



**SIGAR**

Office of the Special Inspector General  
for Afghanistan Reconstruction

July 9, 2014

The Honorable Rajiv Shah  
Administrator, U.S. Agency for International Development

Dear Administrator Shah:

At the request of Representative Jason Chaffetz, Chairman of the Subcommittee on National Security, House Committee on Oversight and Government Reform, I am writing to request information concerning USAID's \$175 million Incentive Fund for Afghanistan.<sup>1</sup> To aid our review, please provide written responses to the questions below no later than July 23, 2014.

- During his April 3, 2014, Congressional testimony, Mr. Donald "Larry" Sampler indicated that the funds were used as "an incentive to get the [Afghan] parliament to do the things that we need them to do" and to adopt programs "not politically palatable to the parliament in Afghanistan."<sup>2</sup> Mr. Sampler's remarks have prompted questions about the purpose of the TMAF incentive funds program, its methodology, and its execution. Will USAID please clarify Mr. Sampler's remarks regarding the incentive funds program?
- Please explain the relationship between the \$175 million used for the incentive funds program and the TMAF. Is the \$175 million part of the funding pledged at the 2012 Tokyo donor meeting or are they separate?
- Are there existing U.S. bilateral incentive-funds programs in Afghanistan upon which the TMAF bilateral incentive program is modeled? If so, were these programs effective in bringing about their desired outcomes? If there is no bilateral incentive program precedent in Afghanistan, are there similar cases and evaluations of U.S. bilateral incentive programs in other countries? If so, please detail.
- What is the basis for the \$175 million figure used and how was that amount determined? Why are these funds allocated in two tranches (\$75 million in FY 2012 funds for Tranche I and \$100 million in FY 2013 funds for Tranche II)?
- Why did Tranche I money (for a program executed in FY 2014) come from FY 2012 funds and why will Tranche II money come from FY 2013 funds? Were the FY 2012 funds in danger of expiring?

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<sup>1</sup> USAID has also referred to this fund as the Tokyo Mutual Accountability Framework (TMAF) bilateral incentive fund. See USAID Fact Sheet – Tokyo Mutual Accountability Framework (TMAF) Bilateral Incentive Fund.

<sup>2</sup> See *Afghanistan: Identifying and Addressing Wasteful U.S. Government Spending: Hearing before the Subcomm. On National Security of the H. Comm. On Oversight and Government Reform, 113<sup>th</sup> Cong. (2014)*, at statement of Donald "Larry" Sampler, Assistant to the Administrator, Office of Afghanistan and Pakistan Affairs, USAID, available at <http://oversight.house.gov/hearing/afghanistan-identifying-addressing-wasteful-u-s-government-spending/>

- How were Tranche I benchmarks determined to have been met or not met when deciding to disburse funds? Please provide copies of original documentation (letters, memos, studies, evaluations, e-mails, etc.) including:
  - Communications with Afghan government officials when designing the TMAF bilateral incentive fund program
  - USAID's evaluation of Afghan progress toward fulfilling the incentive program's requirements and Afghan concurrence or disagreement with U.S. evaluation
  - Information and evidence provided by Afghans on progress toward meeting incentive program benchmarks
  - Specific procedures used by USAID to verify Afghan progress in each Hard Deliverable area, and the development and methodology of the USAID verification process
  - USAID's reasoning behind whether the Hard Deliverables were met or not
  - Afghan responses to final USAID determinations
- USAID's Fact Sheet for the TMAF Bilateral Incentive Fund states that withheld funds are reallocated to "other U.S. government priorities for Afghanistan that do not involve direct assistance to the Afghan Government." Please list the projects, programs, or multilateral instruments that received the withheld Tranche I funds, if any.
- Will the \$100 million allocated in Tranche II be directed to the same five Hard Deliverable areas as Tranche I? If so, please provide a planned or anticipated breakdown of funding allocations by Hard Deliverable area. If the structure of Tranche II is pending negotiation with the new Afghan government, please provide the desired thematic categories, benchmarks, and qualifying standards for funding allocations, as well as the Afghan agencies that would be responsible for implementing reforms in each category.
- Are additional tranches planned after Tranche I and II? Are other programs being considered that build upon this model?

