

# SIGAR

Special Inspector General for  
Afghanistan Reconstruction

OCT 30  
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: Pub. 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 Appendix A.)

### **Cover photo:**

In the Afghan opium economy: A four-year-old girl tends opium poppy in Ghor Province, officially declared poppy-free between 2009 and 2011. (SIGAR photo by David Mansfield)





SPECIAL INSPECTOR GENERAL FOR  
AFGHANISTAN RECONSTRUCTION

I am pleased to submit to Congress, and the Secretaries of State and Defense, SIGAR's 25th quarterly report on the status of the U.S. reconstruction effort in Afghanistan.

An encouraging milestone in Afghan history occurred on September 29th, when President Hamid Karzai peacefully handed over the presidency to the newly elected Ashraf Ghani, who in turn swore in his electoral runner-up, Abdullah Abdullah, as chief executive officer. This transition marked the first peaceful and democratic change of regime in Afghanistan's turbulent history.

It is hoped that the inauguration of this national-unity government will reinvigorate Afghanistan's reconstruction. The new government has already signed the Bilateral Security Agreement with the United States and a Status of Forces Agreement with NATO, providing the legal framework for the continued commitment of the United States, NATO, and its partner nations to train, advise, and assist the Afghan National Security Forces (ANSF). President Ghani also appears to have taken an aggressive stand against corruption. Among his first actions, he ordered Afghanistan's Supreme Court and attorney general to pursue the malefactors in the Kabul Bank scandal that nearly led to the collapse of the country's financial sector in 2010. SIGAR, as well as the international donor community, will be watching closely to see if these initial steps will be followed by substantive improvements in anticorruption efforts by the attorney general's office and other Afghan law-enforcement agencies.

However, daunting challenges remain. In our last quarterly report, SIGAR highlighted the danger of Afghanistan's massive and unsustainable dependence on foreign aid. Our concerns were borne out in September by press reports that the Ministry of Finance had asked donors to provide an emergency infusion of \$537 million to cover government salaries until the end of the year. In response to a request from SIGAR for information, State Department officials said they had not yet received a formal request for assistance with data to support it, but that they had been in discussions for months with the Afghan government about the ongoing revenue shortfall. As we gather more information, SIGAR will continue to update Congress and the public on the Afghan fiscal situation and economy.

This quarterly report focuses on the threat that opium production poses to Afghanistan's reconstruction. In Section One, SIGAR points out that counternarcotics appears to have fallen off the agenda of both the U.S. government and the international community, despite the fact that it is impossible to develop a coherent and effective strategy for a post-2014 Afghanistan without taking full account of the opium economy. As long as insurgent commanders are able to fund themselves through the opium trade, and as long as corrupt officials profit from the illicit economy, there may be few incentives for making peace in some areas of the country. In a special report issued this quarter, SIGAR showed that opium-poppo cultivation levels are at another all-time high, despite \$7.8 billion obligated for counternarcotics efforts. A SIGAR performance audit also found that U.S. assistance to the

provincial units of the Counternarcotics Police of Afghanistan cannot be tracked and that the United States cannot determine whether its investment in these provincial units has helped them become a capable, self-reliant, and sustainable force.

This quarterly report also examines the reconstruction effort across the security, governance, and economic sectors. In the security sector, SIGAR was deeply troubled by the decision of the International Security Assistance Force (ISAF) to classify the executive summary of the report that assesses the capability of the ANSF. For years, SIGAR has used the ISAF report as a primary metric to show Congress and the public the effectiveness of the \$61.5 billion U.S. investment to build, train, equip, and sustain those forces. Prior to this quarter, aggregate data on the operational effectiveness of the ANSF were unclassified in the Regional ANSF Status Report (RASR) as well as its predecessors, the Commanders' Unit Assessment Tool (CUAT) and the Capability Milestone rating system.

ISAF's classification of the report summary deprives the American people of an essential tool to measure the success or failure of the single most costly feature of the Afghanistan reconstruction effort. SIGAR and Congress can of course request classified briefings on this information, but its inexplicable classification now and its disappearance from public view does a disservice to the interest of informed national discussion. Moreover, while SIGAR understands that detailed, unit-level assessments could provide insurgents with potentially useful intelligence, there is no indication that the public release of aggregated data on ANSF capabilities has or could deliver any tactical benefit to Afghan insurgents.

The need to carefully monitor the development of the ANSF was brought painfully to light in August, when an Afghan soldier shot and killed a U.S. Army major general—the highest-ranking U.S. military officer to die in Afghanistan. As the deputy commanding general of the Combined Security Transition Command-Afghanistan, Major General Harold J. Greene was a decorated military leader and a friend and colleague to many at SIGAR. He died while performing a critical oversight mission at Marshal Fahim National Defense University in Kabul. Major General Greene's integrity, hard work, and sheer grit will be sorely missed.

Despite the dangers, SIGAR will continue to provide aggressive oversight of the U.S. reconstruction effort. The 31 audits, inspections, special projects, and other products SIGAR issued this quarter examined programs and projects worth almost \$14.8 billion. Unfortunately, many of our products uncovered failures of planning, construction, and oversight. For example, an inspection of the Pol-i-Charkhi prison identified defective workmanship and work not completed according to contract requirements. An inquiry letter expressed continued concerns about the oversight of the Law and Order Trust Fund for Afghanistan's \$3.17 billion program to fund the Afghan National Police. On a more positive note, a performance audit determined that the U.S. Agency for International Development had implemented 80% of SIGAR's audit recommendations.

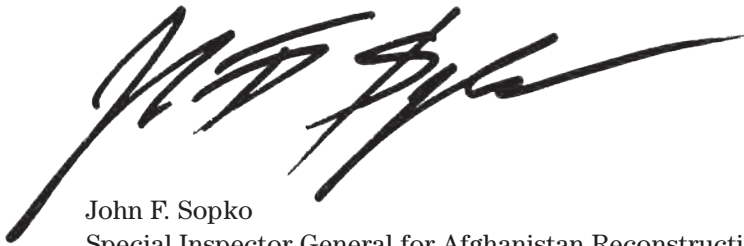
The six financial audits SIGAR completed this quarter identified \$5.6 million in questioned costs. SIGAR's financial-audits program has identified nearly \$83 million in questioned costs to date. Section Two summarizes our findings and recommendations.

Since my last report to Congress, SIGAR has opened 36 new investigations and closed 33, bringing the total number of ongoing investigations to 322. The criminal fines, restitutions, forfeitures, and cost savings to the U.S. government from SIGAR's ongoing investigations in this reporting period amounted to over \$1 million. Savings to date from SIGAR investigations total over \$500 million. SIGAR's suspension and debarment program referred 44 individuals and 13 companies for suspension and debarment based on allegations that they engaged in fraud or failed to perform under contracts valued at over \$398 million.

This quarter, I must once again reiterate my concerns about the policies of the U.S. Army's suspension and debarment program. As I have pointed out in our last six quarterly reports, 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 contrary to sound policy and national-security goals. I remain troubled by the fact that our government can and does use classified information to arrest, detain, and even kill individuals linked to the insurgency in Afghanistan, but apparently refuses to use the same classified information to deny those same individuals their right to obtain contracts with the U.S. government. There is no logic to this continuing disparity. I continue to urge the Secretary of Defense and Congress to change this misguided policy and to impose common sense on the Army's suspension and debarment program.

