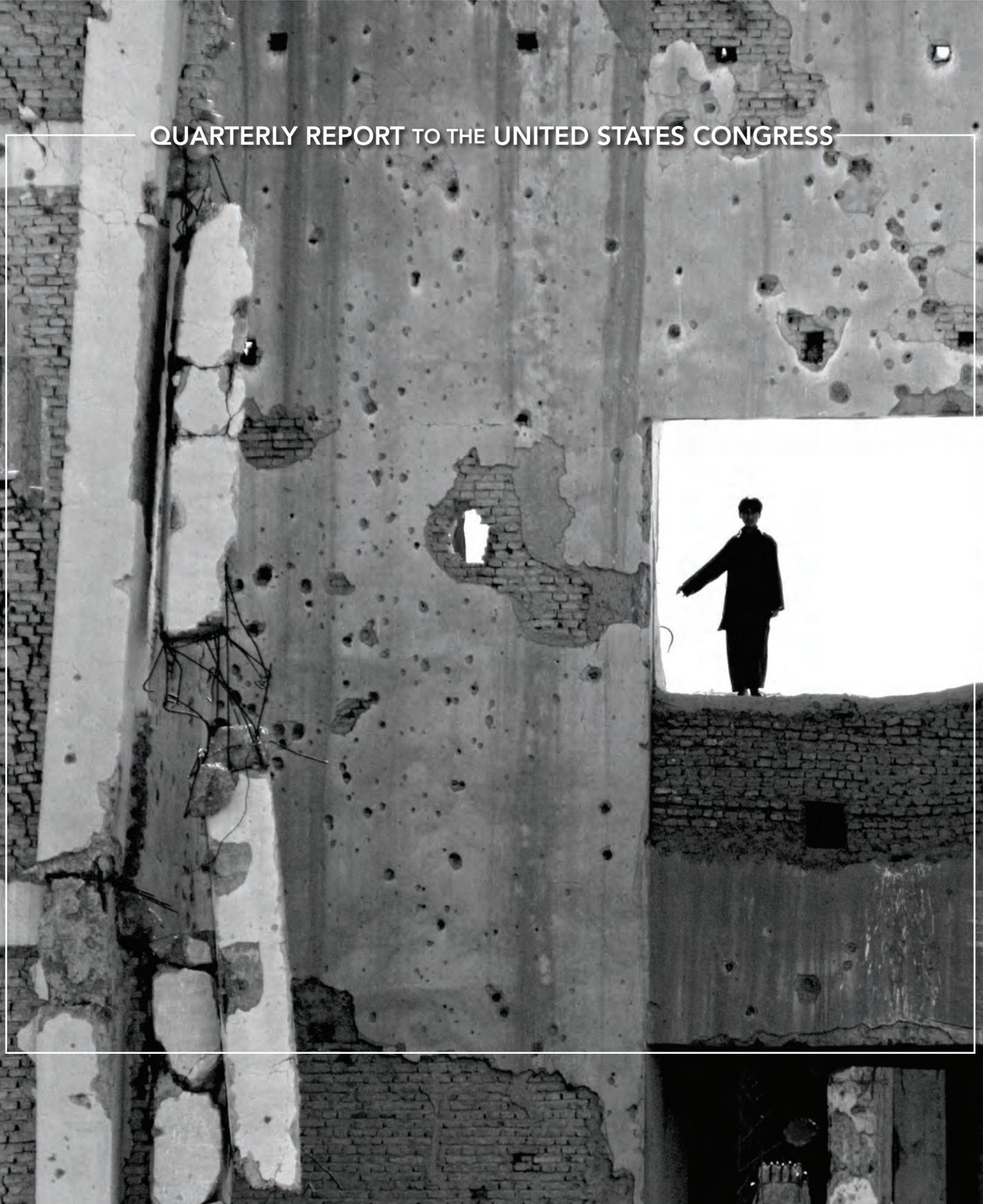


# SIGAR

Special Inspector General for  
Afghanistan Reconstruction

JUL 30  
2015

QUARTERLY REPORT TO THE UNITED STATES CONGRESS





## **The National Defense Authorization Act for FY 2008 (Pub. L. No. 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. No. 110-181, "National Defense Authorization Act for FY 2008," 1/28/2008.

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

### **Cover photo:**

An Afghan youth stands in bombed-out building at Tarnak Farms, a former Al-Qaeda training camp in Kandahar, Afghanistan. (Photo by Kenny Holston, U.S. Air Force, via Creative Commons)



SPECIAL INSPECTOR GENERAL FOR  
AFGHANISTAN RECONSTRUCTION

I am pleased to submit to Congress, and the Secretaries of State and Defense, SIGAR's 28th quarterly report on the status of the U.S. reconstruction effort in Afghanistan.

With U.S. and Chinese officials observing, the Afghan government and the Taliban held their first official meeting this quarter in Pakistan. Although Taliban attacks continue in Afghanistan, the meeting was a positive development. As Section 3 of this report discusses, many experts believe that ending the war is the only way, even under the most optimistic of economic scenarios, for Afghanistan to become a self-sufficient, sustainable state. Halfway through their first fighting season without U.S. combat support, the Afghan National Defense and Security Forces (ANDSF) managed to hold all provincial capitals, but took increased casualties and found themselves stretched thin. Meanwhile, the Taliban is increasingly fractured, with some commanders claiming allegiance to the Islamic State in Iraq and the Levant (ISIL).

This quarter SIGAR was concerned about two issues that arose with the U.S. Agency for International Development (USAID). In May 2014, USAID responded to a request from our criminal investigators in Afghanistan by providing SIGAR with the geospatial coordinates for health-care facilities funded by the agency's \$210 million Partnership Contracts for Health (PCH) program. This June SIGAR notified USAID that we had determined that nearly 80% of the coordinates were incorrect. This was a troubling discovery, as geospatial technology is an increasingly important tool for verifying aid outcomes as on-the-ground oversight capabilities dwindle in Afghanistan. Also troubling was USAID's subsequent admission that it was aware of "precision issues" in the coordinates it gave SIGAR. Evidently, USAID provided the coordinates for a SIGAR criminal investigation without any appropriate caveats on their use, even though it had little or no confidence in the information.

SIGAR also launched an inquiry in June regarding the reliability of data used by USAID to oversee and fund its education programs in Afghanistan, in part because of concerns raised by the new minister of education before the Afghan parliament. After my most recent meetings this month with senior Afghan officials, I remain unconvinced that either USAID or the Afghan ministries are able to accurately account for the investments in health and education made by the United States and our allies.

