SIGAR

Special Inspector General for Afghanistan Reconstruction

APR 30 2018

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.

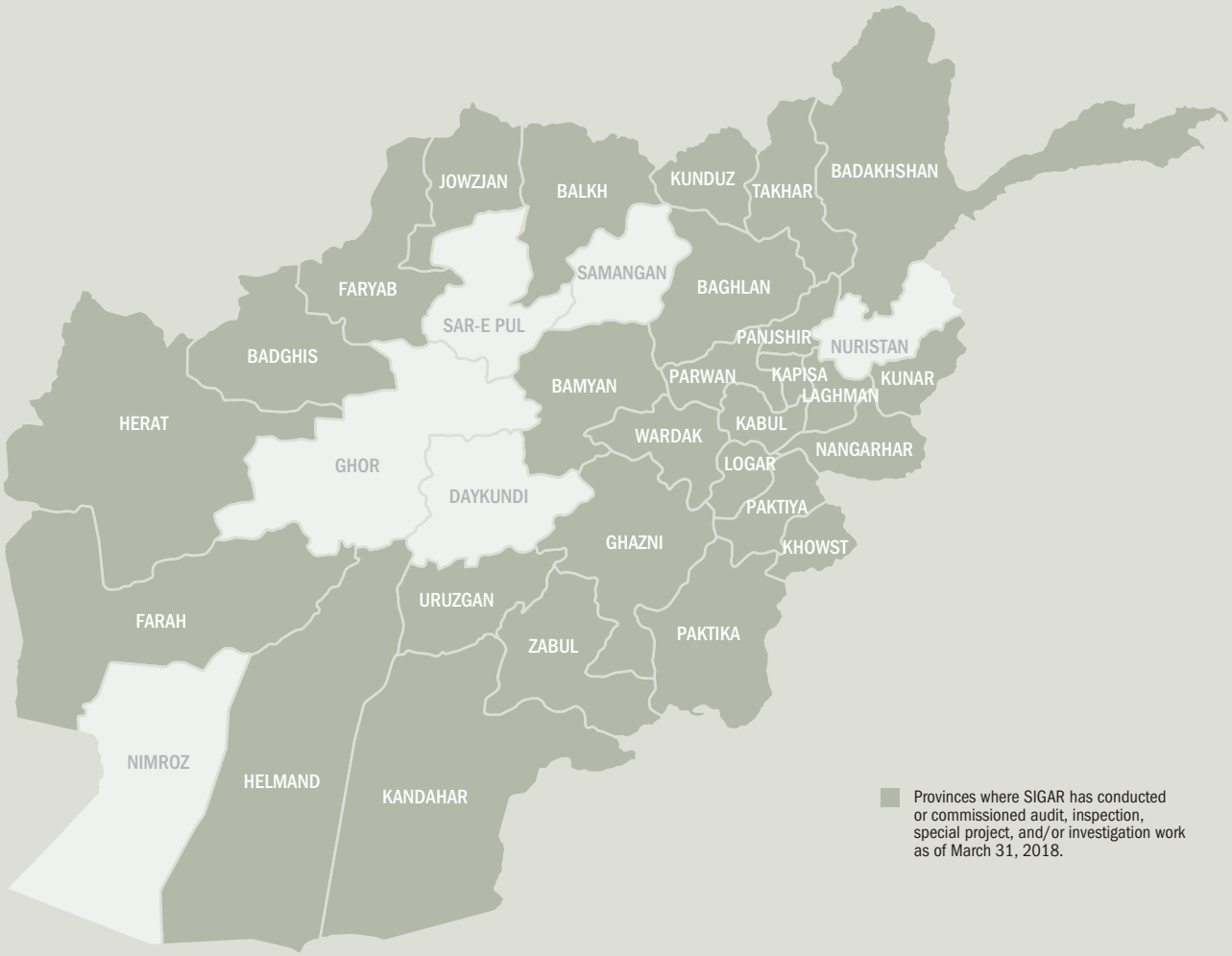
As required by the National Defense Authorization Act for FY 2018 (Pub. L. No. 115-91), this quarterly report has been prepared in accordance with the Quality Standards for Inspection and Evaluation issued by the Council of the Inspectors General on Integrity and Efficiency.

Source: Pub.L. No. 110-181, "National Defense Authorization Act for FY 2008," 1/28/2008, Pub. L. No. 115-91, "National Defense Authorization Act for FY 2018," 12/12/2017.

(For a list of the congressionally mandated contents of this report, see Appendix A.)

Cover photo:
An Afghan shop owner arranges cages in his shop at Kabul's bird market. (AFP photo by Wakil Kohsar)

PUBLISHED IN ACCORDANCE WITH THE CIGIE QUALITY STANDARDS FOR INSPECTION AND EVALUATION.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HELMAND
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Provinces where SIGAR has conducted or commissioned audit, inspection, special project, and/or investigation work as of March 31, 2018.

SPECIAL INSPECTOR GENERAL FOR
AFGHANISTAN RECONSTRUCTION

I am pleased to submit to Congress and the Secretaries of State and Defense, SIGAR's 39th quarterly report on the status of the U.S. reconstruction effort in Afghanistan.