At this moment of opportunity and transition for Afghanistan's new government and the largely U.S.-funded reconstruction program, my staff and I will continue to work vigilantly to safeguard the U.S. taxpayer's investment and our national goals in Afghanistan.

Respectfully,

A handwritten signature in black ink, appearing to read 'JF Sopko', with a long horizontal flourish 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 from July 1 to September 30, 2014.\* It also includes a discussion of U.S. counternarcotics efforts in Afghanistan. During this reporting period, SIGAR published 31 audits, inspections, alert letters, and other products 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 a lack of accountability, failures of planning, construction deficiencies, and other threats to health and safety. The monetary results from SIGAR's ongoing investigations totaled over \$1 million from criminal fines, restitutions, forfeitures, contract monies protected, and civil settlement agreements. SIGAR investigations also resulted in 14 arrests, three indictments, four criminal informations, two plea agreements, and one sentencing in the United States. In Afghanistan, 24 individuals were barred from access to military installations, and nine employees were terminated. SIGAR's suspension and debarment program referred 44 individuals and 13 companies for suspension or debarment based on allegations that they engaged in fraud and non-performance in contracts valued at over \$398 million.

## SIGAR OVERVIEW

### AUDITS

SIGAR produced one audit alert letter, two performance audits, six financial audits, and one inspection.

The **alert letter** addressed:

- The Department of Defense's (DOD) response to SIGAR's C-130H alert letter from last quarter, which explained DOD's decision to provide a third C-130H aircraft to the Afghan Air Force and concurred with SIGAR's recommendation to defer the delivery of a fourth aircraft, with a potential cost savings of about \$40.5 million.

The **performance audits** found:

- The U.S. Agency for International Development (USAID) implemented a large percentage of SIGAR's audit recommendations in a timely, successful way, reducing the risk of fraud, waste, and abuse of Afghan reconstruction funds.
- Although Counternarcotics Police of Afghanistan (CNPA) provincial units have received some support, overall U.S. financial resources devoted to the CNPA have only tangentially benefitted them.

The **financial audits** identified over \$5.6 million in questioned costs as a result of internal-control deficiencies and noncompliance issues. These deficiencies and noncompliance issues included, among other things, ineligible business class travel costs, unapproved purchases of nonexpendable equipment and property, over-reimbursement of indirect costs, unsupported or insufficient sole source procurement justifications, incorrectly calculated currency exchange transactions, inadequate monitoring of subrecipients, improper disposition of nonexpendable equipment, lack of supporting documentation, poor record retention, and failure to conduct vendor-suspension and debarment checks.

The **inspection report** on a U.S.-funded facility found:

- Defective workmanship and work not completed according to contract requirements at the Pol-i-Charkhi prison, which is being used, but is overcrowded.

### NEW AUDITS AND INSPECTIONS

This quarter, SIGAR initiated two new performance audits to assess the U.S. efforts to develop Afghanistan's

\* Per statute, SIGAR may also report on products and events occurring after September 30, 2014, up to the publication date.

# EXECUTIVE SUMMARY

civil aviation capabilities and DOD's oversight of infrastructure projects transferred to the Afghan government. SIGAR also initiated three new inspections of warehouse facilities in the South Park region of Kandahar Airfield, the Special Operations Task Force-South Command and Control Facility at Camp Brown, and the Counter-Narcotics Justice Center.

## SPECIAL PROJECTS

During this reporting period, the Office of Special Projects issued 19 inquiry letters and 2 special reports addressing issues including:

- Unsafe fuel-storage tanks at Camp Shaheen
- Plans for the Kandahar electricity-supply bridging solution
- A dangerous school collapse in Sari-i-Pul
- Anti- and counter-corruption efforts
- The incomplete response to a communications-towers inquiry and the troubling response to a whistleblower-protection inquiry
- The potentially exploitative recruitment of third-country nationals (TCNs)
- Weak oversight of Law and Order Trust Fund for Afghanistan (LOTFA) funds
- An unnecessary second Afghan National Army (ANA) slaughterhouse in Pol-i-Charkhi District
- The scrapping of 16 G222 planes
- USAID's recovery of questioned costs
- A contract cancelled due to rising security costs
- The incomplete documentation of DOD's excess equipment disposition processes
- Potentially wasteful expenditures on unused communications trucks
- The processes and controls used by the Combined Security Transition Command-Afghanistan (CSTC-A), the Department of State (State), and USAID for providing direct assistance to the Afghan government
- An all-time high in opium-poppy cultivation, despite the \$7 billion U.S. investment in counternarcotics

## INVESTIGATIONS

During the reporting period, the criminal fines, restitutions, forfeitures, civil settlements, and cost savings to the U.S. government from SIGAR's ongoing investigations amounted to over \$1 million. Savings to date from SIGAR investigations total over \$500 million. SIGAR investigations also resulted in 14 arrests, three indictments, four criminal informations, two plea agreements, and a sentencing in the United States. Additionally, 24 individuals were barred from access to military installations and nine employees were terminated. SIGAR initiated 36 new investigations and closed 33, bringing the total number of ongoing investigations to 322. SIGAR's suspension and debarment program referred 44 individuals and 13 companies for suspension or debarment.

**Investigations highlights** include:

- A conviction and a sentencing resulting from a money laundering investigation
- U.S. military members prosecuted following an embezzlement scheme
- A former U.S. Army specialist charged in a fuel theft scheme
- Nine arrested for the theft of shipping containers with goods worth nearly \$260,000
- Three Afghan truck drivers arrested and nearly \$76,000 worth of fuel recovered
- A contract employee pleading guilty to conspiracy to commit wire fraud and receive an illegal kickback
- An Afghan contractor arrested for fraud
- \$150,000 recovered from a SIGAR investigation
- A thwarted fuel theft scheme
- An undercover operation resulting in the arrest of three Afghans, nine barments from U.S. military installations, and the suspension of a business
- A memorandum of understanding signed by SIGAR and the Federal Bureau of Investigation (FBI) to share information

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“As we approach the 2014 withdrawal of international forces from Afghanistan, the country requires continued international support. Even greater efforts are needed to bring counternarcotics programs into the mainstream of social and economic development strategies to successfully curb illegal drug cultivation and production of opium as well as the high use of opiates among the Afghan population.”

—*President Barack Obama*

# 1 THE OPIUM ECONOMY



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### **Photo on previous page**

Opium-poppy cultivation in the Khogiani District of Nangarhar Province rose from 131 hectares in 2010, to 5,746 hectares in 2013. Further increases are expected in 2014. (SIGAR photo by David Mansfield)



## TACKLING THE OPIUM ECONOMY MUST BE A PRIORITY FOR RECONSTRUCTION

Afghanistan is by far the world's largest source of opium, producing over 90% of global supply.<sup>1</sup> Opium production accordingly plays a key role in the political economy of Afghanistan. While occupying less than 3% of land under cultivation, opium is Afghanistan's most valuable cash crop, and opiates—opium, morphine, and heroin—are its largest export, with an estimated value of \$3 billion at border prices.<sup>2</sup> Furthermore, the opium economy directly provides up to 411,000 full-time-equivalent jobs—more than the entire Afghan National Security Forces (ANSF)—and supports additional secondary-effect jobs in the licit economy.<sup>3</sup>

In the coming weeks, the United Nations Office of Drugs and Crime (UNODC) is expected to report further increases in the amount of opium poppy grown. Levels of cultivation have risen by more than 200,000 hectares (1 hectare, or ha, equals roughly 2.5 acres) since 2001.<sup>4</sup> There is reason to believe that cultivation will continue to increase in 2015, after the NATO combat mission in Afghanistan has drawn to a close.