During my last trip to Afghanistan, I met again with President Ashraf Ghani and Chief Executive Officer Abdullah Abdullah to discuss SIGAR's efforts to help the national-unity government crack down on corruption in the \$109.7 billion U.S.-funded reconstruction effort. Last quarter, SIGAR and the Combined Security Transition Command-Afghanistan (CSTC-A) briefed the government on our investigation of corruption in the award of a nearly \$1 billion Ministry of Defense fuel contract. SIGAR and CSTC-A continue to support the Afghan government's procurement reforms and are the only U.S. government entities to attend the meetings of the new National Procurement Commission that President Ghani established to regulate contract awards.

This report also examines the issue of conditionality, which will be on the agenda at the Senior Officials Meeting of the Tokyo Mutual Accountability Framework this September. Section 1 of this report looks at how placing conditions on international assistance to Afghanistan can help achieve its purposes of thwarting corruption and making the country capable of standing on its own while still providing accountability for the use of donor-nation taxpayers' money. It examines the increasing number of conditions CSTC-A and other U.S. agencies are placing on aid to the Afghan government, and at some of the ways poorly conceived or executed conditionality can cause problems for both donors and recipients of aid. It proposes ten tasks donors should consider when using conditions to make assistance both accountable and effective.

In other work this quarter, SIGAR issued 21 audits, inspections, alert letters, and other products. One of SIGAR's performance audits found that the Federal Aviation Administration was not able to train enough air-traffic controllers for Afghanistan to operate airspace management on its own, and that the United States was not able to transition airspace-management responsibilities to the Afghans as planned in 2014. A second performance audit reported that U.S. government agencies do not have a comprehensive strategy to help develop the rule of law in Afghanistan, and that problematic performance-management systems make it difficult for agencies to fully determine the effectiveness of rule-of-law programs.

This quarter, SIGAR's financial audits identified over \$37.4 million in questioned costs involving internal-control deficiencies and noncompliance issues. To date, SIGAR's financial audits have identified more than \$279.5 million in questioned costs and \$289,880 in unremitted interest on advanced federal funds or other revenue amounts payable to the government.

Additionally, SIGAR published two inspection reports. One report found that project construction at the Counter Narcotics Judicial Center mostly met contract requirements, despite two construction deficiencies, and that the detention center was being used as intended. The second report found that the Defense Logistics Agency warehouse facility at Kandahar Airfield was well built, despite minor deficiencies, but that lengthy construction delays led to the facility never being used as intended.

SIGAR released a special project report that summarizes nearly two years of investigation into the construction by the Department of Defense (DOD) of an unwanted, unneeded, and unused 64,000-square-foot command-and-control facility in Afghanistan. In addition, the Office of Special Projects began inquiries into a \$43 million compressed natural gas project implemented by DOD's Task Force for Business and Stability Operations and the underutilization of the Tarakhil Power Plant.

During the reporting period, SIGAR investigations achieved significant results. Cost savings to the U.S. government amounted to approximately \$214.7 million; civil-settlement recoveries totaled more than \$6.9 million; and fines, forfeitures, and restitutions totaled over \$675,000. There were also four arrests, eight criminal charges, six convictions, and five sentencing. In addition, 17 individuals were barred from U.S. military installations in

Afghanistan. SIGAR initiated 27 new investigations and closed 40, bringing the total number of ongoing investigations to 310.

The accomplishments of the fiscal quarter bring the cumulative total in criminal fines, restitutions, forfeitures, civil-settlement recoveries, and U.S. government cost savings from SIGAR's ongoing investigations to \$794 million. Investigative outcomes include 101 arrests, 130 criminal charges, 93 convictions, and 69 sentencing. Since its inception, SIGAR has conducted 865 investigations in total. These achievements illustrate the tremendous impact SIGAR investigations have had in the reconstruction oversight effort.

SIGAR's suspension and debarment program referred 17 individuals and 25 companies for suspension or debarment from receiving U.S. government contracts. Since 2008, SIGAR has made 650 referrals—343 individuals and 307 companies. As of last quarter, a majority of these individuals and entities have been publicly listed in the General Services Administration (GSA) System for Award Management, providing a readily accessible notice to contracting officers and prime contractors that the listed individuals and entities should be restricted from receiving contracts, grants, and cooperative agreements. SIGAR will continue to press to have all such individuals and entities added to GSA's list.

None of this would have been possible without the dedication of SIGAR's 194 investigators, auditors, and other professionals, who often work in dangerous conditions. We at SIGAR remain committed to working with Congress and other stakeholders to combat waste, fraud, and abuse in the single most costly reconstruction program ever undertaken by the United States.

Respectfully,

A handwritten signature in black ink, appearing to read 'John F. Sopko', written in a cursive style.

John F. Sopko  
Special Inspector General for Afghanistan Reconstruction

# EXECUTIVE SUMMARY

This report summarizes SIGAR's oversight work and updates developments in the three major sectors of Afghanistan's reconstruction effort from April 1 to June 30, 2015.\* It also includes a discussion of the ways in which improved conditionality can increase accountability for donor funds while delivering better outcomes for Afghanistan. During this reporting period, SIGAR published 21 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, and construction deficiencies. The cost savings to the U.S. government from SIGAR's investigative work amounted to approximately \$214.7 million; civil-settlement recoveries totaled more than \$6.9 million; and fines, forfeitures, and restitutions totaled over \$675,000. SIGAR investigations also resulted in four arrests, eight criminal charges, six convictions, five sentencing, and the exclusion of 17 individuals from access to U.S. military installations. Additionally, SIGAR referred 17 individuals and 25 companies for suspension or debarment based on allegations that they engaged in fraud and non-performance in contracts.

## SIGAR OVERVIEW

### AUDITS

SIGAR produced two performance audits, 11 financial audits, and two inspections.

The **performance audits** found:

- The Federal Aviation Administration was not able to train enough air-traffic controllers for Afghanistan to operate airspace management on its own, and the United States was not able to transition airspace-management responsibilities to the Afghans as planned in 2014.
- U.S. government agencies do not have a comprehensive strategy to help develop the rule of law in Afghanistan, and problematic performance-management systems make it difficult for agencies to fully determine the effectiveness of rule-of-law programs.

