy in the ANSF is unobtainable because the literacy-training program does not facilitate tracking of graduates, many recruits have been sent to the field with little or no training, and estimated attrition levels are 30–50%. Meanwhile, the NATO Training Mission-Afghanistan and the Combined Security Transition Command-Afghanistan (CSTC-A) have not yet developed a new transition and sustainment strategy defining Afghan ministries' post-transition responsibilities, commitments, goals, milestones, metrics, and timelines for literacy training.¹⁰

At a broader level, SIGAR has observed issues in CSTC-A's commitment of more than \$4 billion to the Afghan Ministry of Defense and the Ministry of Interior to sustain army and police forces. Although CSTC-A uses some risk-mitigation tools, current practices focus on specific offices, providing an incomplete view of ministry-wide budget processes, and only limited risk assessments. The Office of the Secretary of Defense concurred with SIGAR's Office of Special Projects suggestion that it consider conducting a comprehensive assessment of the two ministries' financial-management capacity.¹¹

SIGAR remains extremely concerned about the ANSF capabilities and the use of U.S. funding for the security forces. A forthcoming SIGAR audit will examine U.S. support for developing the Afghan Air Force. DOD asked for more than \$1 billion in FY 2014 appropriations to buy new equipment for

the Afghan Air Force; the bill passed by Congress in mid-January reduced that amount by more than a third, reflecting DOD's cancelling a plan to buy more Russian-built helicopters for the Afghans. The audit will look at the Afghan Air Force's ability to operate and maintain the additional aircraft and equipment. Another audit will examine DOD efforts to train, equip, and sustain the Afghan National Army's National Engineer Brigade, which is due to receive large quantities of equipment to carry out its support functions.

Security concerns also affect oversight. Continuing oversight of security progress is vital: Afghanistan's pervasive insecurity hinders delivery of public services, deters investment, encourages human and capital flight, and undermines public confidence and support for the government.

The drawdown of U.S. military and civilian personnel, however, is imposing new limits on security, movement, and medical support for in-country oversight officials.¹² SIGAR teams have already encountered difficulties traveling in Afghanistan, especially in rural or remote areas. Implementing agencies' and oversight officials' visibility into Afghan reconstruction projects—not only for security, but governance and economic development as well—seems likely to continue to shrink.

To address this issue, SIGAR and the U.S. Institute of Peace (USIP) are cosponsoring a symposium February 12–13, 2014, to examine ways to conduct effective program and project oversight in insecure environments like Afghanistan. Participants will discuss best practices and innovations, including varieties of remote monitoring. SIGAR will report symposium conclusions to Congress.

ELECTIONS

The Afghan presidential election scheduled for April 2014 could provide the first peaceful, democratic handover of power in the country's history. Balloting will also determine the makeup of the country's 34 provincial councils. However, as in the past, Afghanistan faces problems with voter registration, female voter participation, voter identification, polling-place security, tampering, fraud, and insurgent interference.

Seth Jones, an author and RAND Corporation scholar, expects the presidential and council voting “will almost certainly be marred by violence and corruption, as was the 2009 presidential election.” However, his main worry is that “the election could further weaken the state if substate actors, especially power brokers from northern and western Afghanistan, lose faith in the central government and accelerate efforts to rearm. These fissures would undermine the cohesiveness of the Afghan National Army and other security agencies, as well as affect the scope and degree of support from neighboring states.”¹³

A USIP report on issues and concerns for the April voting listed the principal obstacles to holding a successful election:



Satellite photo shows 16 transport aircraft sitting idle on the tarmac in Kabul (Photo provided to SIGAR by U.S. State Department)

American taxpayers provided nearly half a billion dollars to buy and refit 20 transport aircraft from Italy for the Afghan Air Force. The planes may be scrapped or sold because vital parts needed to maintain them are unavailable, and because a sustainment contract might have cost an additional \$200 million. The Italian-designed planes (known as the G-222 or C-27A) were bought used. Sixteen of them now sit unused in Kabul; the other four sit unused at a U.S. air base in Germany. On December 5, 2013, SIGAR informed the Secretary of Defense and two military commanders that its Office of Special Projects was launching a review of the G-222 purchase to determine what went wrong and to extract lessons learned for future reference.