The Special Inspector General for Afghanistan Reconstruction (SIGAR) and other observers have recognized that reconstruction must tackle the opium economy. As Special Inspector General John F. Sopko told Congress earlier this year, “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, Sopko warned, “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.”<sup>5</sup>

Yet, despite the threat that the burgeoning opium economy poses to the Afghan state and reconstruction, counternarcotics has largely fallen off the Afghan agenda of both the U.S. government and the international community. It rarely appears in the declarations and communiqués from the conferences on Afghanistan reconstruction that have become a mainstay of the international effort. And there are only oblique references to the issue



**A poppy capsule** after being lanced and the opium collected. (SIGAR photo by David Mansfield)

# THE OPIUM ECONOMY

in the current Tokyo Mutual Accountability Framework (TMAF),<sup>6</sup> the agreement that underpins future reconstruction assistance to Afghanistan.<sup>7</sup> Of even greater concern is that there is no consideration of the fact that existing and planned reconstruction efforts—improved irrigation, roads, and agricultural assistance—can actually *increase* opium production if they fail to factor opium-economy realities into program design. There is an urgent need to recognize that it is impossible to develop a coherent and effective strategy for a post-2014 Afghanistan without taking full account of the opium economy.

The United States has committed nearly \$7.8 billion to fight narcotics production and trafficking in Afghanistan since 2002, but it is simplistic to argue that counternarcotics interventions have failed on the basis of record-breaking production figures. The continued rise in cultivation and its relocation to areas beyond the reach of the current Afghan state suggest that the problem does not lie solely with a narrow set of interventions currently understood as counternarcotics. The problem also lies in the failure of the wider reconstruction effort to address the underlying conditions in many rural areas, such as insecurity, poor governance, and limited economic opportunities, which led to widespread opium production.

The formation of the new government in Afghanistan under the leadership of President Ashraf Ghani presents an opportunity to put efforts to counter the illicit economy at the center of the reconstruction effort, and to commit to a review process that ensures no programs or policies make the situation worse. It was, after all, Ashraf Ghani, speaking as finance minister in 2003, who first spoke of Afghanistan becoming a “narco-mafia state,”<sup>8</sup> who pressed the World Bank and other development donors to engage constructively on the opium economy,<sup>9</sup> and who warned of the unintended consequences of pursuing “quick wins” in the desire for reductions in opium-poppy cultivation.<sup>10</sup>

The United States and other international donors should grasp this opportunity. They should urge the Afghan government to factor opium-economy countermeasures into its future development plans. And they should use the forthcoming Ministerial Review of the TMAF in the United Kingdom in November 2014 to reaffirm their commitment to help the Afghan government show demonstrable progress in reducing the damaging impact of narcotics production.

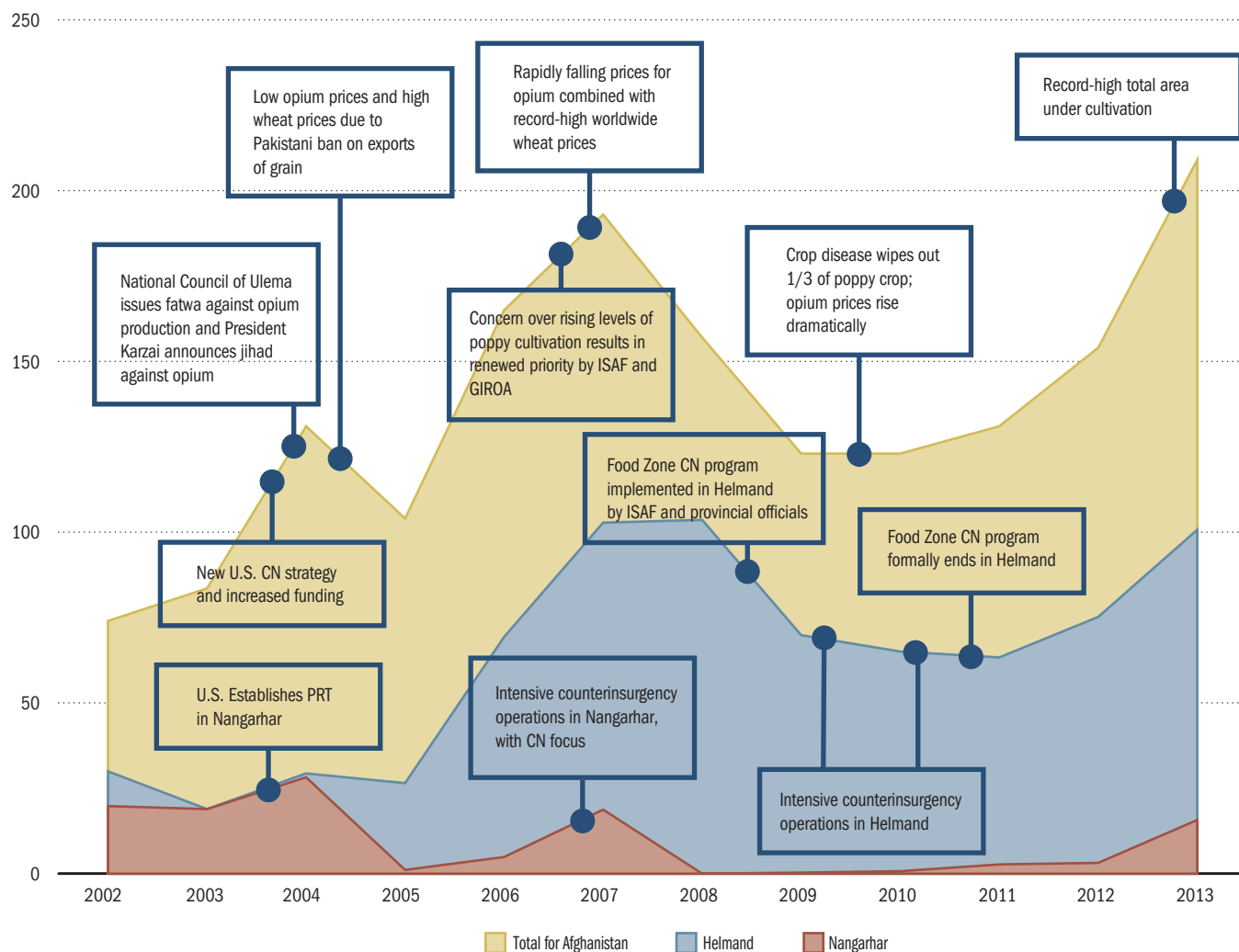
## A PATTERN OF “UNPRECEDENTED HIGHS”

UNODC estimates that opium poppy was grown on 209,000 hectares—more than half a million acres—in 2013, up 36% from 2012 and a “record high” for Afghanistan.<sup>11</sup> This was not the first time Afghanistan set records for opium production. In 1999, at the height of the Taliban regime, opium-poppy cultivation had reached an “unprecedented level” of approximately

# THE OPIUM ECONOMY

FIGURE 1.1

FLUCTUATIONS IN OPIUM-POPPY CULTIVATION AND KEY EVENTS IN AFGHANISTAN, 2002–2013 (THOUSANDS OF HECTARES)



Note: PRT = Provincial Reconstruction Team. CN = counternarcotics.

