

# SIGAR

Special Inspector General for  
Afghanistan Reconstruction

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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.

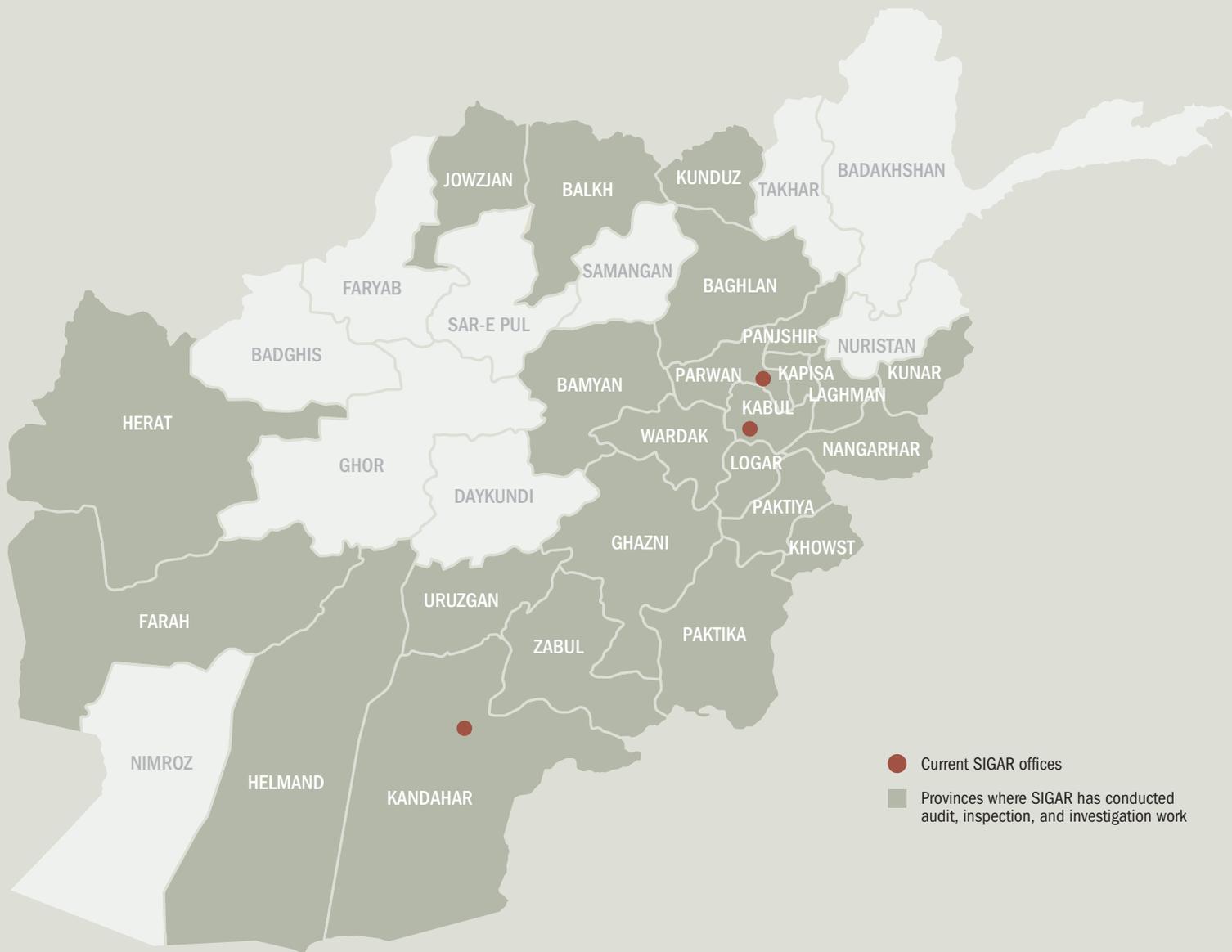
Afghanistan reconstruction includes any major contract, grant, agreement, or other funding mechanism entered into by any department or agency of the U.S. government that involves the use of amounts appropriated or otherwise made available for the reconstruction of Afghanistan.

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:**

U.S. Marines and sailors of the Marine Expeditionary Brigade embark on a transport plane at Camp Bastion after completing their mission in Helmand Province, Afghanistan, on October 26, 2014. The Afghan National Army has since taken over the Marines' Camp Bastion and Camp Leatherneck. (U.S. Marine Corps photo by Staff Sergeant John Jackson)



- 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 the Secretaries of State and Defense, SIGAR's 26th quarterly report on the status of the U.S. reconstruction effort in Afghanistan.

NATO formally lowered its flag this quarter as its 13-year combat mission in Afghanistan came to an end, and the International Security Assistance Force (ISAF) was replaced by Resolute Support Mission, a much smaller NATO mission that will train, advise, and assist the Afghan National Security Forces (ANSF). At the London Conference in December, the United States and other donor nations emphasized that although combat has ended, reconstruction will continue into the "Decade of Transformation" (2015–2024). They renewed their commitment to provide at least \$16 billion through 2015 and maintain support at or near the levels of the past decade through 2017.

This year, as in the past, the bulk of the U.S. support for Afghanistan will go to build and sustain the ANSF. For the last six years, SIGAR has kept Congress and the public informed about the United States' \$65 billion investment in the ANSF by reporting every quarter on the effectiveness of the Afghan army and police.