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Preparations are under way for Afghan presidential and provincial-council elections in April. Here, observers monitor balloting in an earlier election. (USAID photo)

- lack of polling-place-specific voter registries to guard against fraud
- security challenges that could permit operation of “ghost polling centers” that produce masses of fraudulent votes
- legally required scheduling that forces preparations and voting in the spring, when weather hinders access to much of the country and when rural voters must prepare their farms for new crops
- a requirement for a new vote if any presidential candidate dies before vote results are announced—an invitation to insurgents to plan assassinations

The USIP report reflects the widely held view that “a failure of the 2014 elections would have catastrophic consequences for peace and stability, not only in Afghanistan but also across the entire region.”¹⁴

GOVERNANCE

Security is an essential, but not a sufficient condition to establish Afghanistan as a modern bureaucratic state. As Clare Lockhart, director of the Institute for State Effectiveness, has said:

A well-functioning army is insufficient to govern a country. Vital state functions include maintaining a public-finance system; providing health services and education; planning infrastructure for transportation, communications, irrigation, and energy; and managing sources of revenue, including municipalities, tenders, and licenses.¹⁵

Although official U.S. policy recognizes that improved governance must accompany efforts to build the Afghan security forces, some analysts have expressed concern that not enough attention has been paid to helping Afghans build enduring governing institutions. For example, Pauline Baker, president emeritus of the Fund for Peace, wrote after a 2013 visit to Afghanistan:

Over the past dozen years, ISAF has created a virtual state within a state that will shrink dramatically once combat forces depart. This will leave a much weakened, highly militarized and deeply corrupt narco-state that could descend into outright civil war and, possibly, partition. The central question is not whether the Western-trained, supplied and financed Afghan security forces will be able to contain the Taliban insurgency, as is commonly thought. Even if they can, the more critical question is whether the state itself will hold together once Western life support is removed.¹⁶

That critical question does not receive a heartening answer in the Fund for Peace’s 2013 edition of its “Failed States Index.” The index ranks states by scores on measures including demographic pressures, refugees or displaced persons, aggrieved groups seeking revenge, uneven economic development, poverty, economic decline, public services, security apparatus,

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and rule of law. Afghanistan ranks seventh-worst of 171 nation-states, trailing only Somalia, Congo, Sudan, South Sudan, Chad, and Yemen.¹⁷

SIGAR and other organizations have noted common and persistent problems in Afghan ministries' ability to plan and execute budgets, deliver adequate levels of public services, and account for the use of funds. For example, a 2013 World Bank assessment of Afghan public financial management and accountability noted "remarkable progress" and found Afghanistan's ratings on a par or better than in 15 other "fragile states," but said Afghan finance functions suffer from weak internal audit, lack of standards application, and lack of publication of compliance-review results. In general, "performance is still largely dependent on donor-funded technical assistance for policy advice and operational support."¹⁸

Donor technical assistance is not always welcomed. This quarter, SIGAR issued an audit of the Afghan banking system that found the central bank's financial-supervision department's capacity to regulate the banking sector is "severely limited and in need of outside technical assistance." The central bank has refused, however, to agree on standards for further foreign technical support. That refusal has left the system "unstable and at risk of experiencing another crisis similar to the near collapse of Kabul Bank."¹⁹ (See Section 3 of this Quarterly Report for an update on the 2010 Kabul Bank scandal involving fraud and losses of hundreds of millions of dollars.)