Source: SIGAR, Special Project Report 15-10-SP, *Poppy Cultivation in Afghanistan: After a Decade of Reconstruction and Over \$7 Billion in Counternarcotics Efforts, Poppy Cultivation Levels Are at an All-Time High*, 10/14/2014.

91,000 hectares.<sup>12</sup> Another “unprecedented” level of 131,000 hectares of opium poppy was cultivated in 2004.<sup>13</sup> This occurred shortly after then-finance minister Ashraf Ghani warned of the dangers of the burgeoning opium economy.<sup>14</sup> Despite President Karzai’s declaration of a “*jihad* against opium” and redoubled U.S. efforts, another “unprecedented” peak of 193,000 hectares of poppy cultivation occurred in 2007.<sup>15</sup> Figure 1.1 shows fluctuations in poppy cultivation 2002–2013.

# THE OPIUM ECONOMY

The increases in cultivation between 2012 and 2013 have been significant. A report released this quarter by SIGAR's Office of Special Projects illustrates that opium-cultivation potential has been rising, and that large areas of potential production increases appear in the east, north, and southwest of Afghanistan. The transmittal letter by the Special IG notes, as one example, that Nangarhar Province in eastern Afghanistan, declared "poppy-free" by the UN in 2008, "saw a fourfold increase in opium poppy cultivation between 2012 and 2013."<sup>16</sup>

There is little reason to believe cultivation will fall in 2015. The latest planting season began in late October 2014. Farm-gate opium prices remain relatively high<sup>17</sup> at around \$140 per kilogram.<sup>18</sup> The Afghan economy remains fragile: economic growth has declined, real wages are falling, and inflation has increased.<sup>19</sup> The security situation in many rural areas of the country is increasingly uncertain. In such conditions, opium production should be expected to rise.

## THE MULTIFRONT EFFORT ON NARCOTICS AND ITS RESULTS

The U.S. government's counternarcotics effort includes initiatives intended to reduce production, trade, trafficking, and consumption of illicit drugs in Afghanistan, with a primary focus on opium and its derivatives. Funds for these initiatives come through the Drug Interdiction and Counter-Drug Activities Fund (DOD CN), the Afghanistan Security Forces Fund (ASFF), the Economic Support Fund (ESF), and the State Department's International Narcotics Control and Law Enforcement (INCLE) account. In addition to reconstruction funding, the Drug Enforcement Administration (DEA) receives funding to operate in Afghanistan through direct appropriations from Congress.<sup>20</sup>

## HOW EFFECTIVE IS THE LAW-ENFORCEMENT EFFORT IN COUNTERING THE NARCOTICS TRADE?

Nearly \$3 billion of total U.S. counternarcotics funding in Afghanistan has been allocated to law enforcement. At the forefront of this effort is DEA, which reopened its country office in Kabul in 2003.

The DEA's primary partner in the counternarcotics effort is the Counternarcotics Police of Afghanistan (CNPA), a specialist unit of the Afghan National Police (ANP) under the Ministry of Interior (MOI). The CNPA, with a force strength of approximately 2,850 personnel, has officers in all 34 provinces to enforce Afghan drug laws by means of investigations and operations including interdiction and crop eradication.<sup>21</sup>

The DEA model for international drug-law enforcement calls for working with host-nation partners to identify and rigorously vet personnel to



# THE OPIUM ECONOMY

determine suitability for service, and to develop a professional cadre of enforcement officers. Working with the CNPA, DEA and its U.S. partners have established three specialized units. The National Interdiction Unit (NIU) is the tactical element of the CNPA and conducts evidence-based interdiction operations and seizures. The Sensitive Investigative Unit (SIU) carries out counternarcotics and counter corruption investigations using intelligence developed by the Technical Investigative Unit (TIU).

Some U.S. officials believe the U.S. law-enforcement strategy, including standing up specialized units, has been successful and should be continued post-2014. Officials cite the number of CNPA officers trained, enforcement operations, arrests, and drug seizures to support these claims.<sup>22</sup> But a close examination of the total amount of opiates and precursor chemicals seized suggest law enforcement has had a more limited effect. For example, using Defense Intelligence Agency data, over the three fiscal years 2011, 2012, and 2013, an annual average of 5.6 metric tons (mt; 1 mt = 2,205 pounds) of heroin, 70.1 mt of opium, and 96.4 mt of precursor chemicals were seized in Afghanistan.<sup>23</sup> By comparison, according to UNODC annualized estimates, 380 mt of heroin are produced for export, approximately 5,000 mt of opium are produced, and between 400 and 500 mt of precursor chemicals are smuggled into Afghanistan.<sup>24</sup>

One of the primary goals of the U.S. counternarcotics strategy is to concentrate on severing the financial link between drug trafficking and the insurgency.<sup>25</sup> In late August 2010, public revelations of embezzlement and other widespread financial crimes within Kabul Bank confirmed rumors within the Afghan business community and elsewhere that private financial institutions in Afghanistan were involved in rampant criminal activity, including money-laundering operations intimately tied to the narcotics trade.

In an effort to disrupt such activities, the U.S. Department of the Treasury, on February 18, 2011, sanctioned Afghanistan's largest commercial *hawala*, the New Ansari Money Exchange, and 15 affiliated individuals and entities under the Foreign Narcotics Kingpin Designation Act for facilitating the money-laundering activities of major regional narcotics traffickers linked to Taliban financing activities.<sup>26</sup> Other financial sanctions followed, including U.S. and UN counterterrorism sanctions in June 2012 against the Haji Khairullah and Haji Sattar Money Exchange and the Roshan Money Exchange for storing and moving money on behalf of the Taliban.<sup>27</sup> According to a public release from the U.S. Department of the Treasury, both exchange houses facilitated money transfers in support of the Taliban's narcotics trade and terrorist operations.<sup>28</sup> Additional U.S. and UN sanctions were imposed five months later against Rahat LTD, another *hawala* which had been used extensively by senior Taliban leaders, including then-Helmand Taliban shadow governor Mullah Naim Barich, who had been sanctioned just five days earlier by the Department of the Treasury



**An opium poppy** in bloom. (SIGAR photo by David Mansfield)

# THE OPIUM ECONOMY

under the Foreign Narcotics Kingpin Designation Act for his extensive narcotics production and distribution activities.<sup>29</sup>

In late June 2014, Afghanistan narrowly avoided blacklisting by the Financial Action Task Force (FATF) by passing new anti-money laundering (AML) and countering the financing of terrorism (CFT) legislation. The new AML and CFT laws were deemed more compliant with international standards than that country's previous statutes.<sup>30</sup> (See the Economic and Social Development section of this report for more information.)

The loss of several correspondent-banking relationships and the spotlight shone on Afghanistan's inability to effectively combat money laundering and terrorist financing have likely mitigated the volume of narcotics-related funds being injected into the formal international finance sector. But narco-dollars continue to flow in and out of Afghanistan through a variety of other money-laundering techniques, including bulk-cash smuggling activities by hawalas and trade-based money-laundering operations. However, it is not currently known how many priority-target drug trafficking organizations operating in Afghanistan have had significant disruptions of their operations, or have been completely dismantled as a result of enforcement operations, financial sanctions, or interagency investigations. Without this information, measuring enforcement's impact on the narcotics trade remains difficult.