Last quarter, ISAF classified the executive summary of a report that SIGAR had used as a primary source of information on ANSF capability. This quarter, the new Resolute Support Mission went further, classifying information SIGAR has, until now, used to publicly report on, among other matters, ANSF strength, attrition, equipment, personnel sustainment, infrastructure, and training, as well as Afghan Air Force and Special Mission Wing capabilities, and anticorruption initiatives at the Ministry of Defense (MOD) and Ministry of Interior (MOI). (A more detailed description of what has been classified may be found in the Security chapter of Section Three in this report.) In a new Appendix E to this report, SIGAR has published a list of the questions it provided to Resolute Support Mission, but whose answers can no longer appear in a public report. As authorized by statute, SIGAR will provide its now-classified analysis of the responses to these questions to Congress and the Secretaries of State and Defense in a classified annex. In Appendix F, SIGAR has provided the memo Resolute Support Commander General John F. Campbell wrote explaining the decision to classify this material.

After many delays, Afghanistan's national-unity government announced a new cabinet this quarter. The cabinet, whose nominees require parliamentary approval, faces many challenges. To help the new government and other stakeholders achieve reconstruction goals, SIGAR in December published a High-Risk List to draw attention to program areas and elements of the U.S.-funded reconstruction effort that are especially vulnerable to significant waste, fraud, and abuse.

SIGAR also announced the creation of its new Lessons Learned Program (LLP) this quarter. The LLP will conduct a comprehensive analysis of the \$107.5 billion reconstruction effort in Afghanistan from 2001 onwards to identify best practices and lessons to help address systemic issues. An essay in Section One of this quarterly report on the difficulties of coordinating aid to Afghanistan explores some of the issues that the LLP will address more broadly in its first product, expected to be published mid-2015.

SIGAR investigators had an exceptionally productive quarter, recovering a record \$53.7 million for the U.S. government and saving an additional \$12 million in U.S. reconstruction monies. The criminal fines, restitutions, forfeitures, civil settlement recoveries, and cost savings to the U.S. government from SIGAR's ongoing investigations amount to more than \$570 million to date. SIGAR's suspension and debarment program referred 12

individuals and five companies for suspension and debarment this quarter based on allegations that they engaged in fraud or failed to perform under reconstruction contracts.

SIGAR also issued 17 performance audits, financial audits, alert letters, and other reports examining the reconstruction effort.

One performance audit reported on a key foreign policy goal for the United States: improving the status of Afghan women. The audit found that although the Departments of Defense (DOD) and State, and the U.S. Agency for International Development (USAID) reported gains and improvements in the status of Afghan women in fiscal years 2011 through 2013, there was no comprehensive assessment available to confirm that these gains were the direct result of specific U.S. efforts.

A second performance audit found that more than \$300 million in annual U.S. government funding for Afghan National Police (ANP) salaries is based on partially verified or reconciled personnel and payroll data. The MOI does not have sufficient controls in place to ensure that this data is accurate and that ANP personnel are receiving their intended salaries, increasing the risk that U.S. funding for salaries could be wasted or abused.

A third performance audit determined that DOD implemented more than 75% of SIGAR's 209 recommendations in a timely, successful manner, reducing the risk of waste, fraud, and abuse of U.S. reconstruction funds.

SIGAR's financial audits in this reporting period identified nearly \$23.6 million in questioned costs as a result of internal-control deficiencies and noncompliance issues. To date, SIGAR's financial audits have identified more than \$106.7 million in questioned costs and \$198,368 in unremitted interest on advanced federal funds, and agencies have issued bills for collection to recover more than \$8.5 million in questioned amounts.

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 seven 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.

However, I am encouraged by the fact that the new U.S. military leadership in Afghanistan shares our concerns about this issue. Following a briefing by SIGAR in Afghanistan this quarter, we learned that the Army's newly appointed Suspension and Debarment Official has begun a review of the issue. I am hopeful that common sense will ultimately be applied to the Army's suspension and debarment program to prevent supporters of the insurgency from obtaining government contracts.

With the departure of Coalition combat troops and the concomitant drawdown of U.S. civilian personnel, Afghanistan has entered a new era. In these circumstances, U.S.-funded reconstruction will require more aggressive oversight than ever, even as carrying out that oversight becomes more difficult and dangerous. SIGAR will continue to oversee U.S. spending and operations to protect the U.S. taxpayer's investment in the historic effort to rebuild Afghanistan.

Respectfully,



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 October 1 to December 31, 2014.\* It also includes a discussion of coordination of aid to Afghanistan. During this reporting period, SIGAR published 17 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 a lack of accountability, failures of planning, construction deficiencies, and other threats to health and safety. SIGAR also announced the creation of its new Lessons Learned Program and published its first High-Risk List. SIGAR's Investigation Directorate had an exceptionally productive quarter, with monetary results totaling over \$65.8 million from criminal fines, restitutions, forfeitures, contract monies protected, and civil settlement agreements. SIGAR investigations also resulted in five arrests, six indictments, six convictions, one sentencing, and the discharge of a U.S. military member. In Afghanistan, 10 individuals were barred from access to military installations. SIGAR's suspension and debarment program referred 12 individuals and five companies for suspension or debarment based on allegations that they engaged in fraud and non-performance in contracts.