The **financial audits** identified \$37.4 million in questioned costs as a result of internal-control deficiencies and noncompliance issues. These deficiencies and noncompliance issues included failure to follow competitive procurement procedures, business-class airfare purchased without acceptable justifications, disbursing 80% of payments to employees and vendors in cash instead of utilizing banking services or electronic

payments, unauthorized overtime compensation, charging in excess of the 35% danger-pay allowance, failure to retain invoices and supporting documentation, incorrect exchange rates applied on conversion of U.S. dollars to local currency, failure to submit monitoring and evaluation reports, incorrect allocation rates applied to certain field-office costs, invoicing the U.S. Agency for International Development (USAID) for taxes to the Afghan government that are not eligible for reimbursement, overbilling for indirect costs, incomplete inventory records and equipment disposal documentation, and failure to obtain government approval on local procurements in excess of \$5 million.

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

- Project construction at the Counter Narcotics Judicial Center mostly met contract requirements, despite two construction deficiencies, and the detention center was being used as intended.
- The Defense Logistics Agency warehouse facility at Kandahar Airfield was well built, despite minor

\* SIGAR may also report on products and events occurring after June 30, 2015, up to the publication date.

# EXECUTIVE SUMMARY

deficiencies, but lengthy construction delays led to the facility never being used as intended.

## NEW AUDITS AND INSPECTIONS

This quarter, SIGAR initiated three new performance audits which will assess U.S. efforts to sustain Afghanistan's road infrastructure, USAID's efforts to sustain land reform in Afghanistan, and U.S. salary supplements for Afghan government employees and technical advisors. SIGAR also initiated five new inspections of State/USAID- and Department of Defense-funded construction projects, Afghan National Army Camp Commando Phases III and IV, the Ministry of Interior Headquarters Complex, and the Ministry of Defense Headquarters Support and Security Brigade.

## SPECIAL PROJECTS

During this reporting period, the Office of Special Projects issued five products, including a special report and inquiry letters addressing issues including:

- The results of SIGAR's investigation of the \$36 million unwanted, unneeded, and unused command-and-control facility at Camp Leatherneck
- The challenges facing the Downstream Gas Utilization Project that was implemented by the Task Force for Business and Stability Operations
- The reliability of data used by USAID to oversee and fund its education programs in Afghanistan, and to measure the effectiveness of those programs
- The use of the \$355 million Tarakhil Power Plant to supply back-up power to Kabul
- The accuracy of location information for health-care facilities funded by the USAID Partnership Contracts for Health program

## INVESTIGATIONS

During the reporting period, SIGAR investigations resulted in cost savings to the U.S. government of approximately \$214.7 million; civil-settlement recoveries totaled more than \$6.9 million; and fines, forfeitures, and restitutions totaled over \$675,000. Criminal

investigations resulted in four arrests, eight criminal charges, six convictions, five sentencing, and the exclusion of 17 individuals from U.S. military installations in Afghanistan. SIGAR initiated 27 new investigations and closed 40, bringing the total number of ongoing investigations to 310. SIGAR's suspension and debarment program referred 17 individuals and 25 companies for suspension or debarment.

**Investigations highlights** include:

- A civil investigation yielded a nearly \$7 million recovery for the U.S. government.
- A civilian contracting officer was charged and a U.S. military officer pled guilty as the result of a SIGAR investigation that was initiated from a hotline tip.
- A bribery investigation resulted in criminal charges and a guilty plea.
- As the result of an investigation into conspiracy to commit bribery, two U.S. military members pled guilty and were sentenced.
- A U.S. Army staff sergeant was arrested and indicted on charges of conspiracy, bribery, money laundering, and theft.
- A U.S. contractor was sentenced for bribery.
- Two contractor employees were sentenced for conspiracy to defraud the U.S. government.
- A U.S. contractor employee pled guilty to theft of U.S. property.
- SIGAR recognized a U.S. military member for identifying fuel theft of \$2.5 million.

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“If we don’t continue to prove to [Afghan aid] donors that we’re spending money wisely, the money will go away ... I think conditions are the way to do that.”

—*U.S. Army Major General Todd Semonite*

# 1 SETTING SMART CONDITIONS FOR AID



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**Photo on previous page**

A member of the U.S. Army's 25th Combat Aviation Brigade conducts sheet-metal training for Afghan soldiers at Kandahar Airfield, Afghanistan. (U.S. Army photo by Sgt. Daniel Schroeder)

## SETTING SMART CONDITIONS FOR AID

### **ATTACHING STRINGS IS OFTEN A GOOD IDEA**

Although more than 60% of the \$109.7 billion appropriated since 2002 for the U.S. reconstruction of Afghanistan has been security-related, much of the aid provided to Afghan ministries to support army and police forces originally was given with no strings attached. That has changed, and the U.S. military's recent increase of conditions on security assistance to Afghanistan illustrates the reasons for and challenges of devising and using aid conditions effectively. As more U.S. and other international assistance goes onto Afghan ministry budgets, striving for more effective and efficient conditionality is an important task for both donors and Afghans.

"In 2013, we had no conditions" on funds flowing through the Combined Security Transition Command-Afghanistan (CSTC-A) to support Afghan defense and interior ministries, CSTC-A commander Major General Todd Semonite told SIGAR.<sup>1</sup> The exigent demands of fighting a war trumped many other considerations.

In 2014, the year in which Semonite took command of CSTC-A, the operating environment changed as CSTC-A prepared for the end of the U.S. combat role in Afghanistan. The Afghan Ministry of Defense (MOD) signed a commitment letter—a bilateral agreement that specifies the donor's conditions for aid and the ministry's acknowledgment—with 17 conditions for receiving security aid, while the Ministry of Interior (MOI) signed on to 14 conditions. In 2015, the two ministries are subject to 93 conditions, 45 for the MOD and 48 for the MOI.<sup>2</sup>

The conditions can be quite targeted. The Afghan commitment letters with CSTC-A link U.S. aid disbursements to conditions such as Afghan ministries' using electronic personnel-information systems and submitting corps- or province-level spending plans, as well as plans for the use of military hardware. CSTC-A's December 2014 commitment letter with the MOD imposes a condition of an annual 100% inventory of weapons, with loss reports due within 30 days. If discrepancies are not reconciled or resolved, CSTC-A can freeze deliveries and withhold some repair support.<sup>3</sup>

Semonite said new iterations of commitment letters will include more conditions and changes to close loopholes in current language. (Highlights from SIGAR's interview with the general appear on pages 16–17 of this essay.)