I am submitting this request pursuant to my authority under Public Law No. 110-181, as amended, and the Inspector General Act of 1978, as amended. Should you have any questions or concerns, please contact Mr. Jack Mitchell, Director, Office of Special Projects, at [REDACTED] or [REDACTED].

Sincerely,



John F. Sopko  
Special Inspector General  
for Afghanistan Reconstruction

Attachment: I – Congressional Letter from the Subcommittee  
on National Security to Inspector General John Sopko

# ATTACHMENT I: CONGRESSIONAL LETTER FROM THE SUBCOMMITTEE ON NATIONAL SECURITY TO INSPECTOR GENERAL JOHN SOPKO

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## Congress of the United States House of Representatives

COMMITTEE ON OVERSIGHT AND GOVERNMENT REFORM

2157 RAYBURN HOUSE OFFICE BUILDING

WASHINGTON, DC 20515-6143

MAJORITY (202) 225-5074

FACSIMILE (202) 225-3974

MINORITY (202) 225-5061

<http://oversight.house.gov>

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April 11, 2014

Mr. John F. Sopko  
Special Inspector General for Afghanistan Reconstruction  
1550 Crystal Drive  
Suite 9000  
Arlington, VA 22202

Dear Mr. Sopko:

The Subcommittee on National Security is conducting oversight of the U.S. Agency for International Development's (USAID) reconstruction efforts in Afghanistan. The Subcommittee is examining waste, fraud, and abuse related to the \$102 billion the United States has provided Afghanistan for the reconstruction effort since 2002. As part of this oversight, I am writing to request that the Special Inspector General for Afghanistan Reconstruction investigate USAID "incentive funds" of more than \$75 million in 2013 and \$100 million in 2014 directed to the Afghanistan Minister of Finance.<sup>1</sup>

On April 3, 2014, the Subcommittee held a hearing titled, "Afghanistan: Identifying and Addressing Wasteful U.S. Government Spending."<sup>2</sup> During the hearing, I asked Mr. Donald Sampler, Assistant to the USAID Administrator for the Office of Afghanistan and Pakistan, about more than \$75 million in USAID incentive funds being given to the Afghan government in Fiscal Year 2013. Mr. Sampler explained that these funds are used as "an incentive to get the [Afghan] Parliament to do the things that we need them to do."<sup>3</sup> While USAID has already administered billions of dollars to the Afghan government during the reconstruction effort, I question whether the incentive funding is necessary and effective, or whether it is instead essentially a lobbying expenditure or bonus encouraging Afghans to adopt programs "not politically palatable to the Parliament in Afghanistan."<sup>4</sup>

<sup>1</sup> *Afghanistan: Identifying and Addressing Wasteful U.S. Government Spending: Hearing before the Subcomm. on National Security of the H. Comm. on Oversight and Government Reform, 113<sup>th</sup> Cong.* (2014).

<sup>2</sup> *Id.*

<sup>3</sup> *Id.* at statement of Donald Sampler, Assistant to the Administrator for the Office of Afghanistan and Pakistan, USAID, available at: <http://oversight.house.gov/hearing/afghanistan-identifying-addressing-wasteful-u-s-government-spending/>.

<sup>4</sup> *Id.*

Mr. John Sopko  
April 11, 2014  
Page 2

Now, USAID is increasing the incentive funding to \$100 million annually. As a result of the dialogue during the Subcommittee hearing, I have serious concerns that USAID lacks accountability over these funds, and worse, that the incentive funding comprises an effort by USAID to lobby Afghanistan when the agency already provides billions of dollars to the Afghan government.