## SIGAR OVERVIEW

### AUDITS

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

The **alert letter** addressed:

- Concerns about the Sheberghan-Mazar natural gas pipeline, repaired in part by the Department of Defense's (DOD) Task Force for Business and Stability Operations (TFBSO).

The **performance audits** found:

- Although DOD and State, and the U.S. Agency for International Development (USAID) reported gains and improvements in the status of Afghan women in fiscal years 2011 through 2013, there was no comprehensive assessment available to confirm that these gains were the direct result of specific U.S. efforts.
- More than \$300 million in annual U.S. government funding for Afghan National Police (ANP) salaries is based on partially verified or reconciled personnel and payroll data. The MOI does not have sufficient controls in place to ensure that this data is accurate and that ANP personnel are receiving their intended

salaries, increasing the risk that U.S. funding for salaries could be wasted or abused.

- DOD implemented more than 75% of SIGAR's 209 recommendations in a timely, successful manner, reducing the risk of waste, fraud, and abuse of Afghan reconstruction funds.

The **financial audits** identified nearly \$23.6 million in questioned costs as a result of internal-control deficiencies and noncompliance issues. These deficiencies and noncompliance issues included, among other things, failure to provide contractually required costs and GPS locations for contract project sites, unapproved equipment purchases, failure to account for and track assets purchased, rental expenses incurred and billed after the end of the period of performance, failure to follow competitive procurement procedures, personal use of company-purchased vehicles, business receipts taxes erroneously charged to the U.S. government, incorrectly calculated currency exchange transactions, unauthorized overtime compensation, missing personnel timesheets, improper disposition of nonexpendable equipment, lack of documentation to support costs incurred, subcontract charges higher

\* Per statute, SIGAR may also report on products and events occurring after December 31, 2014, up to the publication date.

# EXECUTIVE SUMMARY

than approved subcontract amounts, and ineligible entertainment expenses.

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

- At ANA Camp Commando, the generators were not synchronized and could only provide about 25% of the planned total power output; the fuel pumps at the fuel point had not been used; and the dining facility was built for 280 Afghan soldiers but was handling 1,600 soldiers.
- A dry-fire range built at a cost of nearly half a million dollars to the U.S. government disintegrated four months after construction was completed due to poor contractor performance and a lack of government oversight.

## NEW AUDITS AND INSPECTIONS

This quarter, SIGAR initiated four new performance audits to assess DOD's support to the ANA's Technical Equipment Maintenance Program (A-TEMP), DOD and State's progress made in completing FY 2011 Afghanistan Infrastructure Fund (AIF) projects, USAID's use of the Measuring Impacts of Stabilization Initiatives (MISTI) contract to measure agency progress in its stabilization programs, and U.S. government efforts to improve access to and quality of primary and secondary education in Afghanistan. SIGAR also initiated three new inspections of the Sheberghan Teacher Training Facility, the Gardez Hospital, and the Afghan Air Force Air University.

## SPECIAL PROJECTS

During this reporting period, the Office of Special Projects issued four inquiry letters addressing:

- USAID's response to SIGAR's original inquiry letter, concerning the recovery of questioned costs identified in several SIGAR financial audits
- DOD's Light Air Support (LAS) aircraft program
- State's public diplomacy grant program
- TFBSO's troubling business practices

## INVESTIGATIONS

SIGAR recovered a record \$53.7 million for the U.S. government through Civil Settlement Agreement payments, and saved the government another \$12 million

through its investigative work. Criminal investigations resulted in five arrests, six indictments, six convictions, a sentencing, the discharge of a U.S. military member, and \$105,000 in fines, restitution, and forfeitures. In Afghanistan, 10 individuals were barred from U.S. military installations. SIGAR initiated 38 new investigations and closed 34, bringing the total number of ongoing investigations to 328. SIGAR's suspension and debarment program referred 12 individuals and five companies for suspension or debarment.

**Investigations highlights** include:

- Total payments to the U.S. government of \$53.7 million from three Civil Settlement Agreement payments
- Two investigation resulting in recoveries of over \$1.2 million for the U.S. government
- An undercover operation that helped thwart a scheme to steal \$800,000 worth of U.S. government property
- A U.S. Army staff sergeant discharged "other than honorable" from the military for the sale and distribution of alcohol while deployed to Afghanistan
- A former U.S. Army specialist pleading guilty to fuel theft scheme
- Three U.S. military members pleading guilty to embezzlement scheme
- Two businessmen arrested for bribery in the United Kingdom
- A former U.S. Army sergeant pleading guilty to bribery scheme
- An investigation resulting in a \$10 million cost savings for the U.S. government
- The sentencing of one U.S. contractor for bribery, the indictment of another for fraud, and a guilty plea from a third for stealing U.S. government property
- A U.S. Army staff sergeant arrested and indicted on charges of bulk cash smuggling, false statements, theft of government property, smuggling goods to the United States, and wire fraud
- A contractor barred from military installations
- The recovery of an armored pickup truck worth \$103,000

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“It has long been recognized by analysts and other aid professionals that lack of coordination between the two dozen or so U.S. departments and agencies involved in foreign assistance is an obstacle to coordination with other donors, in addition to a source of inefficiency and incoherency within the U.S. aid structure.”