Recognition of Afghanistan's problems with effective governance is widespread. In its latest semiannual report to Congress on Afghanistan, the U.S. Department of Defense delivers a sharp summary:

Effective governance, rule of law, and sustainable economic development are all necessary for long-term stability in Afghanistan. However, these are hindered by multiple factors, including widespread corruption, limited formal education and skills, illiteracy, minimal access by officials to rural areas, lack of coordination between the central government and the Afghan provinces and districts, and uneven distribution of power among the branches of the Afghan government. ... The Afghan government is highly centralized, with revenue, budgeting, spending, and service delivery authority residing with the central ministries in Kabul. This level of centralization limits the efficiency of service delivery at the provincial and district levels. Development of capacity at local levels is slowed by limited human capital as well as by delays in enactment of structural reforms by the central government. ... While Afghans are increasingly capable of solving near-term issues, they still lack a systematic and proactive planning method for strategic planning, budget development, and sustainment processes.²⁰

NARCOTICS

Despite years of costly efforts to suppress opium cultivation, attract farmers to alternative livelihoods, interdict drug shipments, and prevent drug-trade



Public services in Afghanistan include providing dental care at this free clinic in Wardak Province. The woman is about to have a bad tooth extracted. (U.S. Air Force photo)

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Members of the Counter Narcotics Police of Afghanistan talk while tons of seized opium, hashish, and drug-related chemicals burn in Kabul Province. (U.S. State Department photo)

money laundering, the UN Office of Drugs and Crime reported this quarter that the amount of Afghan land in opium production has hit “a sobering record high” of 209,000 hectares²¹—more than half a million acres, and an 8% increase over the previous record of 193,000 hectares set in 2007. While opium production provides many farmers with a higher income than they can gain from any legal crop, the opium business also provides revenue to insurgents, supports criminal networks, fosters addiction, and diverts effort and resources from more beneficial uses.

The U.S. Congress has appropriated nearly \$7 billion to combat the narcotics trade in Afghanistan: more than \$4 billion for the Department of State’s Bureau of International Narcotics and Law Enforcement Affairs, which manages the International Narcotics Control and Law Enforcement account; and more than \$2.6 billion for DOD’s Drug Interdiction and Counter-Drug Activities fund. This does not include funds appropriated for agriculture programs designed to encourage Afghans to develop alternative livelihoods. The DOD fund supports military operations against drug traffickers and Afghan interdiction operations while providing counternarcotics training, equipment, and facilities to Afghan law enforcement.

The results of all this spending and activity leave something to be desired. Special Inspector General John F. Sopko testified in Congress in January 2014 that the counternarcotics effort suffers from low prioritization, lack of a comprehensive strategy, and the challenge posed by a declining U.S. law-enforcement presence in Afghanistan. Despite the large U.S. investment in counternarcotics programs, he told Congress:

The narcotics trade is poisoning the Afghan financial sector and fueling a growing illicit economy. This, in turn, is undermining the Afghan state’s legitimacy by stoking corruption, nourishing criminal networks, and providing significant financial support to the Taliban and other insurgent groups. ... In sum, the expanding cultivation and trafficking of drugs is one of the most significant factors putting the entire U.S. and international-donor investment in the reconstruction of Afghanistan at risk.²²

CORRUPTION

Afghanistan remains one of the most corrupt countries in the world. Corruption diverts funds from intended uses, undermines the rule of law, and erodes popular support for the Afghan government.

SIGAR audits have assessed Afghanistan’s anti-corruption bodies and evaluated monitoring of bulk cash flows through the Kabul International Airport. SIGAR reports have repeatedly noted that despite the enormous risk corruption poses to the entire reconstruction effort, the United States does not have a comprehensive anticorruption strategy.²³ SIGAR investigators at six field offices in Afghanistan seek to apprehend individuals

engaged in bribery and extortion. Meanwhile, SIGAR has found serious shortcomings in Afghan capacity and determination to combat corruption.

Implementing agencies are calling upon the international community to make reconstruction funds conditional to Afghanistan addressing its endemic corruption. For example, in its latest Report on Progress Toward Security and Stability in Afghanistan, DOD observed:

Although the ANSF are ahead of GIRoA [Government of the Islamic Republic of Afghanistan] in some counter-corruption efforts, the lack of political will to address these serious issues across the rest of GIRoA will continue to threaten the government's legitimacy and ultimately poses a significant risk to the ISAF [International Security Assistance Force] mission. The elimination of egregious corruption in Afghanistan cannot be achieved without coordinated action from the international community to enforce conditions placed on GIRoA. In short, the only weapon available to affect the situation on a national level is control of "purse strings" that finance GIRoA functionality.²⁴

ECONOMY

Isolated, mostly rural, infrastructure-sparse, energy-import-dependent, conflict-torn Afghanistan is one of the world's most impoverished countries. Its per capita gross domestic product is estimated at \$1,100, versus \$51,700 for the United States.²⁵ U.S. support pays for the great bulk of Afghanistan's security costs, ranging from uniforms and weapons to food and fuel, but the Afghan government also faces demands for public services and development that it cannot fund from domestic sources.