As with other aspects of the counternarcotics campaign, assessing the return on investment for law enforcement is important. The U.S. government does not present explicit data on this measure, but a rough estimate can be made. For example, the Defense Intelligence Agency reports that a three-year average for heroin seizures is 5.6 metric tons. At an estimated wholesale price of \$2,266 per kilogram,<sup>31</sup> the total approximate value of the seized heroin is \$12.7 million annually.

Similar calculations for other drug seizures would provide a greater understanding of the cost and benefits of the law enforcement effort the United States is making to decrease drug trafficking revenues. The Departments of Defense and State provided an estimated total of \$60 million in counternarcotics assistance to DEA in FY 2013 for use in Afghanistan and DEA dedicated a further \$19 million of the agency's direct appropriations to support the counternarcotics mission in Afghanistan.<sup>32</sup> The decline in the U.S. law-enforcement presence in Afghanistan is unlikely to be offset by increased Afghan capability. A SIGAR audit released this quarter found that without a formal rating system that measures training, leadership, sustainment, and operational progress, the U.S. government cannot assess whether its investment in CNPA's provincial units has helped them become a capable, self-reliant, and sustainable force.<sup>33</sup>

Moreover, the MOI's *Ten-Year Vision for the Afghan National Police* states that all Afghan police forces, including the CNPA, will maintain flexible structures so that officers can be shifted between different pillars of the

ANP.<sup>34</sup> This mandate allows the ANP flexibility to reassign CNPA officers to non-counternarcotics duties and will likely further dilute the CNPA focus across the country. Finally, under the Afghan Police Law as many as one-third of the CNPA can be assigned to other duties and not be involved with standard drug-law enforcement, such as initiating investigations, developing cases, and gathering intelligence.<sup>35</sup>

## WHAT HAS ERADICATION ACCOMPLISHED?

Eradication is the physical destruction of the standing opium crop and represents a standard indicator for the State Department's counternarcotics efforts overseas.<sup>36</sup> The prioritization and funding of eradication have changed over the years, but crop destruction remains an important element in the counternarcotics strategy.

Since 2002 the United States has allocated about \$1 billion to crop destruction in Afghanistan.<sup>37</sup> The bulk of this funding has supported an independent eradication force operating from 2004 to 2009 out of the MOI. Since 2010 the focus of the eradication effort has been on Governor Led Eradication (GLE),<sup>38</sup> an initiative that encourages provincial governors to conduct their own crop destruction but reimburses their expenses.<sup>39</sup> Crops are destroyed either mechanically, using tractors or all-terrain vehicles, or manually, using blades or sticks. Efforts to introduce spraying were rejected by the Afghan cabinet in 2007. Opponents cited fears of herbicide impacts on the population's health, as well as wider impacts on the economy and the potential to further destabilize rural areas.<sup>40</sup>

U.S. contractor DynCorp International operated a Department of State-funded Poppy Eradication Force (PEF)<sup>41</sup> until 2009, when it was disbanded by Richard Holbrooke upon his appointment as Special Representative for Afghanistan and Pakistan.<sup>42</sup> Between 2004 and 2009, \$695.3 million was expended on the PEF and its supporting Special Air Wing.<sup>43</sup> The PEF eradicated 9,946 hectares of opium poppy, at an average cost of \$73,608 per hectare. Assessing the value received for money spent in the U.S.-funded eradication effort is challenging. The rationale for crop destruction typically draws on three lines of argument:

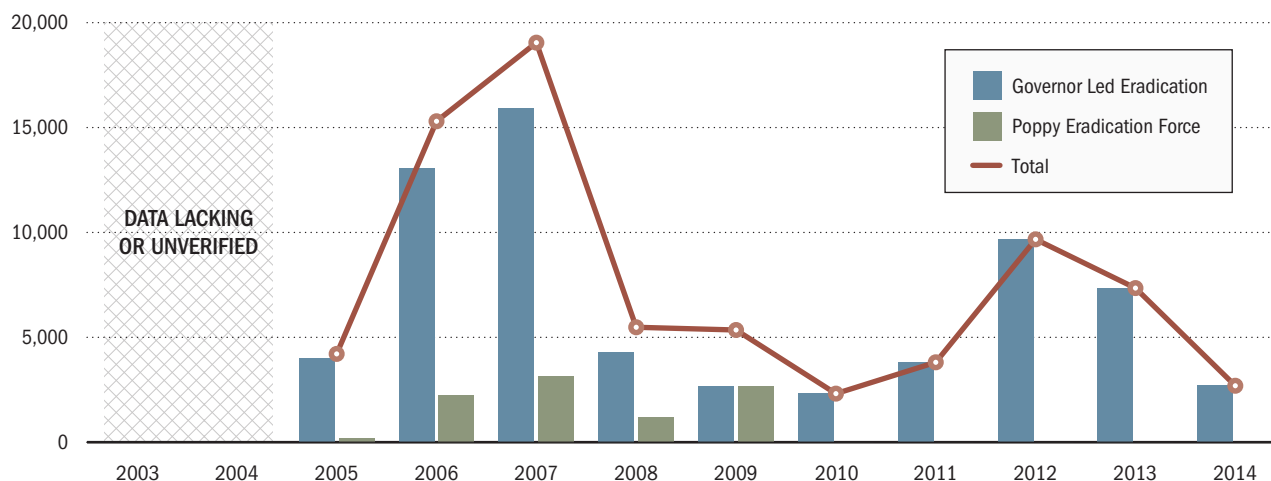
1. Destroying some of the opium crop each year means less opiate for distribution, sale, and final consumption.
2. Eradication extends the writ of the Afghan state into rural areas where traditionally the government has had little presence.
3. Crop destruction changes the risk-benefit calculation to farmers, deterring planting in future seasons.

In 2014, the eradication target for GLE was 22,500 hectares—an ambitious goal given the demands of the first round of the Afghan presidential voting, increasing insecurity in many poppy-growing provinces, and meager

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FIGURE 1.2

## POPPY ERADICATION IN AFGHANISTAN (HECTARES)



Source: UNODC, *Afghanistan Opium Survey 2003*, 10/2003, pp. 53, 96; UNODC, *Afghanistan Opium Survey 2004*, 11/2004, p. 77; UNODC, *Afghanistan Opium Survey 2010*, 12/2010, p. 45; UNODC, *Afghanistan Opium Survey 2013*, 10/2013, p. 35; UNODC, *Afghanistan Poppy Eradication Verification Report*, 8/2014, p. 4.

results of previous eradication work.<sup>44</sup> By the end of the season, only 2,693 hectares were destroyed, less than 12% of the target and less than the 7,348 hectares destroyed in 2013.<sup>45</sup>

Assessing crop destruction over the longer term is difficult. Data prior to 2005 are problematic, as there was no independent verification process. In the 2002–2003 growing season, Afghan authorities reported 21,430 hectares of opium poppy were eradicated. UNODC cited these figures, but commented that its 2003 survey “neither monitored, nor assessed the effectiveness of the eradication campaign.”<sup>46</sup> The 2004 UNODC survey reported no eradication figures.<sup>47</sup> Figure 1.2 shows fluctuations in eradication from 2003–2014.