# SETTING SMART CONDITIONS FOR AID



**Building assembly begins** at a facility for the Afghan National Army. (U.S. Air Force photo)

The Department of Defense Inspector General (DOD IG) provides support for the approach—and adds an important proviso. A recent DOD IG audit said, “Providing senior advisors to mentor the [Afghan] ministries and including strict internal controls within the commitment letters will help build capacity and transparency as long as CSTC-A officials hold GIROA [Government of the Islamic Republic of Afghanistan] accountable.” The DOD IG report also noted that CSTC-A’s “controlled failure” approach “allows GIROA officials to struggle so they learn to cope with the consequences” of failing to meet conditions like documenting fuel needs, deliveries, and usage.<sup>4</sup>

They do struggle. The International Monetary Fund’s (IMF) May 2015 country report on Afghanistan observes that “Development expenditure execution rates linger around 50%.” Further, the IMF observes, “Increasing on-budget aid, especially through the transfer on-budget of security expenditures previously managed by donors, is challenging [Afghan] absorption capacity.”<sup>5</sup> Conditionality offers a way to proceed with risk-mitigating and damage-controlling measures in a challenging environment for aid implementation.

The CSTC-A conditions, DOD has told Congress, are “intended to ensure the proper implementation and integration of financial accounting, payroll, human resources, and real property systems; and provide mechanisms to prevent funds from being misappropriated or otherwise misused.”<sup>6</sup> Success would serve U.S. and other donors’ interests in visibility and accountability for the use of funds, and Afghan interest in bolstering their government’s effectiveness and preserving the aid flows that cover most of their national budget.

Afghanistan’s “Decade of Transformation” envisions a more robust and sustainable nation-state by 2025, in which Afghans do more things for themselves, build government capacity, and provide for their own security. Nonsecurity aid such as programs and projects supported by the U.S. Agency for International Development (USAID) already make extensive use of up-front requirements, benchmarks, reporting, and other conditions. Placing more security-related aid under conditions as well can help focus attention on those results even as the U.S. presence in Afghanistan shrinks and as more aid goes “on-budget” with Afghan ministries.

Considering these trends, the majority staff of the U.S. Senate Committee on Foreign Relations recommended late last year that in addition to refocusing on Afghanistan’s responsibility for fulfilling the conditions agreed upon in the Tokyo Mutual Accountability Framework for assistance,

The U.S. should also condition a higher percentage of its funding: if done properly by ensuring Afghan buy-in, conditioning U.S. assistance can improve the accountability of our aid, strengthen reformers and institutions in the Afghan government and result in better development outcomes.<sup>7</sup>

SIGAR has taken a similar position. In early 2015, the Special Inspector General for Afghanistan Reconstruction testified to a Senate subcommittee that

One way to improve Afghan ministries’ ability to manage and account for on-budget assistance is to make this assistance conditional on the ministries taking defined actions to improve their financial management, procurement, strategic planning, and auditing capabilities, among others.<sup>8</sup>

President Ashraf Ghani also voiced his support for conditionality on assistance provided to the Afghan government in a February 2015 meeting with the Special Inspector General, saying that he plans to use conditionality to keep his government focused on meeting performance targets and prioritizing its key tasks.<sup>9</sup> Ghani, a former World Bank official with a doctorate from Columbia University, has long advocated conditionality. In the 2008 book *Fixing Failed States*, co-authored with governance expert Clare Lockhart, he proposed “shared responsibilities or explicit conditionalities” as part of a “sovereignty strategy” to align internal and external stakeholders in development “through the joint formulation, calibration of, and adherence to the rules of the game.”<sup>10</sup>

Meanwhile, the United States has supported conditionality-incentive features in international programs like the World Bank-managed Afghanistan Reconstruction Trust Fund and the IMF’s Extended Credit Facility, while USAID routinely attaches conditions to its bilateral aid to Afghanistan and other countries.<sup>11</sup> USAID, by contrast, typically focuses on up-front specifications (“conditions precedent,” such as requiring copies of externally audited financial reports from an aid client), project milestones, and other

programmatic incentive triggers rather than on changes in Afghan policy, government organization, or structure of local institutions.<sup>12</sup>

Whether donors' motivations are geopolitical, developmental, or human-rights-oriented, blank checks are rarely, if ever, offered. As a report prepared for the Norwegian Ministry of Foreign Affairs said flatly, "It should be unnecessary to repeat: aid has never been given unconditionally."<sup>13</sup> Even direct, government-to-government aid transfers operate under the implicit condition that the recipient's conduct remains at least acceptable to the donor.

Conditionality, in sum, is widely endorsed. The question for donors wanting to help Afghanistan and similarly situated countries is not so much whether to use conditionality, but how to use it smartly.

## THE BROAD REACH OF CONDITIONALITY

Conditionality abounds in private and public life as well as in international affairs. People may stipulate that a donation to their alma mater be used only for scholarships to benefit students from Flat Rock, North Carolina. Wills may establish a trust that will pay out to a niece only if she finishes school and doesn't smoke. Business contracts dictate standards, materials, services, and deadlines. Unemployment-insurance benefits are conditioned upon recipients' actively seeking a job.

In the lexicon of international affairs, the Organization for Economic Cooperation and Development (OECD) notes, "Aid conditionality does not have a universally agreed definition and covers a spectrum of different types of engagements."<sup>14</sup> Conditions can affect anything from a recipient government's adopting reforms to its tax code, to reporting requirements, to construction deadlines for an irrigation project.

Conditionality objectives can also vary. They might entail achieving policy, process, or behavioral outcomes by using money as an incentivizing lever, rather than simply monitoring and verifying the use of money. In 1984, for example, the U.S. Congress imposed conditions on federal Highway Trust Fund allocations to states: the federal statute required states to devote at least 8% of the funds they received to developing programs for child safety restraints unless at least three-quarters of children under four were already using car seats, and mandated a 10% withholding of allocations for any state that permitted alcoholic-beverage purchases or possession by people under 21.<sup>15</sup>

More recently, conditionality loomed large in the summer 2015 Greek financial and debt-relief crisis. Greek international debt to the IMF, the European Commission, and the European Central Bank reportedly amounts to almost 180% of the country's entire gross domestic product, while the country's domestic budget was sinking deeper into deficit. Greece was struggling with international creditors and lenders on a mutually acceptable set of terms and conditions for further loans to avert a debt default and

banking collapse. Points of contention included creditors' demands for new or increased taxes, reduced pension costs via higher retirement ages and increased contributions, and restraint on public-sector spending. Lenders were demanding conditions that they argued could help ensure new loans could be repaid; Greek officials were resisting a reform package that they claimed would inflict hardship.<sup>16</sup> The argument was, in short, about conditionality as well as equity and hardship.

World Bank and IMF loans and grants have long had conditions attached, such as recipients' agreeing to revenue, trade, monetary-policy, or governance reforms. The IMF, for example, has used policy conditionality such as addressing trade imbalances in funding programs since the mid-1950s, with conditionality evolving over time into more emphasis on "structural adjustment" in privatization and reforms of public enterprise and social security reform, and on program monitoring.<sup>17</sup> Bilateral aid donors, multilateral trust funds, and nongovernmental organizations also attach conditions to their assistance, such as program criteria and project milestones or results indicators.

