



**SIGAR**

Office of the Special Inspector General  
for Afghanistan Reconstruction

September 26, 2014

The Honorable Daniel F. Feldman  
Special Representative for Afghanistan and Pakistan

The Honorable James B. Cunningham  
U.S. Ambassador to Afghanistan

Dear Ambassadors:

I want to congratulate both of you on what appears to be a successful resolution of the recent Afghan election. I know you, the Secretary, and your colleagues have worked tirelessly for months in this effort.

Unfortunately, almost simultaneously with the successful conclusion of your efforts, the press reported that the Afghanistan Ministry of Finance was asking for an immediate infusion of \$537 million to cover its FY 1393 budgetary shortfalls and pay government salaries. In particular, a *Washington Post* article on September 16, 2014, indicated that without additional funds the Afghan government would begin to defer bill payments and might not be able to feed more than 350,000 Afghan soldiers and police.<sup>1</sup> The same article quotes an unnamed “senior U.S. Embassy official in Kabul” as acknowledging this problem and stating that the Embassy is “working to find ways to help the new government meet some of its challenges and priorities using resources already allocated.”

While Afghan Treasury officials appear to publicly blame budgetary shortfalls on the presidential election impasse that was only recently resolved, the issue of Afghan fiscal sustainability is not a new one, and has been documented repeatedly in SIGAR’s quarterly reports.<sup>2</sup> In the first seven months of FY 1393, total domestic revenues—tax and non-tax revenues and customs duties—missed Ministry of Finance targets by \$274 million (-22 percent) and decreased by approximately \$39.46 million (-3.8 percent) from the same period in FY 1392.<sup>3</sup> Moreover, revenues in FY 1393 have been outpaced by both operating and development budget expenditures.

Likewise, the International Monetary Fund has estimated Afghanistan’s “financing gap”—comprising on- and off-budget needs—at \$7.7 billion on average annually through 2018.<sup>4</sup> The World Bank said this financing gap will limit Afghanistan’s ability to pay for discretionary services without significant donor support and is likely to delay its progress to self-reliance.<sup>5</sup>

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<sup>1</sup> Tim Craig, “Afghan Official Says The Government Has Nearly Run Out Of Money, Needs U.S. Bailout,” *Washington Post*, September 16, 2014.

<sup>2</sup> SIGAR Quarterly Report, July 30, 2014, pp. 153–154; SIGAR Quarterly Report, April 30, 2014, pp. 159–160; SIGAR Quarterly Report January 30, 2014, pp. 147–149; SIGAR Quarterly Report October 30, 2013, pp. 146–148.

<sup>3</sup> MOF, *Monthly Fiscal Bulletin, Month 7, 1393*, September 6, 2014.

<sup>4</sup> IMF, *2014 Article IV Consultation—Staff Report; Press Release; And Statement By The Executive Director For The Islamic Republic Of Afghanistan*, p. 74, May, 2014.

<sup>5</sup> World Bank, *Afghanistan: Transition to Transformation Update, JCMB Meeting*, p. 11, January 29, 2014.

All of this raises concerns about not only the financial stability of the Afghan government but also the extent to which the Afghan government in general and the Finance Ministry in particular have managed the billions of dollars in U.S. and international donor reconstruction assistance. This concern is heightened by U.S. and other donor promises to provide billions of dollars of additional direct assistance, as well as independent reports from earlier this summer that Afghan police units had cut power to Kandahar due to a lack of funding over the next several years.

Accordingly, in order to carry out our statutory oversight duties pursuant to the Inspector General Act of 1978, as amended, and section 1229 of the National Defense Authorization Act for Fiscal Year 2008, as amended and to help SIGAR better understand the Ministry of Finance's funding request and the United States' response, please answer the following questions:

- What factors contributed to the Afghan government's need for a bailout and how did it happen (e.g., economic factors, corruption, and poor budgeting)?
- How long has the State Department been aware of the Afghan government's financial situation?
- Has the Afghan government officially asked for the immediate infusion of \$537 million to cover its FY 1393 budget shortfall? If so, how was this amount determined? How much does the State Department estimate Afghanistan needs versus their request?
- What action is the United States government planning to take vis-à-vis this \$537 million funding request, either alone or in conjunction with its partners?
- What will prevent the Afghan government from facing similar budget shortfalls in the coming years and requesting similar infusions of funds from donors? What is the United States' long-term plan to ensure that this is not a recurring problem?

In addition, to help SIGAR better understand the scope of the Afghan government's fiscal situation, I request that you provide a U.S. government point of contact with access to the Afghanistan Financial Management Information System (AFMIS), including the AFMIS expenditure, fund, and revenue modules for all Afghan budgetary units. Please also describe any efforts undertaken by the United States or the international community to validate the data reported in AFMIS. Provide your response no later than October 10, 2014. Should you have any questions, please contact me directly, or have your staff contact Jack Mitchell, Director of Special Projects at [REDACTED] or [REDACTED].

Thank you for your cooperation.

Sincerely,



John F. Sopko  
Special Inspector General  
for Afghanistan Reconstruction



United States Department of State

*Washington, D.C. 20520*

October 10, 2014

Mr. John F. Sopko  
Special Inspector General for Afghanistan Reconstruction  
1550 Crystal Drive, Suite 900  
Arlington, VA 22202

Dear Mr. Sopko:

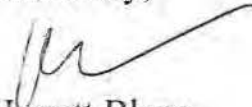
The Department of State welcomes the opportunity to comment on the inquiry letter dated September 26. We share the desire to see the government of Afghanistan develop a sustainable economic foundation, and we share your goals of ensuring that U.S. assistance is implemented free from waste, fraud, and abuse.

The United States and our international partners continually monitor Afghanistan's fiscal situation, and for several months we have been discussing with the Afghans the ramifications of their revenue shortfall this year. While the previous government of Afghanistan has briefed U.S. officials about the Afghan fiscal situation, we believe it would be critically important to discuss any request and potential solutions with the new government, as it will be responsible for resolving the problem.

Although scope and timing of the current shortfall is the subject of discussion with appropriate Afghan officials, there is a widespread belief that the current shortfall grew from a combination of economic inertia associated with a protracted political transition and the government of Afghanistan's unrealistic budget. The ultimate responsibility for a long-term solution to Afghanistan's fiscal problems rests with the new government, which will have to pass reforms that improve the budgeting process, mobilize additional revenue, and put in place a sound macroeconomic framework and investment climate. Both President Ghani and Chief Executive Officer Abdullah Abdullah spoke extensively on these priorities during the presidential campaign, and we believe each has articulated a commitment to implementing the kinds of reforms required to avert a similar situation in the future.

The United States and the international community have a common interest in seeing the new government of Afghanistan successfully implement its reform agenda, and we remain open to helping the new government tackle this challenge. We will consider responses to an Afghan request that draw on pre-existing, previously notified resources. The scope of our support, however, would require a policy dialogue that takes into account relevant discussions and requests from the new government and a strong commitment to reform.

Sincerely,

A handwritten signature in black ink, appearing to read 'J. Blanc', with a long, sweeping horizontal stroke extending to the right.

Jarrett Blanc  
Principal Deputy Special  
Representative for Afghanistan  
and Pakistan