Terrorists struck at the very core of a free society early on Monday morning, April 30th, when 10 journalists were among at least 31 people killed in a series of attacks in Afghanistan. Nine of the journalists were killed in a suicide bombing in Kabul. A bomber disguised as a TV carmeraman detonated a bomb at the scene of an earlier explosion near the U.S. Embassy and NATO's Resolute Support headquarters. Islamic State claimed responsibility. Separately on Monday, a BBC Afghan Service reporter was shot dead by unknown gunmen in Khowst Province. These cowardly attacks are part of a pattern of violence against Afghan journalists, who display great courage every day as they practice a craft essential to democracy.

This quarter, SIGAR released its third report from our Lessons Learned Program, *Private Sector Development and Economic Growth: Lessons from the U.S. Experience in Afghanistan*. As discussed in Section One of this quarterly report, the new lessons-learned report examines the experience of what has been the most ambitious effort ever undertaken to develop an impoverished, previously state-dominated economy in the midst of an ongoing insurgency. The findings and recommendations it offers can help guide future private-sector development efforts in Afghanistan and elsewhere.

SIGAR initiated its Lessons Learned Program, in part, at the urging of General John Allen, Ambassador Ryan Crocker, and others who served in Afghanistan. The program is a central component of SIGAR's legislative mandate. The Inspector General Act of 1978, as well as the 2008 statute that created SIGAR, directs us to keep Congress, as well as the Secretaries of State and Defense, informed as to deficiencies related to the administration of reconstruction programs in Afghanistan. Our duties also include recommending measures to promote effectiveness and efficiency in such programs, and examining the degree to which the programs are coordinated among U.S. implementing agencies, the Afghan government, and the international community. SIGAR's first two lessons-learned reports concerned corruption and rebuilding Afghanistan's security forces. Next quarter, SIGAR plans to release two more reports dealing with stabilization and counternarcotics. Current and former U.S. and Coalition officials, as well as recognized experts in the field, have suggested topics for program reports.

SIGAR continued to work with United States Forces-Afghanistan (USFOR-A) this quarter to maximize the amount of unclassified information that could be provided to Congress and the public on the U.S.-funded mission to train, advise, and assist the Afghan National Defense and Security Forces (ANDSF). During my February visit to Afghanistan, I met with General John W. Nicholson Jr., commander of NATO and U.S. forces in Afghanistan, to discuss the increased classification of data for the quarterly report over the last two quarters. While maintaining that USFOR-A is obliged to accede to the requests of the Afghan government concerning the classification of Afghan data, General Nicholson agreed that USFOR-A would strive to provide publicly releasable information for SIGAR.

The general and his staff later met with a team from SIGAR's Research and Analysis Directorate in Kabul to discuss, among other things, a letter he sent to Afghanistan's national-security advisor requesting that 18 of 29 types of information concerning the ANDSF be made available for public release based on the treatment of similar information in both NATO and U.S. classification guides. The SIGAR team also met with the Combined Security Transition Command-Afghanistan (CSTC-A) to discuss ways to reduce the workload involved in responding to SIGAR's data call without reducing the quality of information presented in the quarterly report.

As a result of these meetings and other consultations with the Department of Defense (DOD), USFOR-A declassified or allowed the public release of several different types of data related to the reconstruction of the Afghan security forces. Among them are the assigned, or actual, force strength of the ANDSF, which the

latest figures show to be falling sharply over the last year. More information about all of the newly released data is presented in Section Three of this report.

This quarter, SIGAR issued 13 audit, inspection, and other reports. SIGAR's work to date has identified about $2.1 billion in savings for the U.S. taxpayer.

SIGAR published two performance-audit reports this quarter. These audits examined the World Bank's Afghanistan Reconstruction Trust Fund and DOD's Commander's Emergency Response Program. SIGAR completed two financial audits of U.S.-funded contracts to rebuild Afghanistan. These financial audits identified $89,892 in questioned costs as a result of internal-control deficiencies and noncompliance issues. To date, SIGAR's financial audits have identified more than $417 million in questioned costs.

SIGAR also published two inspection reports. These reports examined phases I and III of the Ministry of Interior's headquarters-construction project and phase III of the U.S. Army Corps of Engineers-led project to expand Afghanistan's Northeast Power System. SIGAR also completed one evaluation report examining DOD's efforts to supply and account for fuel in Afghanistan.

SIGAR's Office of Special Projects issued five reports on a range of issues including health facilities in Kandahar Province, procedures for collecting and screening Afghan National Army blood samples, and U.S. Agency for International Development-funded schools in Kunduz Province. Special Projects also issued three alert letters and a notification letter to relevant authorities concerning structural damage at educational facilities and structural damage to a bridge, all in Baghlan Province.

During the reporting period, SIGAR investigations resulted in one indictment, one guilty plea, three sentencings, two arrests, $6,527,491 in restitutions, and $264,563,451 in cost avoidance and recoveries to the U.S. government. SIGAR initiated 12 new cases and closed 31, bringing the total number of ongoing investigations to 199.