The international donors who met in Tokyo in 2012 embedded conditionality in the Tokyo Mutual Accountability Framework (TMAF) that set the ground rules for future assistance to Afghanistan. "Monitoring of development and governance benchmarks in a transparent manner," the TMAF document says, "is a powerful means to enable accountability to the Afghan people, and reinforce reciprocal commitments of donors and the Afghan Government to improved development performance."<sup>18</sup> Applying that principle led to the TMAF declaration of donors' intent to raise the share of funding provided through incentive mechanisms to 20% by the end of Afghanistan's "Transformation Decade" in 2025 with the goal that "Incentive programs should seek to provide the Afghan Government with more flexible, on-budget funding in conjunction with progress on specific economic development achievements."<sup>19</sup> The United States, while a subscriber to the TMAF principles and a contributor to international aid initiatives like the Afghanistan Reconstruction Trust Fund, has also used conditions-based incentives in its bilateral aid to Afghanistan.

Whatever the details and whatever the venue, conditionality can serve several purposes, including:

- as a mechanism for securing policy, program, or process changes
- as a way to encourage recipient-country capacity building
- as a means of prompting specific security or developmental outcomes
- as device to influence recipient attitudes and behavior
- as a way to improve visibility and accountability for donor's money

Like Greece, Afghanistan is a focus of attention for conditionality. Unlike Greece, it can rely on foreign donors to cover about 60% of its budget, so it has little external debt—less than 7% of GDP. Unfortunately, as SIGAR

and other organizations have long documented and reported, the list of Afghanistan's problems extends far beyond public finance. Carrying out the reconstruction program there requires considering the various ways in which conditionality can stray from satisfying donors' intentions and sometimes even undercut them.

## CHALLENGES TO EFFECTIVE CONDITIONALITY

In its 2005 *Conditionality Revisited* report, the World Bank said, "More conditionality cannot compensate for weak government commitment or implementation capacity."<sup>20</sup>

That warning remains pertinent in Afghanistan. The Asian Development Bank's latest fact sheet on Afghanistan notes "operational challenges" that include "instability in national security, political uncertainty, disjointed governance, and a fragility in the rule of law." The Bank adds that Afghanistan needs policy and institutional reform, expanded capacity in its largely informal economy, and progress against drug trafficking. "These challenges," the Bank concludes, "have led to corruption and weak performance in the public sector, making [development] project implementation more difficult" and raising their costs.<sup>21</sup>

SIGAR has repeatedly reported that Afghanistan reconstruction since 2002 has proceeded under a number of harsh constraints, including ministerial-capacity limitations that keep execution rates for the development budget low and widespread corruption. As a June 2015 report from the independent Afghanistan Public Policy Research Organization noted:

For most of the population, and individuals and organizations that take the development aid profession seriously, Afghanistan is one of the most difficult and corrupt places in which to function. A testament to this is the fact that there are 27 different expressions for alerting service users that they should pay a bribe.<sup>22</sup>

Corruption is, in a common view, not only endemic in Afghanistan, but may even constitute, as former International Security Assistance Force commander General John Allen put it, "the existential threat to the long-term viability of modern Afghanistan."<sup>23</sup>

SIGAR has reported on large-level corruption in matters like the \$200 million fuel-theft scandal that led President Ghani to create a national procurement authority, the looting of Kabul Bank, and apparently biased decisions against prosecuting well-connected individuals. But corruption extends into many smaller niches of Afghan life as well. For one example, Afghanistan's multinational Independent Joint Anti-Corruption Monitoring and Evaluation Commission (MEC) found conditions ripe for corruption during its recent review of disability-compensation payments at the Ministry of Labor, Social Affairs, Martyrs, and Disabled. In its June 2015 report,

# SETTING SMART CONDITIONS FOR AID

the MEC found the ministry's eligibility process "convoluted, redundant, and time-consuming," with insufficient staff to process citizens' disability applications. The situation "creates opportunities for corrupt government officials to demand bribes for processing the appropriate paperwork in a more timely manner."<sup>24</sup>

Two Dutch researchers—one of them now a World Bank development specialist—say "Afghanistan can be considered as a weak rentier state, subsisting on aid" as some other states subsist on oil revenues. "State building in this context cannot be successful," Dutch scholars Willemijn Verkoren and Bertine Kamphuis write, for a state that does not depend on domestic taxation for revenue and feels limited accountability pressure from citizens may do little to build institutions or develop the economy. Resource windfalls or aid flows may instead reinforce patronage networks, encourage economic rent-seeking, and foster corruption and waste. In a rentier state, the authors say, "What aid officials call 'corruption' is not an excess that can be eliminated, but a central feature of governance."<sup>25</sup>

Corruption, of course, is nothing new and is certainly not unique to Afghanistan. Throughout history, writes Stanford University professor Stephen D. Krasner, rulers have seen controlling the state as the path to personal wealth and power, so "Corruption is not an aberration, it is the lubricant that makes their governing possible." Consequently, and despite foreign efforts to promote good elections, their outcomes "are often perverted or produce leaders who have no interest in sustaining accountable governance."<sup>26</sup>

## Local Leaders' Attitudes Make A Difference

The literature on foreign aid teems with references to the importance of recipient-nation buy-in and "ownership." For example, the State Department's Bureau of International Narcotics and Law Enforcement Affairs cautions in its guide to correctional-program assistance, "It is *imperative* to gain the political buy-in of the host country's leadership *before* embarking on a reform program."<sup>27</sup>

Without genuine understanding, support, and embrace of aid programs and their conditions, the appearance of agreement may conceal underlying realities that undermine aid objectives. Recipient-nation leaders could be focused on opportunities for short-term control of funds and unconcerned about longer-term outcomes. They may construct compliance charades like enacting high-sounding but unenforced laws and conceal day-to-day practices. They may be willing to tolerate penalties for failing to enact reforms they do not actually want. Or they may simply lack the political or administrative clout to deliver compliance in the first place.