—*Congressional Research Service*

# 1 COORDINATING AID: AN ELUSIVE GOAL



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Afghan President Ashraf Ghani speaks at the December 2014 London Conference, co-hosted by Afghanistan and the United Kingdom, where international donors reaffirmed their intentions to continue assisting Afghanistan. (UK Foreign & Commonwealth Office photo by Patrick Tsui)

## COORDINATING AID: AN ELUSIVE GOAL

Despite more than a decade of multilateral efforts, achieving effective coordination of assistance to Afghanistan remains an elusive goal for the United States, other donors, and the Afghan government.

The stakes are high on both sides of the aid transaction. Experience and research show that well-coordinated aid can reduce transaction costs and increase aid effectiveness for security, development, and humanitarian conditions. Increasing aid effectiveness is especially important in Afghanistan, where much is yet to be achieved while resources are diminishing.

The World Bank characterizes impoverished, largely illiterate, and battle-scarred Afghanistan as an “extreme outlier” in its reliance on foreign aid for at least 50% of gross national income.<sup>1</sup> The Afghan government said in a paper prepared for the London Conference in December 2014 that “Afghanistan is facing an economic crisis with the transition taking a heavier than expected toll on the economy and the pace of reforms. Private sector confidence has slumped and a fiscal crisis is underway.”<sup>2</sup>

The Afghan government’s paper explained that “The social and economic impacts of the sharp scale-down of [foreign] activities were considered to be marginal, but it is now clear that this was a miscalculation and the economic effects of [U.S.-led Coalition] withdrawal have been and will continue to be severe, creating a sizable fiscal gap in the Afghan economy.”<sup>3</sup>

Just a week after the London Conference, the Afghan treasury chief told Reuters News that his country lacked cash to pay salaries for its civil servants, teachers, and other employees, and needed immediate help from donors.<sup>4</sup>

In sum, the year 2015—the first full year for the new Afghan administration and for the country’s “Decade of Transformation”—opens with a display of daunting obstacles for the Afghan government:

- But for a small U.S. counterterrorism force, foreign troops’ combat missions have ended, leaving responsibility for security to the Afghan National Security Forces (ANSF), while violent incidents and Afghan casualties have increased.
- Donors are showing no eagerness to expand aid, and the duration of the counterinsurgency struggle, weakness in the Afghan state, and terrorist



**Kabul, Afghanistan**, street scene.  
(Wikimedia Commons photo by Christopher Killalea)

# COORDINATING AID

or geopolitical threats in other areas of the world are contributing to “donor fatigue” with Afghanistan’s problems.

- Despite reforms and revenue-mobilizing efforts, the Afghan government cautions that “A large fiscal gap is expected to persist through 2025 and Afghanistan will continue to require high levels of donor grant assistance.”<sup>5</sup>
- The Afghan economy is weakening, government revenues are falling far short of targets, and the need for foreign assistance to close the resulting fiscal gap is growing. But the Ministry of Finance reported that as of fall 2014, external grants for the first 10 months of the Afghan fiscal year were 6.5% lower than the same period a year earlier.<sup>6</sup>

The United States has been the lead donor to Afghanistan since the establishment of the post-Taliban government in 2002, but according to the Organization for Economic Cooperation and Development’s (OECD) most recent summary, other donors contributed more than half of total official development assistance to the country during 2011–2012,<sup>7</sup> not counting the costs of their own military operations in Afghanistan.<sup>8</sup> Besides the United States, leading donors have included the governments of Australia, Canada, Denmark, France, Germany, Japan, Norway, and United Kingdom, and international organizations such as the Asian Development Bank. Nongovernmental organizations (NGOs) like the Aga Khan Foundation, Oxfam, and Doctors Without Borders have also provided significant assistance in Afghanistan.

The bulk of the \$107.5 billion Congress has appropriated for Afghan reconstruction since fiscal year (FY) 2002 has gone to create and sustain the ANSF, with a smaller but still significant amount dedicated to reconstruction and development. See the Status of Funds section and Appendix B of this report for details.

The 60-nation London Conference saw the United States and other donors reaffirm their commitment to provide another \$16 billion of aid to Afghanistan through 2015 and to continue aid “at levels commensurate with the last decade through 2017.”<sup>9</sup> Whether governmental, multilateral, or NGO, donors have many billions of dollars invested in and pledged to aiding Afghanistan. Unfortunately, much assistance remains unilaterally determined by donors and uncoordinated with recipients, other donors, or even among single donors’ agencies, while multilateral organizations and trust funds intended to improve coordination can be hobbled by earmarked contributions and their own shortcomings in management and accountability.

For donors and for Afghanistan, then, the country’s current travails and uncertain future make this a critical time to ask how better coordination of international aid could reduce costs and increase effectiveness.

## HOW COORDINATED IS INTERNATIONAL AID?

“Aid coordination is a very desirable objective,” say development economists at the Paris School of Economics and the University of Namur in Belgium, “because it can reduce the costs of delivering and monitoring aid (the transaction cost effect) and improve the targeting of the poor (the governance effect). ... In practice, however, we observe too little of such aid coordination.”<sup>10</sup>

Coordination problems—whether in sharing information, agreeing on goals, selecting priorities, assigning division of labor, sequencing initiatives, working with developing-country institutions and stakeholders, or other aspects of collaborative undertaking—run the gamut from multinational and national issues, to departmental and programmatic shortcomings within a single country’s operations. Coordination issues in Afghanistan are a subset—in an unusually fraught arena—of issues in the broader set of international concerns.