UNODC did not begin verifying eradication until late 2005,<sup>48</sup> and did not begin verifying the amount of crop destroyed by the PEF until 2008.<sup>49</sup> As late as 2006 and 2007, there were still concerns over the reliability of UNODC eradication data due to its initial verification methodology. For instance, until 2007, UNODC relied on surveyors visiting rural areas after the eradication campaign had been completed, making verification difficult. Doubts over inflated figures led UNODC to incorporate greater use of remote-sensing imagery and to draw on technical support from Cranfield University from 2008.<sup>50</sup> Besides issues of methodology and security challenges, politics complicated eradication verification. Eradication was often



used as a metric for judging state-building, institutional, and individual performance.<sup>51</sup>

This encouraged over-reporting by Afghan nationals and a preference for reporting higher levels of eradication amongst drug-control institutions. This became particularly evident with the level of over-reporting by the PEF in the spring of 2007 that culminated in a review<sup>52</sup> and subsequent reduction in the final figures reported.<sup>53</sup>

The argument that eradication has extended the writ of the state is far from compelling when viewed against the complaints of corruption and the targeting of vulnerable communities that have accompanied crop destruction.<sup>54</sup> Indeed, an employee of a nongovernmental organization in Kandahar in 2008 referred to the “predatory and sneering face of the eradication team,” arguing that it was “not the face that should be seen in rural areas.”<sup>55</sup> Afghan farmers themselves will often refer to eradication operations as acting “like a thief stealing in the night” where these efforts are not accompanied by a more resilient state presence that includes the delivery of physical and social infrastructure and improved security.<sup>56</sup>

Evidence for the third line of argument, that eradication deters future planting, also appears limited. UNODC claims that for eradication to discourage farmers from cultivating opium poppy in subsequent years, 25% of the total standing crop in Afghanistan would need to be destroyed.<sup>57</sup> However, it is not obvious how this figure was calculated. Moreover, it is an estimate that does not appear to recognize how localized politics and power are in rural Afghanistan, and how events in one district can have little bearing on the behavior of the population in neighboring areas, let alone other provinces.

State’s Bureau of International Narcotics and Law Enforcement (INL) draws on “geospatial analysis that indicates 90% less poppy was planted in 2011 on land within half-kilometer radius of poppy fields that were eradicated in 2010 in the Helmand Food Zone,” a UK- and U.S.-funded program designed to reduce opium production in the well-irrigated parts of Helmand Province.<sup>58</sup> On the surface this analysis seems to have merit, but it does not appear to consider other variables, such as the significant influx of international and Afghan military forces, establishment of security checkpoints and bases, and the uptick in development spending associated with the “surge”—all of which affected local farmers’ livelihood and planting decisions.<sup>59</sup>

In reviewing the impact of eradication, it is particularly hard to ignore the fact that the amount of land dedicated to opium poppy in the district of Marjah in Helmand was almost 60% in 2010, but fell to less than 5% in the following season, once 15,000 U.S. Marines and the ANSF had taken up position in the district for Operation Moshtarak in February of 2010.<sup>60</sup> Farmers across central Helmand referred to the prevalence of government and international forces within rural communities, concurring with reports of “an ISAF base on every road junction”<sup>61</sup> as a deterrent to cultivation.<sup>62</sup> In contrast, research

conducted in Helmand Province over many years found that “Where the state has not been able to establish a more permanent presence in an area due to the prevailing security conditions, eradication has been seen by farmers as a random act that can be managed through patronage and corruption, a perception that has led to increasing resentment.”<sup>63</sup>

## **ASSESSING THE EFFECTIVENESS OF THE GOOD PERFORMER’S INITIATIVE REQUIRES MORE EVIDENCE**

The State Department calls the Good Performer’s Initiative (GPI), begun in 2007, “one of the most successful counternarcotics programs in Afghanistan.”<sup>64</sup> The GPI rewards provinces each year for: “(1) attaining or maintaining poppy-free status (\$1 million each), (2) reducing poppy cultivation by more than 10 percent (\$1,000 for each hectare above 10 percent), and (3) exceptional counternarcotics achievements (\$500,000 each for up to two provinces).”<sup>65</sup> As of August 31, 2014, the GPI has awarded \$108 million to more than 221 projects in 33 provinces.<sup>66</sup>

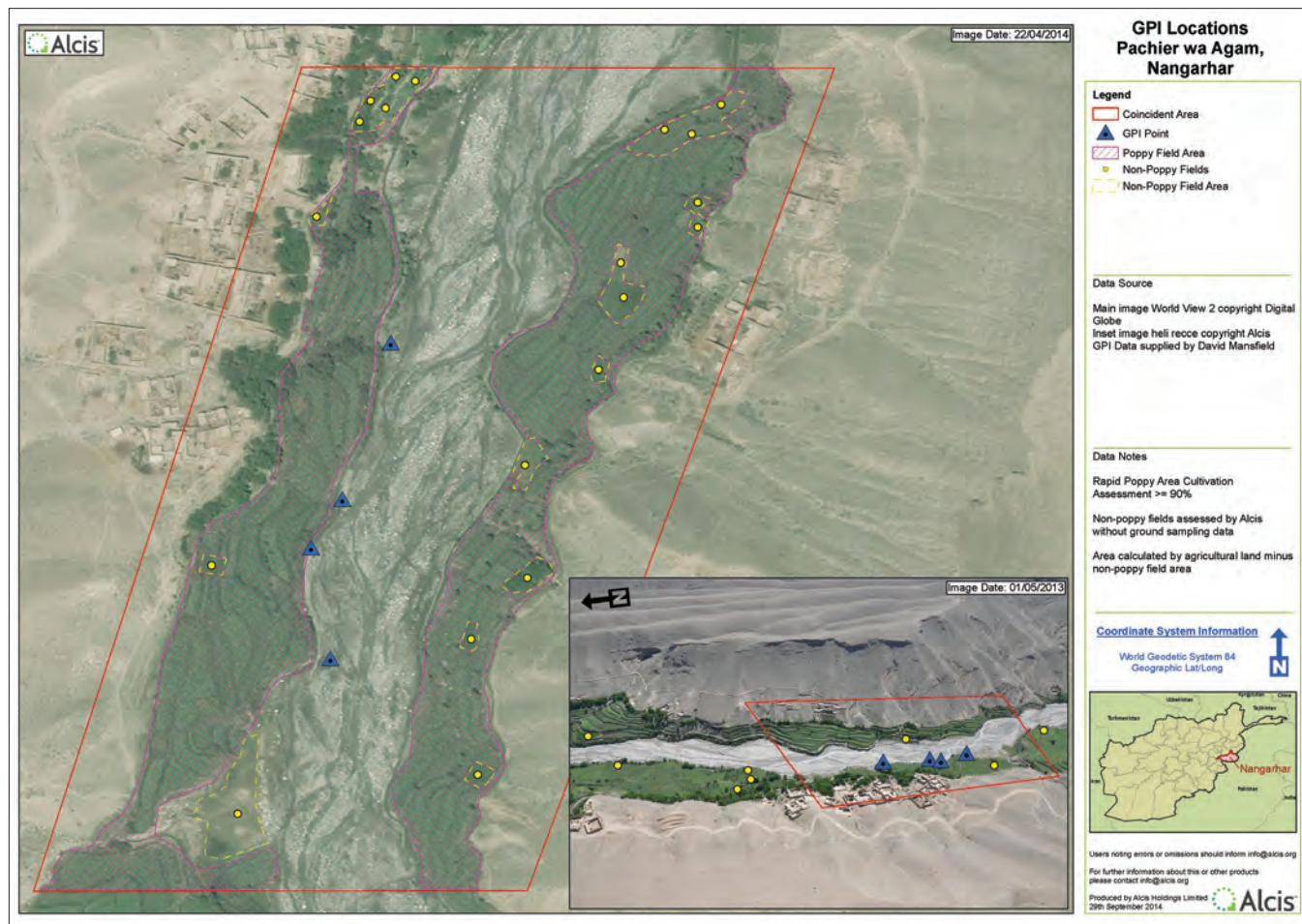
A detailed review by SIGAR of projects funded by the GPI to date suggests that priority has largely been given to financing infrastructure programs implemented by private-sector construction companies. Projects currently focus on a limited range of sectors, such as health, education, transport, and agriculture, and largely involve building schools, health clinics, gymnasiums, conference centers, meeting halls, roads, bridges, and irrigation systems.