Based on these concerns, I request that SIGAR investigate USAID incentive funding and its necessity and effectiveness. I also request that SIGAR provide updates of the investigation and its findings to this Subcommittee.

The Committee on Oversight and Government Reform is the principal oversight committee of the House of Representatives and may at "any time" investigate "any matter" as set forth in House Rule X.

If you have any questions about this request, please contact Sang Yi of the House Committee on Oversight and Government Reform at 202-225-5074. Thank you for your attention to this matter.

Sincerely,



Jason Chaffetz  
Chairman  
Subcommittee on National Security

cc: The Honorable John Tierney, Ranking Minority Member  
Subcommittee on National Security



# USAID | AFGHANISTAN

FROM THE AMERICAN PEOPLE

July 23, 2014

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

Dear Mr. Sopko:

In response to your Inquiry Letter dated July 9, 2014 on USAID's \$175 million Incentive Fund for Afghanistan, USAID is pleased to address your questions regarding the \$175 million Incentive Fund for Afghanistan.

*During his April 3, 2014, Congressional testimony, Mr. Donald "Larry" Sampler indicated that the funds were used as "an incentive to get the [Afghan] parliament to do the things that we need them to do" and to adopt programs "not politically palatable to the parliament in Afghanistan." Mr. Sampler's remarks have prompted questions about the purpose of the Tokyo Mutual Accountability Framework (TMAF) incentive funds program, its methodology, and its execution. Will USAID please clarify Mr. Sampler's remarks regarding the incentive funds program?*

Encouraging meaningful reforms by the Afghan Government is a key objective of the U.S. assistance effort. The U.S. Government's Incentive Fund program was designed to amplify TMAF's role in bringing about Afghan government reforms. It does this by insisting that conditions be met before incentive funding is allocated to the Afghan Government. The TMAF, agreed to in July 2012 by the leading donors to Afghanistan, including the U.S. and the Government of Afghanistan, called on the Afghan Government to implement key reforms in five areas in exchange for continued high levels of civilian assistance. Those five areas are:

- Area I: Representational Democracy and Equitable Elections;
- Area II: Governance, Rule of Law and Human Rights;
- Area III: Integrity of Public Finance and Commercial Banking;
- Area IV: Government Revenues, Budget Execution and Sub-National Governance;
- and
- Area V: Inclusive and Sustained Growth and Development.

The U.S. incentive program as referenced in the hearing, was first announced in 2012 at Tokyo and further defined at the July 2013 TMAF Senior Officials Meeting in Kabul. The first year of the incentive program ties a portion of the U.S. contribution to the World Bank's Afghanistan Reconstruction Trust Fund (ARTF) to Afghan Government performance against a list of 17 "Hard Deliverables" agreed to by donors and the Afghan Government, which are divided among the five TMAF goals. (See attached Annex I)

## SIGAR 14-79-SP Inquiry Letter: USAID Incentive Funds

In this first year of the incentive program, \$75 million of already notified FY 2012 funds were set aside from our planned contribution to the ARTF. The U.S. further decided that the \$75 million would be split into five \$15 million tranches, set against satisfactory performance by the Afghan Government on the five TMAF goals as outlined by the 17 Hard Deliverables. Among the 17 Hard Deliverables are actions that require legislative approval. My April 3, 2014 testimony refers to these actions. Also among the 17 Hard Deliverables are actions that require steps by different Afghan ministries. The incentive program is intended to incentivize the Afghan Government to make important reforms that are politically difficult.

Incentive Funds are not a bonus. They were identified out of contributions to the ARTF from the funds appropriated for Afghanistan. If deliverables are met by the Afghan Government, the earned portion of funds are placed into the Recurrent Cost Window (RCW) of the ARTF, allowing the government to meet important recurrent costs, in accordance with the RCW rules (described below). If the Afghan Government does not meet the benchmarks we set, the funds are directed to other activities, explicitly not to direct government-to-government assistance with the Afghan Government or contributions to the ARTF.