"Governments will agree to almost anything" to obtain aid, the National Academy of Public Administration observed in its report on the failure of international aid programs for Haiti. "Whether they support it is another



**A U.S. Army major** and an Afghan construction-company owner discuss work to be done at the Afghan National Police station in Dara District. (Resolute Support photo by Specialist James Wilton)

matter.” And once aid flows start, the Academy noted, political pressures may keep it flowing despite waste, because “Cutting off or slowing assistance can wreck or undo progress.”<sup>28</sup> This phenomenon can lead to other problems. Aid agencies “often fail to enforce conditions,” says Vassar College economist Christopher Kilby, whose statistical research finds correlations between recipient-country support of World Bank donors’ voting positions at the United Nations and weak enforcement of loan conditions. “This pattern,” he writes, “undermines the credibility of conditionality, weakening incentives to implement policy reforms.”<sup>29</sup>

Whether the lack of conditionality-enforcement rigor stems from unclear requirements, loss aversion, security concerns, or other sources, the effect can be pernicious. Aid-receiving country leaders may conclude that donors’ political sensitivities about perceptions of failure, reluctance to write off gains, or prioritization of strategic over developmental objectives will shield them against donor enforcement of conditions. As Stanford’s Professor Krasner has observed, threats to cut off capacity-building aid are more credible when recipients lack resources or are not the object of donors’ security-interest calculations. “In contrast,” he says, in Angola, “where there were ample natural resource revenues, or Afghanistan and Iraq, where the United States had core security interests, threats to withdraw aid were either irrelevant or not credible.”<sup>30</sup>

Even worse, perhaps, actually cutting off aid may not achieve the intended incentivizing effect if the impact falls on the wrong people. “For example,” suggests a U.S. Institute of Peace (USIP) briefing paper on aid for Afghanistan, “withholding funding for gender programs on the basis of limited progress on gender issues may prove counterproductive given that some [local] actors may actually welcome cessation of such funds.”<sup>31</sup> If conditionality penalties do not threaten the actual interests of the people agreeing to the conditions, similar reservations could apply to conditional penalties for programs aimed at reducing corruption, improving the judicial systems, or limiting election fraud.

While an aid cutoff in such cases may send the broad message that aid is not guaranteed and that there are consequences for not meeting conditions, desirable programs may suffer while the behavior of the officials causing, welcoming, or tolerating noncompliance remains unaffected. As the USIP brief cautions, “An overly firm reaction to inadequate [Afghan] performance ... may also result in a vicious circle in which the Afghan government receives less funding, reducing its capacity, resulting in even less support.”<sup>32</sup>

## Effective Conditionality Faces Other Constraints

U.S. agencies’ inspectors general other than SIGAR have also observed problems with setting up and enforcing requirements in general. The USAID Inspector General’s Country Office Director, for example, noted in an October 2014 memo that—contrary to guidance—objectives, results,

resources, and timelines had not been clearly documented in programs involving Afghan workforce development, health services, power supply, airports, and education. The memo said lack of clarity invites misunderstandings, and can impede implementation and risk mitigation. “Further,” the USAID IG office noted, “poorly worded documents can make it difficult to hold the implementing entities accountable.”<sup>33</sup>

Another constraint on effective implementation of conditionality could be real or perceived pressure to support national or agency high-level objectives ahead of observing operational standards. SIGAR’s 2014 audit of Afghan ministerial assessments found that while ministries met USAID conditions precedent before funds were disbursed to them, those conditions reflected only a small number of the 333 risk-mitigation measures USAID/Afghanistan had previously identified as necessary for the ministries to manage direct-assistance funds.<sup>34</sup>

In February 2015, the DOD Inspector General reported concerns regarding CSTC-A’s efforts to develop capacity at Afghanistan ministries. The DOD IG was told of “internal pressure to not allow the Afghans to fail,” that “pressure to maintain hard-fought gains” led to “overlooking ministerial shortcomings,” and that CSTC-A officials “often performed ministerial functions, did not enforce commitment letter requirements, and allowed MOF [Ministry of Finance] to exclude their monitoring presence.”<sup>35</sup>

Without debating the DOD IG’s report, CSTC-A’s current commander has told SIGAR that he is taking a hard line on conditionality. Major General Semonite told SIGAR that he won’t stand by if Afghan ministry failure to satisfy conditions threatens loss of life or battlefield defeat, but otherwise believes fiscal-discipline and capacity-building imperatives forbid rescuing Afghan ministries every time they have problems.<sup>36</sup>

When Special Inspector General Sopko made a February 2015 trip to Kabul, the briefing CSTC-A gave him included this lesson-learned slide text:

Commitment Letter enforcement is critical  
—GIROA [Government of the Islamic Republic of  
Afghanistan] will **never** learn to spend within their budget  
until the Coalition allows them to fail [emphasis in original]  
—“CSTC-A always pays” must change<sup>37</sup>

## Trust Funds, Burdens, and Buy-In Matter

Even with the best of intentions and attention to detail, conditions monitoring can be constrained by external circumstances, including the limited U.S. leverage over conditionality imposed by multilateral trust funds. Multilateral trust funds like the Afghanistan Reconstruction Trust Fund (ARTF) and the Law and Order Trust Fund for Afghanistan (LOTFA) use conditions, but they are set by managers who are not under U.S. operational control. SIGAR has several times expressed concern over trust-fund monitoring of conditions and the use of U.S. contributions.<sup>38</sup>

# SETTING SMART CONDITIONS FOR AID

The United States has pledged some \$2.8 billion to the ARTF. The fund is administered by the World Bank, which employs the British firm BDO UK LLP as its monitoring agent. In its February 2015 quarterly report, BDO noted that its staff could not visit five of Afghanistan's 34 provinces "owing to ongoing security concerns."<sup>39</sup> BDO said it was discussing the matter with the World Bank. Given the size of the U.S. commitment to the ARTF, that discussion could be important to the United States.

Enforcing conditions has also been a point of contention with the LOTFA, a UN Development Programme (UNDP)-controlled fund that provides payroll management and support to the Afghan MOI and the Afghan National Police. Fifteen donors, including the United States, the European Union, and Japan fund LOTFA. At the end of June 2015, the MOI and the UNDP announced signing of a three-phase, 18-month phase-out of LOTFA that includes progress reviews against specific benchmarks at the end of each phase. For example, proposed conditions to be met by December 2016 for transferring LOTFA's payroll-management function to the Ministry of Interior include issuance of unique identification cards to 100% of police, real-time updating capability of recording personnel and pay changes on computer systems, achievement of 100% automated payments, and independent validation of the payroll process.<sup>40</sup> LOTFA will channel about \$843 million to the Afghan Ministry of Finance for Afghan National Police salaries, and finance \$38 million for capacity development and reforms in security and justice.<sup>41</sup>