SIGAR's suspension and debarment program referred two individuals and four companies for suspension or debarment based on evidence developed as part of investigations conducted by SIGAR in Afghanistan and the United States. These referrals bring the total number of individuals and companies referred by SIGAR since 2008 to 895, encompassing 498 individuals and 397 companies.

In this, the "Year of the IG"—the 40th anniversary of the law creating a cadre of federal watchdogs—my staff and I pledge to continue providing vigorous oversight of the U.S. agencies engaged in reconstructing Afghanistan.

Respectfully,

John F. Sopko
Special Inspector General for Afghanistan Reconstruction

This report summarizes SIGAR's oversight work and updates developments in the four major sectors of Afghanistan's reconstruction effort from January 1 to March 31, 2018.* It also includes an essay on promoting Afghan private-sector growth and the lessons learned from this ongoing initiative. During this reporting period, SIGAR published 13 audit, inspection, and other reports assessing the U.S. efforts to build the Afghan security forces, improve governance, facilitate economic and social development, and combat the sale and production of narcotics. During the reporting period, SIGAR criminal investigations resulted in one indictment, one guilty plea, three sentencings, two arrests, $6,527,491 in restitutions, and $264,563,451 in cost avoidance and recoveries to the U.S. government. SIGAR initiated 12 new cases and closed 31, bringing the total number of ongoing investigations to 199. Additionally, SIGAR's suspension and debarment program referred two individuals and four companies for suspension or debarment based on evidence developed as part of investigations conducted by SIGAR in Afghanistan and in the United States.

SIGAR OVERVIEW

AUDITS AND INSPECTIONS

This quarter, SIGAR published two performance audit reports, two financial audit reports, two inspection reports, and one evaluation report.

The **performance audit reports** examined:

- The World Bank's monitoring of the Afghanistan Reconstruction Trust Fund
- DOD's implementation of Commander's Emergency Response Program projects as part of the overall U.S. strategic plan for Afghanistan

The **financial audit reports** identified over $417 million in questioned costs as a result of internal-control deficiencies and noncompliance issues. These deficiencies and noncompliance issues included ineligible travel costs and a misinterpretation of a federal acquisition regulation.

The **inspection reports** found:

- Construction at the Afghan Ministry of Interior headquarters experienced construction deficiencies, poor oversight, and increased costs.
- U.S. Army Corps of Engineers mismanagement of the Northeast Power System resulted in a system that is not permanently connected to a power source, that has not been fully tested, and that may not be safe to operate.

The **evaluation report** found:

- DOD is taking steps to improve management and oversight of fuel in Afghanistan, but additional actions are needed.

* As provided in its authorizing statute, SIGAR may also report on products and events occurring after March 31, 2018, up to the publication date of this report.

SPECIAL PROJECTS

This quarter SIGAR's Office of Special Projects wrote eight reports and alert letters expressing concern on a range of issues including:

- procedures for screening the blood of ANA personnel
- structural damage at educational facilities in Baghlan Province
- structural damage at a bridge in Baghlan Province

LESSONS LEARNED

This quarter, SIGAR's Lessons Learned Program issued *Private Sector Development and Economic Growth: Lessons from the U.S. Experience in Afghanistan*, which examined how the U.S. government supported private-sector development in Afghanistan since 2001 through efforts led by the U.S. Agency for International Development, with additional significant roles played by the Departments of State, Defense, Commerce, and Treasury.

INVESTIGATIONS

During the reporting period, SIGAR investigations resulted in one indictment, one guilty plea, three sentencings, two arrests, $6,527,491 in restitutions, and $264,563,451 in cost avoidance and recoveries to the U.S. government. SIGAR initiated 12 new cases and closed 31, bringing the total number of ongoing investigations to 199. SIGAR's suspension and debarment program referred two individuals and four companies for suspension or debarment based on evidence developed as part of investigations conducted by SIGAR in Afghanistan and the United States.

Investigations highlights include:

- an investigation resulting in $264 million cost avoidance to the U.S. government
- a former U.S. Army Special Forces soldier indicted for kickbacks related to stolen government property
- an Afghan major general arrested for embezzling funds
- a former U.S. government contractor sentenced for failing to file tax returns
- a U.S. contractor sentenced for theft of government property

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"Although in early 2002 Afghanistan was considered a post-conflict nation, by 2006 it had become apparent that it was not … In retrospect, it was unrealistic to expect sustainable economic growth in an environment in which an insurgency and other forms of insecurity and uncertainty were increasingly present."

—SIGAR, Lessons Learned Program report, *Private Sector Development and Economic Growth*

Source: SIGAR, *Private Sector Development and Economic Growth: Lessons From the U.S. Experience in Afghanistan*, April 2018, p. 182.