Aid coordination and effectiveness are long-standing concerns of the international-assistance community, reflected in agreements like the 2003 Rome Declaration on aid harmonization. Soon thereafter, a conference of international aid donors, including the United States, issued the Paris Declaration on Aid Effectiveness in 2005. The Paris Declaration called for improving aid effectiveness by promoting and monitoring (1) recipient-country “ownership” through poverty reduction, institutional improvement, and anticorruption efforts; (2) donor “alignment” with local objectives; (3) “harmonization” via donor-countries’ coordination, procedure simplification, and information sharing; (4) “results” focus on measurable gains in development; and (5) “mutual accountability” for results between donors and partners.<sup>11</sup> Other conferences have echoed and reaffirmed those goals.

Results have been mixed. The Congressional Research Service (CRS) notes that coordination is “a major theme” of donor agreements and is a stated goal of U.S. foreign policy. “Nevertheless,” CRS reports, “donors on average, and the United States in particular, have had limited success in meeting the coordination goals they established for themselves.”<sup>12</sup> The problem includes American intragovernmental shortcomings: “It has long been recognized by analysts and other aid professionals that lack of coordination between the two dozen or so U.S. departments and agencies involved in foreign assistance is an obstacle to coordination with other donors, in addition to a source of inefficiency and incoherency within the U.S. aid structure.”<sup>13</sup> At least three statistical studies by teams of European researchers have likewise found that much international aid remains fragmented and uncoordinated despite Paris Conference promises.<sup>14</sup>

The concern about fragmentation and noncoordination is not new. A World Bank paper of November 2001—just after the U.S.-led overthrow of the Taliban regime—noted that while the United States and the European Union were the largest bilateral aid donors to Afghanistan, most of the

“Where possible, it is important to work together on: upstream analysis; joint assessments; shared strategies; and coordination of political engagement. Practical initiatives can take the form of joint donor offices, an agreed division of labour among donors, delegated cooperation arrangements, multi-donor trust funds and common reporting and financial requirements. Wherever possible, international actors should work jointly with national reformers in [recipient-country] government and civil society to develop a shared analysis of challenges and priorities.”

—*Organization for Economic Cooperation and Development, “Principles for Good International Engagement in Fragile States & Situations,” policy brief, item 8, 4/2007.*

# COORDINATING AID

assistance was then being delivered by NGOs. The Bank cited some coordination improvements, but added, “Aid delivery remains highly fragmented. There are cases of duplication, working at cross-purposes, and ‘crowding’ on the part of both UN agencies and NGOs in response to donor demands.”<sup>15</sup>

In the same vein, Dr. Siegfried Wolf of Heidelberg University’s South Asia Institute notes in a review of post-2001 interventions and future scenarios in Afghanistan that “Many of the development projects were not set up in coordination with the Afghan authorities. In addition, the foreign actors (governmental and non-governmental organizations) developed their own structures for decision-making and implemented projects in parallel to government projects.” The noncoordination, the author concludes, undermined the Afghan regime and “further contributed to mal-governance, corruption and weakening of political institutions.”<sup>16</sup>

Problems have persisted despite more than a decade of effort to coordinate aid to Afghanistan. Early efforts included the pre-2001 Afghan Support Group of donors; the November 2001 Senior Officials Meeting on Reconstruction Assistance to Afghanistan held in Washington, DC; United Nations (UN), World Bank, and Asian Development Bank meetings in late 2001 to analyze aid gaps; the January 2002 International Conference on Reconstruction Assistance to Afghanistan held in Tokyo; and the 2002 creation of the Kabul government’s Afghan Assistance Coordination Authority and the United Nations Assistance Mission in Afghanistan (UNAMA).<sup>17</sup> Numerous other meetings and conferences followed, most recently the London gathering.

America’s multi-billion-dollar development efforts in Afghanistan, largely executed through the U.S. Agency for International Development, have continued to draw notice for shortcomings in coordination even among U.S. entities. A 2009 CRS report said, “There is no overarching mechanism in place to coordinate or evaluate the broad range of foreign assistance activities.”<sup>18</sup> In 2012, the Government Accountability Office (GAO) analyzed U.S. development activities in six Afghan districts and found 28 potential duplications—“potential” because data gaps and limitations, including lack of a shared database, prevented GAO from making a conclusive determination.<sup>19</sup>

A 2011 SIGAR audit of U.S. programs to develop the Afghan financial sector found, among other things, that “U.S. agencies have not fully coordinated the implementation of their efforts.” The audit reported that a key interagency working group did not include all U.S. agencies involved in sector-program implementation, and that Department of Defense (DOD) and Department of Homeland Security officials had not coordinated their work when both were dealing with the same commercial banks. SIGAR observed, “Limited interagency coordination puts U.S. agencies at risk of working at cross-purposes or, at a minimum, missing opportunities to leverage existing relationships and programs.”<sup>20</sup>

Summing up the current state of affairs, Tamim Asey, a former Afghan official and teacher at the American University of Afghanistan, wrote in a recent online column for *Foreign Policy*: “Donor coordination still remains a big challenge in Afghanistan; each donor pursuing their own stated goals and priorities through their own agencies, NGOs, and contractors with little reporting or transparency to the Afghan government.”<sup>21</sup>

## LACK OF COORDINATION HAS COSTS

Seeking coordination in development aid is more than an exercise in programmatic design or a quest for conceptual neatness. Failure to practice effective coordination can impose real costs on donors and recipients.