Another change in conditionality for aid to Afghanistan is in the works for a revision of the Tokyo Mutual Accountability Framework that Afghanistan and international donors agreed upon in 2012. That framework made a portion of donors' assistance conditional on Afghan achievement of reforms or "hard deliverables" in areas like elections and anticorruption measures. Following Afghan failures to meet some targets, and with the new Afghan national-unity government in place, the parties agreed to revisit the framework. The State Department says "The goal is for the refreshed framework to be approved at the Senior Officials meeting now scheduled for early September in Kabul."<sup>42</sup>

Another consideration in using conditionality is what impact it has on the recipient country. UKAN, the UK Aid Network that counts UNICEF, CARE, and Oxfam among its 37 member organizations, recently commented that, besides showing "little regard for democratic processes or country needs," some policy conditions "have also been harmful to the economic interests of countries especially structural-adjustment conditions—privatisation, trade liberalisation, and public-sector reforms."<sup>43</sup>

UKAN also notes that a profusion of conditionalities can create administrative burdens on countries that already have limited institutional capacity: "It is not uncommon for developing countries to be required to implement scores of conditions by groups of donors each with their own priorities."<sup>44</sup> The



**At a U.S. Army Corps of Engineers** project, heavy equipment prepares ground for a facility to house Afghan soldiers. (U.S. Army photo by Mike Beeman)

U.S. State Department confirms: “The main concern in the implementation of incentive programs is that multiple donors will set out multiple uncoordinated conditions of assistance funding that will tie up Afghan government officials and disrupt the flow of needed development assistance.”<sup>45</sup>

A policy paper from the multinational OECD, of which the United States is a member, raises another caution: “The imposition of conditions runs counter to ownership, a principle of aid effectiveness which emerged following the recognition that past attempts to impose policies from the outside had not proven effective.”<sup>46</sup> The OECD language mirrors the urging of Ghani and Lockhart’s book *Fixing Failed States* that conditions be jointly developed in a “sovereignty strategy.”

Focusing on performance and results as the currency of conditionality is the obvious alternative to policy-based conditionality. However, as the World Bank observed in a 2005 review, *Conditionality Revisited*, potential drawbacks of the outcomes-based approach include “the limited accountability of the governments for determining the actual outcomes, unclear results chains, and the limited availability of relevant data.”<sup>47</sup> Stanford University’s Krasner later reached a similar conclusion: “It is very difficult to make foreign assistance outputs (the actual results of aid) as opposed to inputs, legible,” that is, clearly visible. Krasner explains that donors seldom control activities in recipient countries, have limited knowledge of local environments, and can find it difficult to identify aid effects when many causal factors could be in play.<sup>48</sup>

Even careful design of conditionality and strict enforcement of penalties for non-attainment, however, can run afoul of practical realities in Afghanistan. DOD reports that “The Afghan government’s success in executing [development] funds provided to it by international donors has been quite poor” so far in 2015. “This means that financial penalties are extracted from the funds that would likely not have been spent anyway, resulting in little practical effect.”<sup>49</sup>

In such cases, framing condition attainment as qualification for incentives, rather than as a liability for penalty, might increase impact. Incentive funds can be allocated to Afghan accounts that have immediate needs and execution capability, as CSTC-A does for some funds, or deposited with multilateral trust funds where the expiration dates built into appropriations for bilateral aid no longer apply. Such treatments could mitigate the risk that condition-based penalties might be perceived as empty threats that will not or cannot be carried out.

## TEN TASKS FOR SMART CONDITIONALITY

The United States and its international-coalition partners have a strong strategic interest—even as their personnel and financial presence in the country declines—in seeing that Afghanistan becomes a stable, sustainable

nation-state that will not again serve as a springboard for terrorist attacks on other countries.

Those concerns have been the basis for more than a decade of bountiful reconstruction aid. In dispensing such aid, the OECD has noted, “Donors are right to insist on transparency and good fiduciary practices” to safeguard funds, on respect for human rights, and on results for money spent. Otherwise, “taxpayers will withdraw their support for aid programmes.”<sup>50</sup>

Those concerns and considerations argue for conditionality, which has powerful conceptual appeal at a general level. But practical, real-world outcomes show that conditionality is a tool, not a magic bullet. As with mechanical tools, issues of design, suitability for job, skillful use, careful adjustment, and measurement can make the difference between success and disappointment. Meanwhile, providing aid in a low-income, conflict-torn, strategically valued state like Afghanistan magnifies the difficulty of designing and applying conditionality in ways that serve both donors or recipients well.

Even a general review of case studies, oversight reports, and research literature suggests that instances of smart conditionality have some similarities in their approaches to design, negotiation, and application to take account of donors’ goals and interests, while respecting recipients’ priorities, capabilities, social setting, and legitimate desires for autonomy. Practicing smart conditionality in reconstruction aid to Afghanistan—or similarly situated countries now or in future—might be facilitated by checking on ten preparatory tasks and their related questions:

1. **Framing and buy-in:** Do proposed conditions have a realistic causal link between their achievement and overall goals? Have conditions been held to a reasonable number, confined to results that are within the recipient’s control, and structured to avoid undue compliance and reporting burdens? Are conditions well understood and supported by the Afghan officials, staffs, and other stakeholders who must implement and who will be affected by them, so that they are clear on the reason for the conditions and on the benefits of meeting them?
2. **Scouting obstructions:** Have the assumptions and implications of the conditions been cross-walked against local norms, expectations, and practices to identify practical barriers, avoid unnecessary conflict, and devise mitigating measures?
3. **Practicing coordination:** Have contemplated conditions been checked against other agencies’, bilateral donors’, and trust funds’ conditions to avoid or reduce contradictions and burdens on Afghan ministries?
4. **Considering capabilities:** Have conditionality framers taken a realistic view of Afghan institutions’ technical and resource capacity to achieve the desired outcomes and to provide the access and data needed for audits and other confirmation?

5. **Scoping antagonists:** Have conditionality framers identified persons or groups who will perceive the desired conditions as a threat to their personal, agency, or group interests and who may therefore try to oppose, evade, or game them?
6. **Seeking civil-society partners:** Has conditionality design considered how non-state actors in Afghan civil society, such as media, religious leaders, research organizations, and advocacy groups might be approached to support (or at least not oppose) state agreement to aid-conditionality terms?
7. **Providing flexibility:** Have conditionality framers provided reasonable flexibility in waiving, extending, or modifying terms if economic crisis, security threats, natural disasters, or other forces beyond recipient control prevent full or timely attainment of a condition? Equally important, has providing flexibility avoided undermining the credibility of consequences for lack of effort?
8. **Mixing motivations:** Does the proposed conditionality include a combination of incentives and penalties to maximize motivational considerations for recipients?
9. **Avoiding trauma:** Are conditionality penalties structured in ways that will send a compliance message, but avoid completely shutting down desirable programs and scattering experienced staff if they are triggered?
10. **Building in hand-off momentum:** Where appropriate, has the conditionality been designed to embed itself in recipient agencies' systems and work culture so that desired processes and outcomes survive the end of the specific assistance program and of its financial incentives?