During this reporting period, the Afghan government submitted its budget, which totaled \$7.9 billion, to parliament. That is almost four times the government's annual domestic revenue of about \$2 billion a year, which is slightly less than the FY 2013 operating budget for Baltimore, Maryland (population 621,000).²⁶ Afghanistan's fiscal deficit of nearly 9% of GDP is one of the worst in the world.²⁷ Consequently, Afghanistan relies on international assistance to pay most of its civilian operating and development budgets as well as the bulk of its security costs.

Afghanistan's economic indicators are not promising. Afghanistan's economy grew an average 9.2% per year—albeit from a very low base—from 2003 through 2012, but the World Bank attributes much of this growth to high levels of international assistance. The Bank notes that "private investment, on the other hand, has played a rather small role."²⁸ The Asian Development Bank has reported high agricultural output in Afghanistan reflecting "highly favorable" rains, but notes that tax and customs revenues have declined while industry and services have weakened, apparently due to "business and consumer uncertainty in view of insurgents' stepped up

ANTICORRUPTION EFFORTS FOR AFGHANISTAN FAIL TO IMPRESS

- The latest ranking by the independent organization Transparency International has Afghanistan, North Korea, and Somalia in a tie for world's most corrupt country.
- In its response to SIGAR's data call for this report, the U.S. Department of State said the Afghan High Office of Oversight and Anti-Corruption (HOO) suffers from "the lack of political will and seriousness of purpose at the upper echelons of government in fighting corruption, especially when it involves the powerful and political elite."
- State and USAID have agreed that the HOO, while technically capable of functioning as an effective anticorruption agency, is dysfunctional, ineffective and politicized. As a result, USAID terminated its support of the HOO this quarter.
- State has also concluded that Afghanistan's Major Crimes Task Force shows little inclination or ability to pursue high-level corruption, that the Afghan Attorney General's Office prosecutes few politically connected people, and that the Supreme Audit Office has had limited effectiveness in auditing ministries.
- Afghanistan did create an Independent Joint Anti-Corruption Monitoring and Evaluation Committee with foreign-national participation, but its authority is confined to monitoring corruption, developing benchmarks and recommendations, and reporting.
- Meanwhile, SIGAR has found the U.S. government has no comprehensive strategy to combat corruption in Afghanistan.

Sources: Agency responses to SIGAR data calls, SIGAR Quarterly Reports.

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Seamstresses sew blankets for the Afghan National Security Forces at an Afghan women-owned factory in Kabul. The work is supported through the NATO Training Mission-Afghanistan. (U.S. Air Force photo)

attacks in connection with the 2014 full transfer of security responsibility to local forces.”²⁹ None of this bodes well.

Last year, the U.S. Director of National Intelligence told Congress, “Kabul has little hope of offsetting the coming drop in Western aid and military spending, which has fueled growth in the construction and services sectors.”³⁰ Some observers expect that drop to have severe consequences. Nader Nadery, director of the independent, international-community-funded Afghanistan Research and Evaluation Unit, predicts:

The withdrawal of Western forces will be accompanied by the drawdown of international development agencies, the reduction of aid, and an uncertain investment climate. The immediate effects will be capital flight, heightened risks for investments, and the collapse of drivers of economic growth such as reconstruction, logistics, and transportation.³¹

Ambassador James Dobbins, the U.S. special envoy to Afghanistan and Pakistan, recently told reporters that he also expects aid to shrink along with the foreign footprint: “My judgment is no troops, no aid, or almost no aid. The [donors’] political support for the aid comes from the military presence.”³²