The German Federal Ministry for Economic Cooperation and Development has pointed out that recent years’ proliferation of bilateral donors, foundations, trust funds, and multilateral organizations engaged in development assistance “offers huge political and financial potential.” At the same time, the expanding aid universe promotes fragmentation, increases total transaction costs, creates inefficient duplication of administrative structures, and “binds—and often overstretches—governance capacities in partner countries, especially in the least developed and fragile states.”<sup>22</sup> Note that these side effects are simply the consequences of the *numbers* of aid donors. If the donors *themselves* are also significantly uncoordinated—as the evidence cited earlier indicates—then the costs of noncoordination add to, or perhaps even multiply, the direct, indirect, and opportunity costs of the multi-pronged, loosely coordinated approach.

Like other fragile states, Afghanistan must deal with many donors. A paper prepared for the World Bank’s Independent Evaluation Group in 2013 counted 50 countries and organizations providing development (as distinct from humanitarian or security) assistance, with the United States accounting for 42% of the total and the top 10 donors accounting for 85%. Donors included OECD members acting bilaterally, multilateral organizations such as the UN, and “nontraditional” donors like Iran and Turkey.<sup>23</sup>

Dealing with a plethora of donors imposes costs. As of November 2014, the Afghan Ministry of Finance had conducted 19 of its annual dialogue meetings with bilateral donors—the Asian Development Bank, Canada, the European Union, Finland, South Korea, Switzerland, and the World Bank, among others—and 17 more with UN agencies. The ministry said the proceedings took longer than planned for reasons including “non-availability of the donor’s data on time, rescheduling . . . by donors, security reasons, and [the] large number of the donors.”<sup>24</sup>

Apart from loading poor countries like Afghanistan with multiple requirements for travel arrangements, security, translation services, and other needs of visitors, uncoordinated and fragmented development aid can also impose administrative burdens with requests for customized

reports, nonstandard data, and specific formats. Such costs in time and money, though largely invisible to donors, are another part of the cost of noncoordination.

## SO WHY DON'T DONORS COORDINATE MORE?

If better coordination could reduce costs for both donors and recipients and make aid more effective, why don't we see more of it? Organizational dysfunction, bureaucratic inertia, or failure to apply best practices might be part of the answer, but there are also rational and pragmatic—though not necessarily enlightened—considerations that could explain some failures to coordinate.

For one thing, the Bonn-based German Development Institute notes, “There is no consensus on what the right level of coordination is or should be.” Further, “The political economy of donor coordination is complex; there are strong incentives working against more coordination (such as the interest of [donor-community] member states in ‘visibility.’”<sup>25</sup>

As CRS observes, business-promotion efforts like “buy American” rules in providing aid hamper coordination, while “There are countries where the United States remains an active donor for reasons related more to strategic security advantages than to development outcomes.” If activities like building schools are part of a campaign to make Afghans view the United States more favorably, CRS adds, such strategic objectives “make it difficult for U.S. officials, and those from many donor countries, to delegate their authority to other donors for fear of losing the access and influence that are often a perceived trade-off for aid.”<sup>26</sup>

In addition, donors may resist coordinating their aid because of policy preferences, such as favoring poverty reduction instead of rewarding governance reforms, or giving priority to security over advances in human rights.<sup>27</sup> Other considerations that militate against aid coordination, according to researchers at Sweden's University of Gothenburg, include tendencies to micromanage, desires to preserve independence or promote political influence, and assert administrative control, “in particular if aid is given to poorly governed or corrupt countries.”<sup>28</sup> The authors conclude, “It seems clear that donors could save significant amounts of resources by reducing aid fragmentation, but the fact that they have not done this may be an indication that they consider the political costs of adjusting to be too high.”<sup>29</sup>



**Afghan school children** in Kabul.  
(DOD photo by Robert Romano, U.S. Army)

## TRUST FUNDS HELP, BUT NEED WATCHING

One mechanism with the potential to coordinate aid while providing reassurance to donors and simplifying life for recipients is the multilateral trust fund—an administrative entity that collects and disburses aid and provides a single point of contact and on-budget funding for the recipient country.

Multidonor trust funds, according to a study funded by the Norwegian government in cooperation with the Dutch, Canadian, and UK governments, “represent ‘best practice’ post-crisis funding” and are “by far the most important coordination, harmonization and alignment vehicle in place.” Such trust funds, the study says, are well suited to countries in need of immediate reconstruction, where governance and capacity are weak, and where risk, uncertainty and information costs are high.<sup>30</sup>

The appeal of such mechanisms for Afghanistan was noted early on. In 2002, Alastair McKechnie, then the World Bank’s country director for Afghanistan, recorded that “To avoid overburdening the [Afghan] government with administrative requirements and to provide transparency and accountability in the use of funds, a multi-donor trust fund was recommended to finance both the recurrent and development budget.”<sup>31</sup> Accordingly, the World Bank-administered Afghanistan Reconstruction Trust Fund (ARTF) became operational in May 2002.