As CSTC-A observed in its February 2015 briefing to SIGAR, the critical reason for attending to these and other possible precautionary tasks is that “conditionality [is] needed for accountability and donor confidence” because “defined goals and penalties for not meeting criteria incentivizes behavior.”<sup>51</sup>

With the United States pledged to aid Afghanistan for years to come, accountability, donor confidence, behavior change, and results are all in high demand. Smart conditionality can help achieve these results—and may be a prerequisite. Joint Chiefs of Staff Chairman General Martin Dempsey pointed out the need in his response to a question about Iraq, but whose implications extend to Afghanistan. “Support needs to be conditional,” he said, requiring action by its recipients. If the local government fails to build an inclusive state and address grievances, the general added. “then nothing we do will last. It will be painting over rust.”<sup>52</sup>

## A FRONT-LINE TAKE ON CONDITIONALITY

U.S. Army Major General Todd Semonite’s job is to support the Afghan National Defense and Security Forces (ANDSF). So he wants them to get rid of some buildings.

“They have over 360 excess facilities” that are costing the Coalition money for lights, heat, and repairs—money his Combined Security Assistance Command-Afghanistan (CSTC-A) could be applying to other ANDSF purposes. The old buildings were supposed to be disposed of once new construction was ready for use. But the Afghan ministries receiving security aid hung on to many of the old structures.

So Semonite is giving his Afghan partners choices: donate, sell, or demolish excess facilities, or lose aid money. The Ministry of Interior (MOI), which controls Afghan National Police forces, produced a letter listing 104 facilities for disposal. But it was unsigned. “We said, either get the minister to sign it or you don’t get \$19 million.” General Semonite laid out a similar scenario for the Afghan Ministry of Defense, which faces the prospect of losing out on \$29 million.

Semonite is a firm believer in conditionality: “The best way to hold [the Afghans] accountable is to leverage money” with conditions that penalize poor compliance—but also reward good performance and good behavior.

CSTC-A’s main responsibilities are to channel funding and provide support to the ANDSF for budget administration, equipment procurement and sustainment, facilities and their sustainment, and contracts. But above those, Semonite’s focus is on his strategic missions: (1) supporting the warfighter and (2) enforcing the fiscal discipline needed to maintain donor confidence.

Other people’s confidence seldom figures in military missions, but Afghanistan is not a typical military mission. As Semonite notes “If we don’t continue to prove to donors that we’re spending money wisely, the money will go away,” and that means cutting the size of the ANDSF. The force will get smaller as time passes and conditions permit, but “If we don’t have a very, very

gradual ramp as to how we right-size this force, then you’ll end up having a cliff, which will give you a mass of unemployed soldiers, and that only goes bad.” He does not use the word “Iraq.”

So maintaining donor confidence is a mission-critical task, and “The way to do that, I think, is conditions.” One condition for the MOI was getting all Afghan National Police personnel coded on the electronic Afghan Human Resource Information Management System (AHRIMS) by March 1, 2015. “They worked very hard,” Semonite says, but were only 80% done on March 1. “I had members of my team come running in and saying, ‘80%—This is good. You can’t fine them.’” But the Coalition withheld funds as per the condition.\* At the start of July, the national police are about 96% coded in AHRIMS. “I think that only would have happened because they knew that they were going to continue to get money pulled back from them,” the general says.

But how are the Afghans taking all this fiscal discipline? Semonite says buy-in at senior ministry and military levels is good: “These leaders definitely understand” that it’s in their interest to meet conditions and preserve donor confidence. “They are passionate about their country,” he adds, and appreciate that they won’t be able to defend it against insurgents without continuing international support.

Semonite does have some concerns. “We worry all the time about ‘advisor fratricide’”—donors piling multiple lines of advice or requirements on Afghan officials with limited ability to comply and report. And as CSTC-A presence pulls back from a “hub-and-spokes” model with personnel in Kabul as the hub and in ANDSF corps as spokes, to just a hub presence, “I do worry about [losing] those touch points” in the field. His counter-measure is to have small teams of CSTC-A civilian employees at ministry and tactical levels to continue support and monitoring.

\* \$255,400 in March and April, then \$1.4 million in May.



**Major General Todd Semonite**, commander of CSTC-A, addresses Afghan guests and Coalition partners during the Oversight and Coordination Body at the Ministry of Finance in Kabul on June 16, 2015. (DOD photo by Lieutenant Junior Grade Charity Edgar)

He also worries about the challenge of building Afghan capacity after years of U.S. and Coalition focus and control on the exigent demands of warfighting. He says one senior Afghan official, reviewing a list of CSTC-A aid conditions, commented that they made it sound as if the Afghans were all at fault. Semonite recalls the official as saying, “We never had to have systems: the Coalition always took care of us. You have never let us fail.” Semonite agrees “That was the strategy for the first 13 or 14 years; that was what you have to do to win a war.” But now things are different.

For years, Semonite says, “We gave them overwhelming fuel—never wanted them to run out,” but lost a lot to theft. CSTC-A has since cut fuel allotments drastically to match documented need. At that level, he explains, if someone steals 20% of it to sell on the black market, there are consequences, as when Afghan soldiers in Kandahar had no lights or heat for three nights because their generators could not run. Consequences motivate people to turn in thieves, Semonite says, and motivate soldiers to complain to their leaders.

Besides assisting in the struggle against waste, fraud, and abuse, conditionality can also help put the ANDSF on a better business model, Semonite says. If finding ways to make vehicles last seven years instead of four, and putting bases on the electric grid at 22 cents per kilowatt-hour rather than 53 cents for generator power saves money, then international donors, the ANDSF, and U.S. taxpayers gain.

Semonite counts on support for conditionality from the top of the Afghan government: “President Ghani knows, probably better than anybody, that he’s not going to be able to afford this force unless we can find ways to lean it out.”

The general says the goals of supporting the fight, finding budget savings, and growing donor’s confidence sometimes conflict, “But we see substantial progress every day.”

*Note: The information in this highlight is drawn from a 7/1/2015 interview with MG Semonite conducted by SIGAR’s Research and Analysis Directorate quarterly report team.*

“Every dollar we spend now on training, advising, and assisting the Afghans, and on oversight, must be viewed as insurance coverage to protect our nearly trillion-dollar investment in Afghanistan since 2001.”

—*Special Inspector General John F. Sopko*