The World Bank describes Afghanistan as “an extreme outlier in terms of dependence on aid.” International assistance has at times exceeded 100% of Afghanistan’s gross domestic product. However, the Bank has also pointed out that “most international spending ‘on’ Afghanistan is not spent ‘in’ Afghanistan; it leaves the economy through imports, expatriated profits of contractors, and outward remittances.” This is particularly true, the Bank notes, of the off-budget aid that constitutes most of foreign donors’ assistance. Therefore, the bank suggests that with a shift to more on-budget assistance “the impact of large aid reductions on economic growth may be less than expected.”³³

INTERNATIONAL AID, ON- AND OFF-BUDGET

The World Bank has projected that Afghanistan will require at least \$7 billion a year during the coming decade to fill the fiscal gap between its domestic revenues and its outlays for security, other operations, and development.³⁴ The United States is expected to be the largest source of that aid, as it has been since 2002. However, the future of international aid for Afghanistan remains precarious.

One question is whether Afghanistan will demonstrate adequate performance against the benchmarks of the 2012 Tokyo Accountability Framework, developed in a donors’ conference and agreed to by Afghanistan. The Framework conditions delivery of additional billions in donor assistance upon Afghan progress against specified governance and development benchmarks in areas including elections, corruption, narcotics, public finance, and human rights. The international community,

including the United States, conditionally pledged over \$16 billion through 2015, and “sustaining support, through 2017, at or near the levels of the past decade,” and to channel at least 50% of aid “on budget,” through the Afghan government.³⁵

The United States has been providing both on-budget and off-budget assistance to Afghanistan since 2003. However, most of the assistance has been off-budget.

The United States provides *on*-budget assistance to Afghanistan through direct (government-to-government) payments to Afghan ministries and payments supporting host-country contracting; or through contributions to trust funds such as the Afghan Reconstruction Trust Fund (ARTF) administered by the World Bank or the Law and Order Trust Fund for Afghanistan (LOTFA) administered by the United Nations Development Programme, which thereby serve as intermediaries for U.S. aid.³⁶ In either case, funds are recognized in Afghan national and ministerial budgets and the Afghan government exercises some control over them. Afghan control may, however, be limited by agreements with other nations or with international organizations on objectives, progress benchmarks, documentation of costs, or other metrics and conditions.

U.S. *off*-budget assistance involves funds that do not become part of the Afghan government’s budget process and are controlled by donors. Off-budget U.S. assistance to Afghanistan includes, for example, local projects executed through DOD’s Commander’s Emergency Response Fund (CERP) and the DOD-State-managed Afghanistan Infrastructure Fund.³⁷ Projects and programs such as technical assistance and aid to civil-society organizations that are executed by international and non-governmental organizations are also typically off-budget, even if they are coordinated with the Afghan government and if their objectives and deliverables are “aligned” with Afghanistan’s National Priority Programs.³⁸

The State Department has argued that increasing government-to-government assistance is “critical” to meeting “the need to strengthen Government of Afghanistan systems and capacity to increase its legitimacy in the eyes of the Afghan public as part of the overarching civilian-military strategy in Afghanistan.”³⁹ As of December 31, 2013, USAID had committed over \$1 billion in such direct assistance to Afghan ministries and other government entities.⁴⁰

The commitment to increase on-budget assistance, whether direct or via multilateral trust funds, entails reduced U.S. control and visibility over the use of American taxpayers’ money. SIGAR believes it is critical to ensure that Afghan government entities receiving on-budget assistance have some reasonable capability to manage and account for those funds.

That capability is currently not all that it might be. In late 2010, after the United States had committed to providing more on-budget assistance to Afghanistan, USAID contracted with two U.S. accounting firms—Ernst &

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International assistance, mostly American, supports construction of facilities like this 28-bed hospital in Herat Province. The Afghan government also relies on aid for many sustainment costs once such facilities are completed. (U.S. Army Corps of Engineers photo)

Young and KPMG—to assess 16 Afghan ministries’ ability to manage U.S. funds. USAID subsequently conducted internal risk reviews of seven of the 16 ministries assessed.