1 PROMOTING THE AFGHAN PRIVATE SECTOR

PROMOTING AFGHAN PRIVATE SECTOR CONTENTS

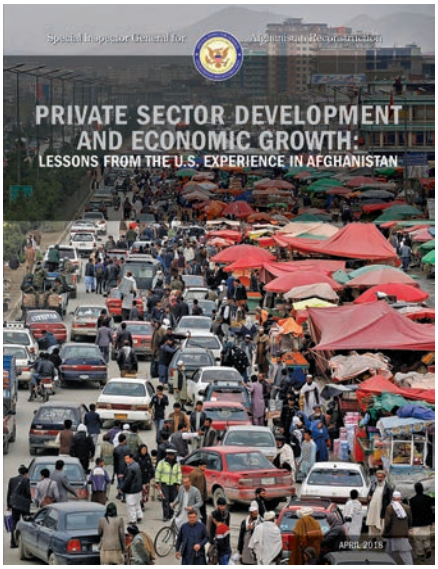
Photo on previous page
An Afghan woman operates a silk loom at a Herat weaving center supported by the Afghanistan Rural Enterprise Development Project. (World Bank photo by Graham Crouch)

Following the U.S.-led intervention in Afghanistan in late 2001, American officials viewed private-sector development as foundational to economic growth, which in turn was seen as a key driver of security.

The administrations of Presidents George W. Bush and Barack Obama believed that developing a robust private sector in Afghanistan would promote security by increasing job opportunities for young men who might otherwise join the insurgency, create confidence in and legitimacy for the Afghan state, generate revenues to support public services, and reduce dependency on international aid donors. Moving Afghanistan toward a private-sector-driven, open-market economy was also seen as a way to promote electoral democracy, individual freedoms, women's rights, a free media, and other Western values.[1]

The resulting U.S. strategy to promote the Afghan private sector between 2001 and 2017 had some laudable successes. Between 2001 and 2012, per capita gross domestic product (GDP) increased more than five-fold, from $117 in 2001 to a peak of $669 in 2012. But, as noted in a new report from SIGAR's Lessons Learned Program, *Private Sector Development and Economic Growth: Lessons from the U.S. Experience in Afghanistan*, that growth slowed, then stopped. The U.S. government has helped to build institutions that support private-sector growth, but it also underestimated the time needed for Afghanistan to transition to a Western-style market economy with sustainable and accountable institutions that were not under the influence of corrupt strongmen. Afghanistan is less impoverished than in 2001, but still ranks near the bottom economically among the world's nations.

SIGAR's new Lessons Learned report examines the experience of what has been the most ambitious U.S. effort ever undertaken to develop an impoverished, previously state-dominated economy in the midst of an ongoing insurgency. The findings and recommendations it offers can help to guide future private-sector development efforts in Afghanistan and elsewhere.



SIGAR's new Lessons Learned Program report is available online at www.sigar.mil.

THE STRUGGLE FOR ECONOMIC GROWTH

Afghanistan's history illustrates some of the obstacles confronting U.S. and other international donors' efforts to promote a market-style economy there. Prior to 1973, Afghanistan had a king and what could be called a "mixed-guided economy,"[2] with the agriculture, small-scale manufacturing, and trading sectors largely in private hands, and the larger-scale manufacturing sector being the province of the state. Starting in the 1930s, but

Brickyard workers in Kabul stack bricks. (UNAMA photo by Zakarya Gulistani)

especially after World War II, the country built infrastructure and a few large industrial facilities, which were seen as symbols of modernization and were intended in part to substitute local output for imports and to increase exports.

The government also tried to maintain influence over the economy through heavy controls and mechanisms such as government-dominated purchases of some agricultural products like cotton and sugar beets, and through a system of shared ownership. Afghanistan depended heavily on imports, but in good agricultural years was self-sufficient in food grains, and it pursued a policy of import substitution in certain goods. The country sometimes posted a modest trade surplus from the primary commodities of cotton, animal skins, wool, natural gas, dried fruits, and nuts.[3] Remittances from Afghan migrant workers in the Persian Gulf during the oil-boom years of the mid-to-late 1970s further contributed to a relatively positive economic picture.[4]

USAID launched its first private-enterprise development program in Afghanistan in the early 1960s. While efforts to promote private investment in agribusiness, metals, textiles, tobacco, and furniture had limited success, USAID support in other areas, such as fertilizer supply and sheep raising, was judged successful.[5] Successes were attributed to establishment of investment laws and other legal foundations, support by key ministries for private investment, consolidation of ministries' responsibilities, fielding of experienced USAID technical advisors, and, critically, relative political stability. Institutional support for the private sector was fragile, however, and many structural obstacles to private-sector growth remained. USAID

concluded that the most serious obstacle to growth after Mohammad Daoud took power in a 1973 military coup was government hostility toward private-sector development. As a USAID consultant later explained, political turmoil and statist policies had combined to "sour the investment climate," so USAID terminated its technical assistance to Afghanistan in mid-1974.[6]

A period of modest development and relative domestic tranquility came to a violent end with another coup in 1978. The Marxist-oriented People's Democratic Party of Afghanistan (PDPA) killed Daoud and took the country in a more socialist direction.[7] The PDPA was hostile toward large landowners, businessmen, and capitalists, many of whom were killed or driven into exile. At the end of 1979, fearing that growing unrest and resistance could threaten the PDPA government, the Soviet army invaded Afghanistan. The subsequent 12 years of armed conflict caused serious economic contraction.[8] Markets atrophied due to destruction of infrastructure, breaks in international trade linkages, and farmers' inability to produce for export. With President Mohammad Najibullah's fall, the advent of a fractious mujahedeen government in 1992, and then the ascendancy of the Taliban regime in 1996, the economy continued to decline.