How such projects translate into reductions in opium production is far from clear. For example, very few of the projects focus on income generation or supporting farmers in replacing income lost by abandoning opium poppy cultivation. Further, it is not clear how many of the projects funded under the GPI are implemented in rural areas with a history of opium-poppy cultivation, or how they address the reasons for cultivation.<sup>67</sup>

Some projects may have had perverse outcomes. Irrigation projects in Nangarhar, Badakhshan, and Kunar Provinces, for example, may have facilitated increased opium-poppy cultivation after periods of significant reductions.<sup>68</sup> Irrigation improvements funded by the GPI in Bamikhel in the Pachir wa Agam District of Nangarhar were definitely used to cultivate opium poppy in both 2013 and 2014, as shown in the image on page 13.

The disconnect between the rural communities that have, or could potentially, cultivate opium poppy and the award of projects under the GPI appears to have been noted.<sup>69</sup> On August 30, 2014, the Minister of Counter Narcotics and INL announced the redesign of the GPI—called GPI II—and a shift towards projects “that better meet the needs of rural communities, by prioritizing alternative livelihoods projects that support farmers as they transition away from poppy cultivation.”<sup>70</sup>

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**Geospatial analysis of crops** in the vicinity of a series of irrigation projects funded by the GPI in Bamikhel, Pachir wa Agam, Nangarhar. Imagery shows this was an area of intensive poppy cultivation during the 2013–2014 growing season. (Image courtesy of Alcis Holdings Ltd.)

## DOES THE UNITED STATES HAVE THE RIGHT STRATEGY FOR RURAL DEVELOPMENT IN A DRUGS ENVIRONMENT?

The United States seeks to reduce opium production by encouraging farmers to find alternative means of earning a living. However, a recent report for the World Bank's *Agriculture Sector Review* says, "alternative livelihoods and alternative development remain undefined and confused concepts."<sup>71</sup> The report describes two different models that underpin development efforts in opium-poppy areas in Afghanistan.

The first model is predicated on a theory of change that assumes reductions in drug-crop cultivation can be rapid, coerced, and largely a function of the political will of Afghan actors. It dates back to a failed model of assistance implemented by UNODC in Afghanistan during the early and mid-1990s.<sup>72</sup> This model ties development assistance closely to community

agreements to reduce opium poppy, and is often based on single-sector interventions, particularly provision of agricultural inputs.

Under this model, development assistance is often considered largesse aimed at building the political capital of provincial governors, district officials, and local elites, and designed to support them in their efforts to elicit reductions in opium-poppy cultivation from rural communities. This theory of change appears to underpin the GPI.<sup>73</sup>

Also emblematic of the first model is the Kandahar Food Zone (KFZ), an \$18.7 million USAID program<sup>74</sup> designed to identify and address the drivers of opium-poppy cultivation in the districts of Arghistsan, Kandahar, Maiwand, Panjwai, Shahwali Kot, Takhta Pul,<sup>75</sup> and Zahre.<sup>76</sup>

The KFZ is said to build on the lessons learned from the Helmand Food Zone, but it is unclear where the similarities lie. The Helmand Food Zone was implemented at a time when the price of wheat, an alternative crop, was rising dramatically and opium prices had fallen to their lowest levels since before the Taliban ban in 2001.<sup>77</sup> The 2009–2011 duration of the Helmand Food Zone was also a period of huge increase in the numbers of international and Afghan forces in the province, and of increasing development aid.<sup>78</sup> In contrast, the KFZ appears to be occurring at a time of relatively high opium prices and reduced security-force presence, and is prioritizing irrigation investments<sup>79</sup> which, if implemented in isolation, could lead to farmers cultivating more land with higher-yielding poppy in the future. Nevertheless, according to USAID, the Ministry of Counter Narcotics wishes to apply the KFZ model to the 17 remaining provinces with poppy cultivation, including Uruzgan, Farah, Badakshan, and Nangarhar.<sup>80</sup>

The second, competing model of “alternative livelihoods” is less intimately tied to reductions in opium-poppy cultivation. It recognizes the limits of the Afghan state and is mindful that in many parts of Afghanistan, the government does not have control over the territory within its borders. Instead, this model looks to strengthen the relationship between farming communities and the state, and improve the welfare of farmers. It sees reductions in cultivation as a function of the wider reconstruction effort in Afghanistan. This model makes rural development the objective, and reductions in poppy cultivation an externality or side effect of that objective.<sup>81</sup>

This second model of alternative livelihoods includes the kind of broad-based rural development that forms the bulk of USAID’s ESF-funded programming. The recently awarded Regional Agricultural Development Programs for the South (\$125.1 million), West (\$69.9 million), and North (\$78.4 million); the Commercial Horticulture and Agricultural Marketing Program (\$40 million); and Incentives Driving Economic Alternatives—North, East, and West (\$159.8 million) all fall into this category.<sup>82</sup>

Many of these programs are justified on the basis that they will directly impact levels of opium-poppy cultivation. Others are only in part intended to support reductions in opium-poppy cultivation, and are built on the



assumption that “once alternative high-value and economically competitive crops produce income, rural households would be more willing to stop poppy production.”<sup>83</sup> These programs, however, do not directly measure changes in poppy cultivation,<sup>84</sup> which raises the question of how USAID assesses whether its assumption is valid—a point noted in a USAID Office of Inspector General audit in 2012.<sup>85</sup> The failure to determine the relationship between development investments and opium-poppy cultivation also means USAID has no way to establish whether these programs are inadvertently contributing to increasing levels of cultivation.