This quarter, SIGAR completed its audit of the ministerial assessments and USAID’s internal reviews of seven ministries. Both Ernst & Young and KPMG concluded that none of the ministries they assessed could manage and account for funds properly without implementing many risk-mitigation measures recommended in the auditors’ assessment reports.

SIGAR found that the accountants made a total of 696 recommendations, of which 41% were “critical” or “high risk.” USAID’s subsequent internal review of seven ministries found 104 major risks. These included “concealing vital monitoring and evaluation information” and “misappropriation of cash arising from payment of salaries in cash.” Although USAID concluded that the ministries were unable to manage direct assistance without a risk-mitigation strategy in place, USAID has signed agreements with each of the reviewed ministries for direct-assistance programs.⁴¹ Moreover, USAID adopted only a small portion of the hundreds of risk-reducing recommendations as conditions for the ministries must meet for receiving assistance.

SIGAR agrees that giving the Afghan government the responsibility to allocate, manage, and track funds through the increased use of direct assistance is important because the Afghan government must ultimately sustain the reconstruction effort. At the same time, conditions in Afghanistan make it equally critical that U.S. implementing agencies use every safeguard at their disposal to protect U.S. funds.

As the Special Inspector General for Afghanistan Reconstruction, John F. Sopko, told lawmakers last year:

A greater proportion of the funds will be going toward Afghans, rather than foreign contractors or NGOs, and this may result in increased government capacity and more sustainable development. On the other hand, capacity challenges in the Afghan ministries coupled with the difficulties of providing assistance in a conflict zone riddled with corruption will also put direct assistance funds at risk of being wasted. Whatever type of aid the United States provides, U.S. government officials must address the systemic problems inherent in every aspect of the reconstruction effort—inadequate planning, poor quality assurance, poor security, questionable sustainability, and pervasive corruption.⁴²

The World Bank has also expressed concerns about the ability of the Afghan government to absorb on-budget assistance. It noted that “Increasing on-budget aid and managing O&M [operations and maintenance] through government systems would greatly improve aid effectiveness,” but the Afghan government “will need to overcome serious absorptive capacity constraints if it is to be in a position to receive additional donor money on budget.”⁴³ Similarly, Anthony Cordesman, a former

DOD and State official now with the independent Center for Strategic and International Studies, has said, “It is far from clear that Afghanistan has the ability to absorb anything like the disbursements that did occur—much less the [donors’] total commitments,” partly because of “the incompetence and corruption of the Afghan central government.”⁴⁴

Unfortunately, not all the challenges to effective oversight originate in Afghanistan. SIGAR and other U.S. oversight agencies have noted numerous failures by federal agencies in overseeing projects and accounting for funds. Issues include widespread lack of accountability and compliance with existing regulations and standards that affect reconstruction projects, such as requirements for site visits, documentation, and certifications.⁴⁵

If gathering good evidence for judging U.S. assistance programs is difficult, doing so for programs executed by Afghan ministries with funds partially veiled by the process of on-budget assistance can only be more difficult.

CONCLUSION

During this pivotal transition year, the U.S. reconstruction effort to build capable security forces, improve governance, and foster economic development will take place in an environment of increased risk. As the U.S. reduces its military and civilian presence while increasing on-budget assistance, implementing agencies and oversight bodies will have far less visibility over reconstruction programs than in the past. SIGAR is working with other agencies to identify ways to continue to provide robust oversight of the most costly effort to rebuild a single nation in U.S. history.

The year began with grave concern over acceptance of the new Bilateral Security Agreement, questions about the ANSF’s ability to maintain security, fear that upcoming elections will not be seen as legitimate, and serious doubts whether the Afghan government will implement reforms needed to ensure continued international assistance. Afghanistan’s future will be powerfully shaped by Afghan and international-community actions to resolve these uncertainties as 2014 proceeds.

“Since 2010 SIGAR has been voicing concern about the lack of an anticorruption strategy in one of the world’s most corrupt countries.

Despite the fact that the narcotics trade and corruption are inextricably linked, we recently reported that the United States still does not have a comprehensive strategy to guide U.S. anticorruption activities.”

—*Special Inspector General John F. Sopko*