After the forcible removal of the Taliban in late 2001, Afghanistan found itself in a completely new and unfamiliar landscape. Globally, much had changed since 1978. Returning to the status quo ante bellum was not an option.[9] Since the fall of the Soviet Union and restructuring of much of Eastern Europe, the market-economy model had become standard for the developing world, apart from a few holdouts like Cuba and North Korea. In addition, changes in international tastes and an increasingly globalized economy made traditional Afghan exports like *qarakul* wool goods and dried fruit less valuable.[10] The Taliban regime had tolerated opium-poppy cultivation for several years, but imposed a ban in 2000 that boosted the farm-gate price ten-fold and vastly increased its profitability for the illicit economy. Prior to the ban, opium cultivation had steadily increased since the 1980s, becoming the most valuable crop and export for the Afghan economy—a trend that continues to this day.[11]

The U.S.-led intervention in late 2001 brought big changes with high levels of international-donor spending, resumption of more normal economic activity, reduced insecurity, and lower levels of uncertainty facing business investors, Afghanistan's GDP grew at or near double-digit rates for the first decade of reconstruction. Between 2001 and 2012, per capita GDP increased more than five-fold, from $117 in 2001 to a peak of $669 in 2012.

Unfortunately, that growth has stopped. Since 2012—and especially following the U.S. and allied troop drawdowns after 2014—per capita GDP growth has been stagnant or negative, declining to $562 in 2016.[12] Further, with one of the highest population growth rates in the world and nearly half of its people under 15 years old, Afghanistan will need to add 400,000

jobs annually just to keep pace with new entrants to its labor market—a situation described by an International Labor Office consultant report as a "socio-economic time bomb."[13]

António Guterres, the Secretary-General of the United Nations, recently reported to the organization's Security Council and General Assembly that the current Afghan forecast is for 3.2% economic growth, "provided that the security and political situation does not deteriorate significantly"—a heavy-duty caveat for that country. The Secretary-General pointed to "a notable decline in growth in the agricultural sector, which accounts for the largest share of the economy."[14]

The Secretary-General continued, "Projected economic growth figures for Afghanistan, while improving, are not yet sufficient to absorb the hundreds of thousands of expected new entrants into the labour market in the coming years." Accordingly, he added, "I encourage the [Afghan] Government to introduce further policy reforms that can help generate private sector growth and provide job opportunities to the next generation of Afghans."[15]

The International Monetary Fund's (IMF) December 2017 report on Afghanistan noted that the country, with international financial and security support, "has made important strides in rebuilding its economy," but adds that it "remains conflict-affected, poor, and aid-dependent." The IMF said Afghan authorities should prepare for less external aid as time passes, and should take pro-growth steps including "strengthening institutions, addressing corruption, building up physical and human capital, developing the financial sector, making access to financial services more inclusive, and improving the business climate."[16]

The World Bank Group's 15th annual *Doing Business* report, released in late 2017, notes that Afghanistan has recently taken some steps to improve its business climate. They include reducing the time and cost of getting a new business license, improving the process for getting electricity, and establishing credit and collateral registries. On the other hand, Afghanistan has required new businesses to pay registration fees for three years up front, increased the fees, and raised the business-receipts tax.[17]

The *Doing Business* report ranks 190 countries on a variety of indicators for ease, cost, and other issues in starting and operating a business. In the overall scoring, Afghanistan ranks near the bottom: 183rd. While it stands near the middle of the pack for ease of starting a business (107th), the country scores very low on measures like enforcing contracts (181st), ease of dealing with construction permits (185th), and protecting minority investors (189th).[18]

Some specific data comparisons in the *Doing Business* report illustrate the competitive difficulties businesses face in Afghanistan versus in other South Asian countries. For example, it takes an average of 250 days to register business property, more than twice the regional average. Enforcing a contract in court consumes an average of 1,642 days—about five years of

five-day business weeks. Complying with Afghanistan's export-documentation requirements consumes an average of 228 hours, compared to 55 in Pakistan and 38 in India.[19] Unlike Afghanistan, however, other countries in the South Asia region are not engaged in serious conflict with insurgents, and are not afflicted with similarly widespread corruption, which may affect Afghanistan's doing-business metrics.

The Afghan government has not been working alone to bolster its business climate. The United States and other international donors have conducted a variety of programs to promote private-sector development. USAID alone has cumulatively disbursed over $1.2 billion since 2002 for economic-growth programs in Afghanistan.[20] But whether development interest is focused on Afghanistan's internal economy or on its export sector, it appears that a great deal remains to be done to fulfill the market-economy vision cited in the current constitution, ratified in 2004.

SIGAR TAKES A NEW LOOK AT PRIVATE-SECTOR DEVELOPMENT

At an April 19, 2018, event at the U.S. Institute for Peace in Washington, DC, SIGAR released a new report prepared by the staff of its Lessons Learned Program. *Private Sector Development and Economic Growth: Lessons from the U.S. Experience in Afghanistan* examines the history of U.S. efforts to assist private-sector development in Afghanistan, describes their outcomes, extracts lessons to guide future efforts, and offers recommendations for legislative and executive action.