Disbursed Incentive Fund money is transferred by USAID to the World Bank-administered ARTF RCW, which is subject to strict fiduciary controls, as the World Bank is a Category I Public International Organization (PIO). The World Bank provides for expenditures on a cost-reimbursable basis, and these expenditures are verified by the World Bank's Monitoring Agent to ensure they are allowed costs under the terms of the RCW.

*Please explain the relationship between the \$175 million used for the incentive funds program and the TMAF. Is the \$175 million part of the funding pledged at the 2012 Tokyo donor meeting or are they separate?*

The \$175 million is part of the U.S. Tokyo Agreement assistance commitment. It has been set-aside from appropriated funding for FY 2012 and FY 2013 and is covered by the commitments made at the Tokyo Conference. The fiscal year breakout consists of \$75 million in already notified FY 2012 funds and \$100 million in FY 2013 funds.

*Are there existing U.S. bilateral incentive-funds programs in Afghanistan upon which the TMAF bilateral incentive program is modeled? If so, were these programs effective in bringing about their desired outcomes? If there is no bilateral incentive program precedent in Afghanistan, are there similar cases and evaluations of U.S. bilateral incentive programs in other countries? If so, please detail.*

The TMAF Incentive Fund is the only U.S. Incentive Fund program in Afghanistan. It is modeled on the successful incentive program of the World Bank, the incentive window that forms part of the ARTF. As the Tokyo Agreement states, "Participating donors aim to increase the share of their assistance provided via the ARTF incentive program, or other mechanisms as requested or agreed by the Afghan Government, to 10 percent by 2014, with a goal of 20 percent of funding through incentive mechanisms by the end of the Transformation Decade. Incentive programs should seek to provide the Afghan Government with more flexible, on-budget funding in conjunction with progress on specific economic development achievements."

*What is the basis for the \$175 million figure used and how was that amount determined? Why are these funds allocated in two tranches (\$75 million in FY 2012 funds for Tranche I and \$100 million in FY 2013 funds for Tranche II)?*

The \$175 million figure was determined by the U.S. Embassy to be an appropriate amount to advance the TMAF goal of 10 percent incentive funding, keeping in mind that a portion of the U.S. contribution to the ARTF is already channeled through the ARTF Incentive Program. The \$75 million for Tranche I had already been allocated to USAID/Afghanistan as a portion of its contribution to the ARTF (from FY 2012 appropriations). Rather than simply disbursing the funds as planned, it was determined that setting aside a portion of the Mission funding and linking its disbursement to the Afghan government's achievement of Hard Deliverables under the TMAF could be an effective means of encouraging reforms. Carving out \$175 million from a single Operating Year Budget would have hampered planned ARTF programming. Therefore, the difference of \$100 million is planned to be provided from the FY 2013 allocation.

*Why did Tranche I money (for a program executed in FY 2014) come from FY 2012 funds and why will Tranche II money come from FY 2013 funds? Were the FY 2012 funds in danger of expiring?*

The FY 2012 ARTF funds set aside for the Incentive Fund were obligated into a Strategic Objective Agreement upon their allowance to the Mission, and, therefore, were not in danger of expiring. These FY 2012 funds selected for the TMAF program were used because they were due to be contributed to the ARTF when the Incentive Fund was initiated in calendar year 2013. Tranche II funds are budgeted from the FY 2013 appropriation in order to minimize the reduction of funds previously set aside for the Mission's contribution to the ARTF. The FY 2013 funding allocated for the Incentive Fund has been notified to Congress but is not yet available for obligation.