Other Afghan-focused, multi-donor development trust funds followed. The field now includes:

- The ARTF, established 2002 to support the Afghan budget and priority national investment projects. Largest pooled fund. Administered by the World Bank, supported by 34 donors. Total U.S. contribution, FY 2002–FY 2015: \$2.4 billion.
- The Law and Order Trust Fund for Afghanistan (LOTFA), established 2002 to support law enforcement, including salaries, training, and infrastructure. Administered by the United Nations Development Programme (UNDP), supported by 15 donors. Total U.S. contribution, FY 2002–FY 2015: \$1.5 billion.
- The Afghanistan Infrastructure Trust Fund (AITF), established 2010 by the Asian Development Bank to provide grant co-financing to infrastructure projects and certain other investments from the private sector and donors. Supported by three donors. Total U.S. contribution, FY 2002–FY 2015: \$105 million.
- The Peace and Reintegration Trust Fund (PRTF), established 2010 to support peace and reconciliation processes and reintegration of former combatants. UNDP-administered, supported by seven donors (the United States is not a donor). Total contributions to community-recovery aspect of fund activities, FY 2002–FY 2015: \$121 million.
- The NATO Afghan National Army (ANA) Trust Fund, established 2007 by International Security Assistance Force (ISAF) nations but open to donations from the international community, provides funds for

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equipment, services, and training for the ANA. The fund has received \$971 million in contributions.

The United States also contributes to its own funds, the Afghanistan Security Forces Fund (ASFF), with total funding of \$60.7 billion, and the Economic Support Fund (ESF), with total funding of \$17.7 billion. For descriptions and data about each of these funds, see the Status of Funds section in this and prior SIGAR Quarterly Reports to Congress.

The World Bank has been a consistent supporter of the trust-fund approach. In 2001, the Bank argued that “A critical mass of international funding for [Afghan] reconstruction needs to be channeled through a well-designed trust fund on an un-earmarked basis. The trust fund should be managed by a credible institution, with sound mechanisms for resource allocation and accountability. Un-earmarked and untied funding is essential for ensuring alignment of funding and programs with the strategy for reconstruction.”<sup>32</sup>

Trust funds are not, however, a magic bullet for coordination or aid effectiveness. In a 2011 review of its trust-fund portfolio, the World Bank noted that trust funds’ resource decisions:<sup>33</sup>

- do not always conform to Paris Declaration principles
- may reflect diverging views and interests among donors, administrators, and recipients
- may not achieve sufficient coordination or recipient-country ownership
- may not align with recipient-country programs or with other aid sources
- may have effectiveness affected by design, such as lack of clear objectives, and management

The World Bank’s 2013 lessons-learned review of aid to Afghanistan offers an example of trust-fund problems regarding the LOTFA law-enforcement fund, which it said “has continually suffered from funding shortfalls and uncertainties,” as well as from “concerns about leakage of funds” and about the actual effectiveness of the Afghan police it supports.<sup>34</sup>

SIGAR has repeatedly raised its own concerns about multilateral trust-fund management, transparency, and accountability. In September 2014, SIGAR issued letters of inquiry about ARTF and LOTFA issues. The letter concerning ARTF noted that up to 32 Afghan students and a teacher were injured in the collapse of a school built with funds from the ARTF, and asked USAID and the administering World Bank why the school had collapsed and what had been done to impose accountability.<sup>35</sup>

A SIGAR letter about LOTFA raised several concerns about the trust fund and its oversight by UNDP. The letter noted \$23 million in unsupported financial charges against LOTFA by the Afghan Ministry of Interior, over \$15 million in miscoded and ineligible costs, possible overcompensation of Afghan personnel, a lack of mandate to audit and investigate Afghan

ministry processes, and an apparent disinclination of the UNDP to carry out fiduciary management. “If UNDP and LOTFA are not simply a conduit for funding,” Special Inspector General John Sopko wrote, “then a more aggressive approach to oversight is warranted.”<sup>36</sup>

The subsequent 16-page UNDP/LOTFA response described several changes made or under way to improve management and accountability of the trust fund. One item in the response illustrates the reason for SIGAR’s concerns: three ID-card reviews in late 2013 and the first half of 2014 determined that the Afghan human-resources information-management system “contains approximately 50,000 invalid ID cards.” The response added, “LOTFA recognizes that valid ID cards are a critical element to ensure that only active forces are paid, and [to] prevent irregularities within the payroll system.”<sup>37</sup>

SIGAR recognizes that the UNDP has made improvements in LOTFA, but believes that long-standing problems remain unresolved, and that considerably more progress is required to ensure that funds appropriated to support the Afghan National Police are in fact being used for their intended purpose. For example, a January 2015 SIGAR audit has found that “Neither CSTC-A [the U.S.-led Combined Security Transition Command-Afghanistan] nor UNDP has taken responsibility for verifying ANP personnel or payroll data.” Both entities acknowledge the importance of obtaining correct data, the audit noted, but “officials contradicted each other about who is ultimately responsible” for doing it.<sup>38</sup>

Dissatisfaction with LOTFA is not confined to donors. The *New York Times* reported in December 2014 that newly installed Afghan President Ashraf Ghani wants the UN to hand over control of LOTFA to Afghanistan within six months.<sup>39</sup> Such a change could be expected, based on SIGAR’s and other oversight agencies’ work, to result in even less visibility into the uses of monies and to lower-quality execution and verification of expenditures by Afghan ministry staff.