Carpet being washed at Herat Carpet Facility, a cut-and-wash facility supported by Task Force for Business and Stability Operations. (SIGAR photo)

The nearly 250-page report is SIGAR's third Lessons Learned product. Two earlier reports dealt with lessons from U.S. security-sector assistance programs and with corruption in conflict zones.[21]

The new report discusses U.S. support of private-sector development in Afghanistan since the 2001 intervention. USAID has been the main implementer of U.S. programs, but the Departments of State, Defense (mainly through its now-terminated Task Force for Business and Stability Operations), Commerce, and Treasury have also played important roles. Smaller but still significant players include the Overseas Private Investment Corporation, the U.S. Trade and Development Agency, the U.S. Trade Representative, and the U.S. Geological Survey.

Since 2002, Congress has appropriated over $126 billion for Afghanistan reconstruction. There is no definitive way to calculate the precise amount of that funding that was devoted to private-sector development. Agencies' funding mechanisms are complex, and some overlap exists among cross-cutting programs. And in a broad sense, noncommercial programs in areas like governance and education bear on the human-capital improvements that promote private-sector development and economic progress.[22] However defined, private-sector development appears to account for only a small part of overall U.S. reconstruction funding.

SIGAR's Lessons Learned report focuses on two main, somewhat overlapping areas of U.S. assistance for developing the Afghan private sector:

1. Support to economic policy and governance, including developing overall economic policies and reforms, creating or strengthening government and private sector institutions, facilitating external trade, and privatizing state-owned enterprises.
2. Support to individual firms, groups, and entrepreneurs, including financing and other material support, technical assistance and training, promotion of investment, promotion of regional trade, and enabling market access.

Besides offering a chronology of program efforts by U.S. agencies, the report looks in depth at the five major areas of economic intervention: creating an enabling environment, providing access to finance, promoting investment, developing regional and international trade, and supporting enterprises.

The new report argues that the United States overestimated the pace at which Afghanistan could transition to a Western-style market economy, while U.S. financial support fostered some aid-dependent businesses. The report also describes instances of inadequate coordination within and between U.S. agencies, both civilian and military, that impeded achievement of program goals. On the other hand, the report shows how some early investments in economic reform, made in concert with allies and international organizations, promoted progress and laid a basis for future development.

The analysis underscores the difficulty of supporting economic development in a conflict-ravaged country like Afghanistan. For example, the report shows that early signs of economic growth were mainly fueled by inflows of foreign money and were unsustainable. Meanwhile, rosy projections of progress did not take full account of Afghanistan's economic and security environment, its institutional-capacity limitations, its fraught relations with neighbors, or the impacts of corruption and powerbroker networks.

The new report carries forward the lessons-learned effort SIGAR launched in late 2014 at the urging of General John Allen, Ambassador Ryan Crocker, and others who had served in Afghanistan. The Lessons Learned Program has since become an important means of carrying out SIGAR's legislative mandate. The 2008 statute that created SIGAR directs us to keep Congress, as well as the Secretaries of State and Defense, "fully and currently informed" of deficiencies in the administration of reconstruction programs in Afghanistan. SIGAR's statutory duties also include making recommendations on policies to promote economy, effectiveness, and efficiency in those programs, and examining the extent of their coordination among U.S. agencies, the Afghan government, and the international community.[23]

Women working in a garment factory in Kabul in January 2014. (Asian Development Bank photo by Jawad Jalali)

PREVIOUS SIGAR WORK ON PRIVATE-SECTOR DEVELOPMENT

SIGAR's Lessons Learned report represents the agency's most comprehensive assessment so far of U.S. efforts to develop Afghanistan's private sector. It incorporates a wide and deep review of official, academic, and independent-organization resources. It also builds on a body of previous SIGAR products touching on various aspects of U.S.-provided support to Afghanistan's economic policy and governance, and to individual firms, groups, and entrepreneurs.

The previous SIGAR products address U.S. efforts to develop Afghanistan's infrastructure and the agriculture and extractives industries, relevant because of their actual or potential effects on Afghanistan's broader economy. In all, 12 SIGAR performance audits (one forthcoming), two special projects, one inspection, and two other lessons learned products (one forthcoming) helped inform the new report.