*How were Tranche I benchmarks determined to have been met or not met when deciding to disburse funds? Please provide copies of original documentation (letters, memos, studies, evaluations, e-mails, etc.) including:*

- *Communications with Afghan government officials when designing the TMAF bilateral incentive fund program;*
- *USAID's evaluation of Afghan progress toward fulfilling the incentive program's requirements and Afghan concurrence or disagreement with U.S. evaluation; – see Tab 2*
- *Information and evidence provided by Afghans on progress toward meeting incentive program benchmarks; – see Tab 3 for Area 1 – Elections and Area 4 – Government Revenues, Budget Execution, and Sub-National Governance*
- *Specific procedures used by USAID to verify Afghan progress in each Hard Deliverable area, and the development and methodology of the USAID verification process; and – see explanation below*
- *USAID's reasoning behind whether the Hard Deliverables were met or not and Afghan responses to final USAID determinations. – see Tab 2*

In September 2013, inter-agency technical working groups were convened from across the U.S. Embassy to review Afghan Government progress in meeting the Hard Deliverables.

## SIGAR 14-79-SP Inquiry Letter: USAID Incentive Funds

The assessment concluded that the Afghan Government had made satisfactory progress in several election-related deliverables (*Area 1 – Representational Democracy and Equitable Elections*), leading to a decision by the U.S. Ambassador and triggering the release of \$15 million from the Incentive Fund. This review concluded that the government had not made progress on Hard Deliverables in the other four areas.

Prior to the Senior Officials Meeting in January 2014, the inter-agency technical experts met once again to assess Afghan Government progress on the Hard Deliverables and recommended that an additional \$15 million was eligible for disbursement, based on progress related to Area 4 – *Government Revenues, Budget Execution and Subnational Governance*, subsequently approved by the Ambassador. At this same time, the Embassy informed the Afghan Government that the \$15 million linked to Area 2 – *Governance, Rule of Law, and Human Rights* – and the \$15 million linked to Area 3 – *Integrity of Public Finance and Commercial Banking* – would no longer be available for disbursement under the incentive fund program due to lack of sufficient progress in meeting the Hard Deliverables. The deadline for Area 5 – *Inclusive and Sustained Growth & Development* – was extended, as the Afghan Government had been working steadily to meet the associated Hard Deliverable regarding passage of an acceptable mining law. During each review, the U.S. Embassy met with other donors and with the Government to share our assessment of progress for each remaining Hard Deliverable.

*USAID’s Fact Sheet for the TMAF Bilateral Incentive Fund states that withheld funds are reallocated to “other U.S. government priorities for Afghanistan that do not involve direct assistance to the Afghan Government.” Please list the projects, programs, or multilateral instruments that received the withheld Tranche I funds, if any.*

USAID is in final discussions with the Embassy and the Department of State on the final use of these funds and stands ready to update you once a final decision has been reached.

*Will the \$100 million allocated in Tranche II be directed to the same five Hard Deliverable areas as Tranche I? If so, please provide a planned or anticipated breakdown of funding allocations by Hard Deliverable area. If the structure of Tranche II is pending negotiation with the new Afghan government, please provide the desired thematic categories, benchmarks, and qualifying standards for funding allocations, as well as the Afghan agencies that would be responsible for implementing reforms in each category.*

The disbursement criteria for Tranche II of the Incentive Fund (\$100 million) have not yet been determined, although we anticipate that the fund will continue to be tied to the five goal areas agreed to in the TMAF. The specific reform objectives to be applied to the Incentive Fund will be determined by USAID and the Department of State, in discussion with the new Afghan Government.

*Are additional tranches planned after Tranche I and II? Are other programs being considered that build upon this model?*

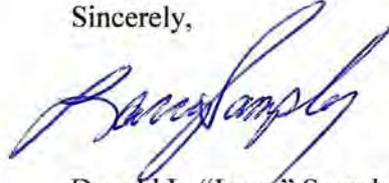
We strongly believe that the incentive fund has been an important part of our policy discussion with the Government of Afghanistan. The USAID FY 2014 Operational Plan includes a \$70 million line item for an Incentive Fund. The final amount of incentive funding will be determined based on a variety of factors, including the overall amount of

SIGAR 14-79-SP Inquiry Letter: USAID Incentive Funds

our available appropriated civilian assistance funding and the amounts of other programs that may have incentive components.