## U.S. EFFORTS COULD IMPROVE COORDINATION

Development assistance to Afghanistan—and to other developing countries—resists full and effective coordination for many reasons. But even after taking a cold, realistic view of competing motives and practical problems, there appears to be room for improvement that could benefit both donors and recipients.

The State Department’s forthcoming Quadrennial Diplomacy and Development Review (QDDR) could provide a good springboard for improvement. The QDDR office at the State Department told SIGAR the successor to 2010’s first edition should be published in February 2015. A harbinger of the new QDDR’s treatment of coordination may have appeared in June 2014, when USAID Administrator Rajiv Shah joined Secretary of



**Afghan National Police** recruits listen to instructors before firing their AK-47 rifles at a range near the regional training center for the ANP near Gardez. (DOD photo by Staff Sgt. Michael Braken, U.S. Army)

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State John Kerry and Special Representative Thomas Perriello in a kick-off meeting for the new QDDR. Shah said one key principle guiding the new QDDR is that “We have to constantly be willing to do things differently, to continuously improve, to modernize, to partner with others, to get more leverage out of our relationships, and to more actively engage with the Congress and with partners all around the world.”<sup>40</sup>

A whole-of-government perspective on American aid programs and opportunities could be of use in deciding whether some programs could be consolidated or terminated, and whether more funds should be rerouted from bilateral into multilateral channels such as the various trust funds. That exercise would of course require separating developmental interests from geopolitical and domestic-politics interests. As former U.S. Ambassador to Afghanistan Ronald E. Neumann has observed, “Coordinated strategies require compromise in goals, some of which must come from us. We—not only others—may need to let go of pet concepts that we try to impose from a distance” to promote better implementation on the ground.<sup>41</sup>

For reasons suggested earlier, directing more U.S. aid into multilateral trust funds—and encouraging other donors to do likewise—could yield both cost savings and better outcomes through coordination and efficiencies, while also making progress on the commitment by the United States and other donors to deliver at least 50% of aid to Afghanistan on-budget.

But as SIGAR’s concerns with management of the ARTF and LOTFA trust funds indicate, the United States needs assurance that taxpayer cash funneled through such conduits can be tracked and evaluated, and that administrative failure or misconduct can be detected and corrected. Doing that without undermining the operational advantages of trust funds will be a large and long-term challenge.

Whether trust funds are indeed the best path to improved coordination, and whether U.S. policymakers conclude that taking further steps toward aid coordination is politically acceptable, it is clear that Afghanistan’s “Decade of Transformation” is off to a rocky start. A reeling economy and a determined insurgency require that every dollar of (likely diminishing) aid be targeted to best effect. A new SIGAR project could point the way to a path that benefits both donors and recipients of reconstruction aid to Afghanistan.

## **NEW SIGAR PROJECT WILL REVIEW COORDINATION TO IDENTIFY LESSONS AND BEST PRACTICES**

SIGAR’s new Lessons Learned Program has launched a study of the challenges of effective aid coordination—and of aid coordination’s potential to improve the effectiveness of aid on the ground in recipient countries.

The project focuses on the effectiveness of U.S. coordination with external partners in administering development aid to Afghanistan. Spanning the period from the 2001 Bonn Conference, which paved the way for reestablishing an Afghan nation-state after the overthrow of the Taliban regime, to the London Conference in 2014, the project will examine how effectively aid to Afghanistan was prioritized, planned, coordinated, and overseen. The examination will consider both international criteria and U.S. objectives and intended outcomes.

The project has already conducted extensive research. Follow-on work will include numerous interviews with U.S., Afghan, and international government officials, and with other informed sources.

The completed project is intended to meet SIGAR's statutory mandate to review the effectiveness of U.S. coordination with other donors and with the Afghan government. In the process, it will extract lessons and identify best practices that can both improve results in the future in Afghanistan—and in contingency environments that have not yet emerged. For example, under the aegis of Operation Inherent Resolve, the United States and partner nations including NATO members and Mideast states are conducting air strikes in Syria and Iraq against armed elements of ISIL, the Islamic State of Iraq and the Levant.<sup>42</sup>

On December 17, 2014, the DOD inspector general was designated as lead IG for Operation Inherent Resolve and tasked with acting jointly with the IGs of the U.S. State Department and the U.S. Agency for International Development to coordinate, plan, and provide oversight for that contingency operation.<sup>43</sup> SIGAR plans to meet with the IG for Operation Inherent Resolve to discuss the new Lessons Learned Program. If, as in Afghanistan, the initial phase of military operations is followed by a program of internationally funded reconstruction and development for the populations and areas affected by ISIL, then coordination of that assistance will present another challenge to the donor community.



**Nowruz (“New Day”)** New Year’s celebration in Mazar-e-Sharif. (Wikimedia Commons photo by Peretz Partensky)

“Ministerial capacity to disburse development funds will continue to be a significant challenge in the years to come, and the U.S. should not lower its oversight standards in providing on-budget assistance.”

—*U.S. Senate Foreign Relations Committee,  
Majority Staff Report*