In numerous cases, the topically focused examinations in SIGAR's prior body of work foreshadowed the new report's broader findings. For example, a SIGAR special project report released in 2017 highlighted that one goal of USAID's Afghanistan Trade and Revenue (ATAR) program—that 75% of customs duties be collected through e-payment systems—proved wildly unrealistic. SIGAR found that ATAR fell well short of this objective: data provided by the Afghanistan Customs Department showed that more than three years after the project began, e-payments accounted for just 0.59% of

Fruits from the Kandahar region of Afghanistan are shipped to India with help from USAID. (USAID photo)

all customs duties collected.[24] This special project served as one data point among many, including SIGAR interviews with current and former U.S. government officials with on-the-ground experience, supporting the report's conclusion that projections for the pace and level of progress of private-sector development were often overly optimistic, and adequately reflected neither the realities of Afghanistan's operating environment nor the limits of U.S. and Afghan institutions.[25]

In other cases, previous SIGAR products provided fruitful departure points for further exploration in the more extensive Lessons Learned report. A 2012 SIGAR audit assessed the Afghan First Initiative, a policy designed to support U.S. counterinsurgency objectives by limiting competition for U.S. government contracts—initially Department of Defense procurements—to Afghan companies. SIGAR found that although one goal of the program was to increase employment, U.S. agencies did not collect data that could have formed a suitable basis for measuring the effects of Afghan First on creating jobs. In some instances, non-Afghan companies may have been selected for awards.[26] In addition to addressing this and other recurring oversight challenges, the new private-sector development report describes shortcomings in program design and implementation. For example, although some Afghan companies used U.S.-provided funds to grow their businesses by expanding access to markets, others became dependent on U.S. support, and were thus unable to achieve commercial sustainability in the absence of "free money."[27]

Finally, SIGAR's new report applied previous SIGAR findings in a wider setting, extending the scope of their applicability. SIGAR's 2016 Lessons Learned report, *Corruption in Conflict: Lessons from the U.S. Experience in*

Afghanistan, found that the U.S. had contributed to corruption in Afghanistan by unwittingly partnering with malign powerbrokers in order to achieve stability and security objectives. U.S. officials, that report noted, failed to recognize the degree to which large sums of money associated with aid and military contracts became catalysts for corruption, especially when combined with lax contracting and oversight practices.[28] SIGAR's new Lessons Learned report applies this finding specifically to U.S. efforts to support Afghan enterprises, emphasizing the obstacles posed by corruption to establishing an effective "enabling environment" for private-sector development, and finding, ultimately, that corruption likely stymied economic growth.[29]

WHAT DID SIGAR'S NEW REPORT FIND?

After examining the factual record, *Private Sector Development and Economic Growth: Lessons from the U.S. Experience in Afghanistan* identifies nine key findings regarding the U.S. experience with private-sector development in that country. The findings are discussed at length in the report, but briefly stated, they are:

1. Afghanistan's significant economic gains in per capita income and growth in sectors such as telecommunications, transport, and construction were largely the result of post-conflict recovery and substantial foreign spending, and were therefore not sustainable.
2. Establishing the foundational elements of the economic system, including sound macroeconomic policies and capacity for public financial management, at the start of reconstruction allowed some successes and set the stage for future development.
3. Optimistic projections for the pace and level of progress did not reflect the realities of the Afghan economy and operating environment, the ongoing conflict, and the capacity constraints of Afghan and U.S. institutions.
4. Afghans have benefited from a more open trade policy, and future benefits from trade agreements and increased regional integration may continue to accrue; however, Afghanistan's physical and institutional infrastructure and political relationships with its neighbors have limited its ability to become a trade hub benefiting from regional commerce and sustainable export markets.
5. The persistence of corruption within the Afghan government, along with uncertainty about and uneven enforcement of tax and regulatory policies, discouraged economic growth.
6. Inadequate understanding or mitigation of the relationships between corrupt strongmen and other power holders limited the effectiveness of U.S. support to private-sector development in generating broad-based economic growth.

Worker with finished marble slabs in Herat in April 2010. (USAID Afghanistan photo)

7. Neither the Afghan government nor society was adequately prepared for the sudden introduction of a Western-style market economy.
8. The U.S. government's provision of direct financial support to enterprises sometimes created dependent, commercially nonviable entities, as well as disincentives for businesses to use local financial and technical services.
9. Insufficient coordination within and between U.S. government civilian and military agencies negatively affected the outcomes of programs.

WHAT LESSONS DID SIGAR EXTRACT?

This report identifies 12 lessons drawn from the U.S. experience with private-sector development in Afghanistan. Building on the findings from the historic record, the lessons are presented as guidance for improving current and future efforts, whether by managing expectations, pointing out vulnerabilities and unintended consequences, highlighting best practices, or otherwise distilling experience into usable insight. Like the findings, the lessons are presented with supporting detail in the new Lessons Learned report. The headline sentences are these:

1. It is not realistic to expect robust and sustainable economic growth in an insecure and uncertain environment.
2. Establishing the foundational elements of an economic system at the beginning of a reconstruction effort sets the stage for future success.
3. Any new economic system which represents a break with a host nation's past knowledge and practice must be introduced carefully and with sufficient time to ensure adequate buy-in and the development of the robust institutions required to maintain it.
4. Spending too much money too quickly can lead to corruption and undermine the goals of both the host nation and the United States, while reducing funding too abruptly can hurt the economy.
5. Inadequate understanding and vetting of the webs of personal, sometimes criminally related, networks can allow elites to control economic activity at the expense of open and competitive markets.
6. Successful private-sector development efforts must be nested within the development of the rule of law and overall good governance.
7. The choice of a model for economic growth must realistically acknowledge a country's institutional and political environment and its physical endowments.
8. The provision of grants and below-market-rate loans can undermine commercial banks and other market-oriented institutions and create unsustainable businesses.
9. Support to businesses and government institutions needs to be tailored to the environment.