## CULTIVATION DATA SHOULD NOT BE THE ONLY MEASURE OF THE COUNTERNARCOTICS EFFORT

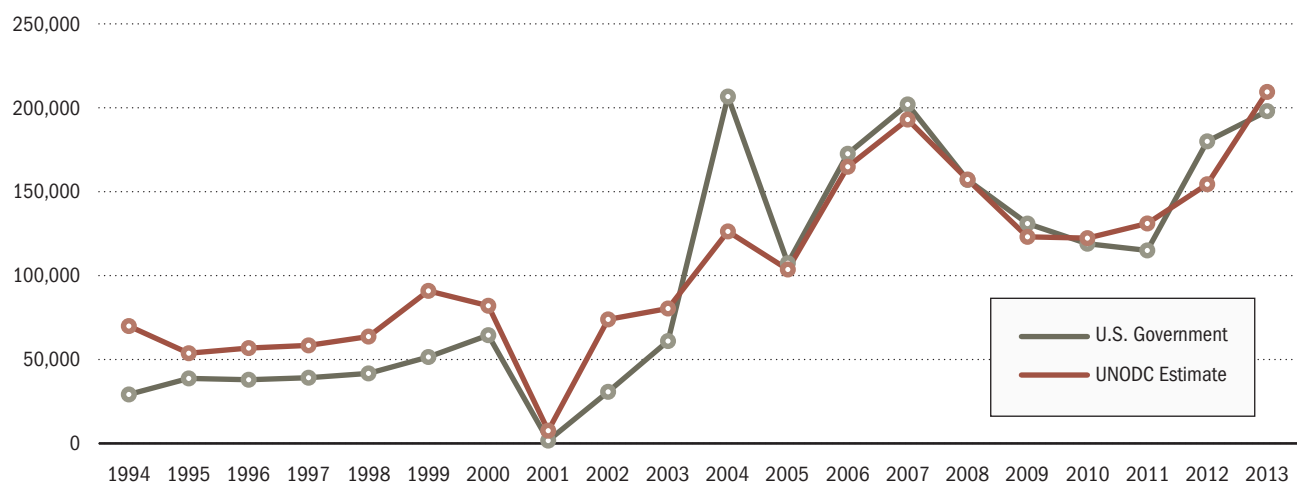
Measuring opium-poppy cultivation is a critical element in official assessments of counternarcotics-program success. But it has its limitations.

First, getting reliable data on an illegal activity is seldom easy. UNODC and the U.S. Crime and Narcotics Center (CNC) use different methods and have often produced sharply divergent estimates, as shown in Figure 1.3.

It is not necessarily clear whether reductions in opium-poppy cultivation areas straightforwardly reflect robust counternarcotics efforts, or instead (or also) are a function of prices, growing conditions, improvements in security, and the impacts of the wider reconstruction effort.

FIGURE 1.3

AFGHANISTAN TOTAL POPPY CULTIVATION ESTIMATES, 1994–2013 (HECTARES)



Source: State, INCSR Report 2014, p. 25; INCSR Report 2005, p. 25; INCSR Report 2004, pp. 23–24; UNODC, Poppy Survey 2013, p. 106; Poppy Survey 2003, p. 7.

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**Many Afghan children** work in the opium economy. (SIGAR photo by David Mansfield)

Furthermore, limited data about crops or activities that have been substituted for opium poppy make it difficult to determine how long reductions may persist, or what kinds of development investments will make the most significant difference.

Looking at aggregate or provincial indicators of opium-poppy cultivation can also mask important differences in intensity or relocation of cultivation. In 2014, with record levels of cultivation, there are areas where opium once flourished, but where poppy has not been grown for up to a decade. These sustained reductions have occurred in Nangarhar, Balkh and Badakhshan, and even in Helmand and Kandahar.<sup>86</sup> At the same time, opium-poppy cultivation has relocated and concentrated in more remote and insecure parts of these provinces, in some cases driving up aggregate levels of production at the provincial level and contributing to rising levels of cultivation nationally.<sup>87</sup>

Sustained reductions in cultivation suggest that under certain conditions, farmers may transition out of opium-poppy cultivation even in districts that once cultivated thousands of hectares of opium poppy. Assistance that promotes better risk-management strategies through diversifying on-farm and non-farm income, combined with provision of public goods such as security and infrastructure, can give farmers alternatives to growing poppy while strengthening the social contract with the state.<sup>88</sup>

There is a need to assess reductions in opium poppy cultivation in conjunction with data on rates of rural economic growth, crop diversification, non-farm income, and improved governance if reasons for fluctuations in opium-poppy cultivation are to be better understood—and, most importantly, if the desire to drive down production is not to risk undermining the wider reconstruction effort in Afghanistan.

## DOES 2015 OFFER NEW POSSIBILITIES?

Despite the economic and political importance of the opium economy, many Western donors seem unwilling to address the opium economy in Afghanistan. The reluctance surfaces in U.S. policy papers as well as in the TMAF. There are, for instance, only oblique references to drugs in TMAF, and the U.S. Civil-Military Strategic Framework for Afghanistan barely mentions counternarcotics.<sup>89</sup> The government of the United Kingdom, the former lead, then partner, nation on counternarcotics in Afghanistan, has all but ceased its counternarcotics interventions apart from a limited law-enforcement effort, and rarely mentions the issue in diplomatic circles.<sup>90</sup>

The complexity, intractability, and long horizon of the counternarcotics campaign—even more daunting in Afghanistan than in the countries whose citizens provide the demand for what Afghans supply—makes official reticence understandable. But Afghanistan's soaring opium production continues to pose a significant threat to reconstruction, and to demand action.

The U.S. and Coalition presence in Afghanistan, including law-enforcement components, will shrink drastically after 2014. While this magnifies the challenge of pursuing the counternarcotics agenda, it also raises the payoff for a searching review of how the reconstruction effort can better address the harms caused by such concentrated levels of opium production.

The advent of a new administration in Kabul also offers opportunities. As noted, President Ashraf Ghani has a long record of speaking out against the baleful influences of the narcotics trade. His new government, facing an economic slump and taking a stronger stand against corruption, may be willing to cooperate in stronger efforts to enforce laws and reduce the corruption that benefits the drug trade—especially if continued donor assistance is offering Afghans a chance at better legal livelihoods.

At an operational level, U.S. reconstruction programs in Afghanistan need to be far more explicit about how they will tackle the opium economy without making matters worse. Officials in both State and USAID need to set out the theory of change that underpins their reconstruction programs, identify how these programs will deter future opium production, and establish mechanisms for assessing the contribution these programs make to reducing narcotics production while taking into consideration the challenges that insecurity and a reduction in the U.S. presence on the ground poses to oversight. More needs to be done to learn from and, where appropriate, replicate how coincident improvements in governance, security, and economic growth led to farmers graduating out of opium production in the lower-lying areas of provinces like Nangarhar, Helmand, and Kandahar.

It is impossible to develop a coherent and effective strategy for Afghanistan without taking full account of the opium economy. To continue to ignore the impact of opium production on reconstruction—and reconstruction's effect on the opium economy—would be negligent, wasteful of taxpayers' money, and destructive of U.S. policy goals.

A whole-of-government effort and a whole-of-programs review are essential. Recognizing the corrosive effects of money laundering on U.S. reconstruction efforts, SIGAR also recommends that “following the money” be part of any such review and has established a Money Laundering Task Force to identify and investigate violations of U.S. and Afghan money laundering laws linked to reconstruction.

In the coming period of reduced oversight visibility in Afghanistan, SIGAR will continue to keep the U.S. government and the American public informed on the counternarcotics effort, and to recommend appropriate course corrections. At the moment, Afghanistan's narcotics economy is the elephant in the room that we ignore at our peril.

“It’s clear that reconstruction progress needs to be measured in realistic and useful ways. If we are going to learn anything from the reconstruction experience, we need to have accurate assessments of the proximate cause of both successes and failures.”

—*Special Inspector General John F. Sopko*