We would be pleased to continue our discussion with you and your office on this program and provide additional information should you have any further questions.

Sincerely,



Donald L. "Larry" Sampler  
Assistant to the Administrator  
Office of Afghanistan and Pakistan Affairs  
US Agency for International Development

## TMAF Hard Deliverables

<b>Government of Afghanistan's Hard Deliverables</b>	
<b>TMAF Area</b>	<b>Hard Deliverable</b>
<b>Area 1: Representational Democracy and Equitable Elections</b>	1. Develop, by early 2013, a comprehensive election timeline through 2015 for electoral preparations and polling dates.
	2. The Government engages in a consultative and transparent process for all upcoming senior IEC appointments, which results in the selection of qualified and well respected IEC senior appointees, so they have broad support.
	3. The Government actively supports the implementation of a legislative framework to be passed by the National Assembly by June 2013. The framework is to meet international standards and include an impartial, credible and independent electoral complaint resolution mechanism.
	4. Government Ministries coordinate and work closely with the IEC to help ensure timely and successful implementation of the IEC's: i) voter registration plan which complements e-tazkera; ii) Operations Plan which includes security planning, capacity building, fraud mitigation and inclusive voter outreach.
<b>Area 2: Governance, Rule of Law and Human Rights</b>	5. Collect the asset declarations forms from High Ranking Government officials (per Article 154 of the Constitution), and publish them on the High Office of Oversight (HOO) website to be available for the public and mass media. Declared Assets will continue to be verified based on Afghan Law and HOO capacity.
	6. AIHRC Commissioners are appointed in accordance with Article 11 of the AIHRC Law and Paris principles, and drawing on consultation with cross-section of civil society organizations. The appointment process will enable AIHRC to retain its 'A' accreditation by the International Coordination Committee of National Human Rights Institutions.
	7. MOWA, MOI and the AGO coordinate to produce a detailed report on the application of the EVAW law in each province. The report should include: the number of VAW cases brought to the police, disposition of each case (whether prosecuted or not) and the outcome of the prosecuted cases. The data collected should be made public and serve as a baseline for future analyses of EVAW law implementation.
<b>Area 3: Integrity of Public Finance and Commercial Banking</b>	8. Based on the March 2013 MOF letter in response to the MEC enquiry, action is taken to implement relevant recommendations by Da Afghanistan Bank and other affected institutions and all relevant institutions. Government will take all possible steps to additionally recover Kabul Bank stolen assets.
	9. Implement & remain on track with the government program supported by the IMF.
	10. Implement Public Financial Management (PFM) Action Plan and improve the management of public funds as measured by Public Expenditure and Financial Accountability (PEFA) assessment by 20 percent by June 2013.
	11. Raise the transparency of public funds measured by the Open Budget Initiative (OBI) to more than 40 percent by June 2013.
	12. Implement the recommendations from the Financial Action Task Force Asia Pacific Group regarding anti-money laundering and combating terrorist financing as per the timeline recommended by IMF.
<b>Area 4: Revenues, Budget Execution and Sub- National Governance</b>	13. Develop a provincial budgeting process for FY 1393 that includes provincial input into the relevant Ministries formulation of budget requests, linked to a provincial planning process in which Provincial Councils have their consultative roles.
<b>Area 5: Inclusive and Sustained Growth and Development</b>	14. Prepare an analysis of 1392 budget that shows adequate resource allocations to achieve Afghanistan's Millennium Development Goal (MDG) targets for health, gender, education, environment and food security.
	15. Prepare a plan by June 2013 that shows Afghanistan will achieve accession to World Trade Organization (WTO) by the end of 2014.
	16. Establish Road and Civil Aviation Institutions by June 2013.
	17. Encourage investment in the extractive industry by approving a mining law that meets international standards.