10. Clear agreements on institutional roles, responsibilities, and lines of authority, reinforced by human-resource policies that fit a post-conflict environment, are necessary for an effective private-sector development strategy and for overall development.
11. Rigorous monitoring, evaluation, and analysis—which transcend individual projects and programs—are necessary to understand the effectiveness of private-sector development interventions.
12. Investments in human capital have significant returns, although it may be years before they are realized.

WHAT RECOMMENDATIONS WERE MADE?

In addition to presenting and analyzing findings and lessons from the long U.S. effort to support private-sector development in Afghanistan, the new Lessons Learned report presents eight SIGAR recommendations for the executive and legislative branches of the U.S. government.

Every country has a unique set of characteristics that affect economic development. Future U.S. interventions may involve countries with stronger institutions, higher levels of human capital, and a more diverse economy than are found in Afghanistan. Nevertheless, certain broad recommendations can be drawn from the Afghanistan experience.

SIGAR believes implementing these recommendations would usefully shape private-sector development efforts at the onset of and throughout reconstruction efforts, and would institutionalize the lessons learned from the U.S. experience in Afghanistan. Commentary on the recommendations appears in the full report.

Recommendations for the Executive Branch

1. At the start of any major reconstruction effort, the National Security Council should direct the creation of an interagency working group led by USAID and staffed at the appropriate levels to plan and coordinate private-sector development activities across civilian and military agencies.
    a. The interagency working group should include members from all agencies with a significant private-sector development role and be given a clear mandate.
    b. The interagency working group should reach consensus on the respective roles and responsibilities of civilian and military institutions in private-sector development, as well as the role development plays in contingency operations.[30]
    c. The interagency working group should draw on existing analysis, supplemented by a rapid but in-depth assessment, to outline a strategic approach to rebuilding the host-nation economy and to anticipate the likely impact of U.S. funds and material resources.

A worker tends molten iron at a Jalalabad factory that makes threshing machines for farmers. (World Bank photo by Abbas Farzami/Rumi Consultancy)

d. The interagency working group should draw from intelligence and other sources to understand the host nation's political-economy networks, and should use that information to make an informed decision regarding the tradeoffs and implications for who receives financial and other support.
e. The interagency working group should take the necessary steps to understand the host nation's historical and social conditions and traditions, and to identify and mitigate possible areas of contention, resistance, and circumvention.

2. To the extent possible, State and USAID should focus market interventions at the industry or sector level, rather than selecting and supporting individual firms.
3. USAID and State should assist the Afghan government in reviewing the effectiveness of all Afghanistan's regional and bilateral trade agreements, especially the Afghanistan-Pakistan Transit Trade Agreement, and then engage with trading partners to resolve constraints to Afghan exports and imports.
4. USAID officials working in private-sector development should continue to participate in mission-wide anticorruption initiatives, and ensure these initiatives are reflected in technical and policy work at the ministry level.

5. USAID should continue to closely team with a host nation's local institutions, such as universities, think tanks, and business associations, to provide technical assistance and training tailored to the local environment and its modes of doing business.
6. USAID should continue to invest human, financial, and time resources in rigorous monitoring, evaluation, and analysis, including establishing a long-term framework that transcends individual projects.
7. State and USAID should review human-resource policies to make them more suitable for conflict environments, ensure continuity, and maintain institutional knowledge.

Recommendation for Congress

8. Congress may wish to consider creating a long-term private-sector development fund to reduce the pressure to use spending levels as a measure of progress and avoid funding fluctuations during reconstruction efforts.

CONCLUSION

Promoting private-sector development within a framework of rule of law, appropriate regulation, and open markets can be a potent force for peace, stability, consumer well-being, and humanitarian benefits. The U.S. experience in providing support for private-sector development in Afghanistan from 2001 to 2017 vividly illustrates the difficulties of pursuing these goals by promoting economic development in a war-shattered economy.

Some successes were achieved. But Afghanistan's early economic gains largely reflected recovery from the overthrow of the Taliban regime and the large infusions of foreign spending, and could not be sustained. Early optimism, nourished by the apparent end of decades of violence, was deflated as the passing years confirmed that Afghanistan had not in fact become a post-conflict nation. It still has not.

Nonetheless, U.S. efforts to set up basic economic infrastructure, laws, and policies—undertaken in concert with allies and international organizations—helped set the stage for progress. Those successes included building Afghan government capacity in public financial and macroeconomic management, dynamic growth of sectors like telecommunications and construction, and Afghanistan's accession to the World Trade Organization.

More successes are needed. Action based on SIGAR's *Private Sector Development and Economic Growth: Lessons from the U.S. Experience in Afghanistan* can help deliver them in Afghanistan and elsewhere.

"We have found that agencies, as well as IGs, spend lots of time counting program inputs such as the amount of money spent, and outputs such as the number of clinics built, but not enough on outcomes and results—the true barometer of success."

—*Inspector General John Sopko*

Source: Inspector General John Sopko, speech at the International Corruption Academy, 1/24/2018.