



SIGAR

Office of the Special Inspector General
for Afghanistan Reconstruction

March 5, 2015

The Honorable P. Michael McKinley
U.S. Ambassador to Afghanistan

Dear Ambassador McKinley:

During my recent visit to Afghanistan, several U.S. Embassy officials shared with me their concerns about the Afghan government's inability to meet its budgetary obligations in the current and upcoming fiscal years due to projected decreases in revenue. Representatives from the embassy's Economics Section noted that a large portion of the decline in revenue could be attributed to concerns that approximately half of the customs duties for Afghan fiscal year 1393 are believed to have been stolen.¹ Officials with the U.S. Agency for International Development (USAID) have suggested that eliminating or significantly stemming corruption in the customs process could potentially double the customs revenues remitted to the Afghan government. According to Afghanistan's 1393 and 1394 national budget statements, for Afghan fiscal years 1390 through 1393, taxes on international trade and transactions—a revenue category that includes customs revenue—produced between \$410 million and \$660 million annually, accounting for 24 percent to 36 percent of total domestic revenue.²

In April 2014, my office issued an audit report analyzing U.S. efforts to develop Afghanistan's customs assessment and collection capabilities.³ Our report highlighted concerns about the sustainability of the Afghan government's capacity to accurately assess and collect customs revenues; corruption within the customs process; and the use of U.S. government-funded buildings, materials, and equipment in the effort to develop the Afghan government's customs assessment and collection capabilities. The audit found that USAID's and the Department of Homeland Security (DHS) Border Management Task Force's (BMTF) programs had some successes in developing the Afghan government's ability to accurately assess and collect customs revenues. However, the audit also found that corruption within the customs process and questions about the sustainability of the U.S.-funded buildings, materials, and equipment persist. Moreover, the audit found that the Afghan government had not fully implemented or adopted two major innovations in the automation of

¹ Afghanistan follows the solar Hijri calendar, which began in 622 A.D. in the Gregorian calendar. SIGAR converts Hijri solar years to Gregorian equivalents. In the past, Afghan fiscal years ran approximately from March 21 to March 20 of Gregorian calendar years. Beginning in fiscal year 1392, however, the dates changed from December 21 through December 20.

² For domestic revenue, the Afghan government collected 93.7 billion Afghanis (\$1.9 billion) in fiscal year 1390 (March 21, 2011, through March 20, 2012), 81.5 billion Afghanis (\$1.6 billion) in the 9-month fiscal year 1391 (March 21, 2012, through December 20, 2012), 114 billion Afghanis (\$2.0 billion) in fiscal year 1392 (December 21, 2012, through December 20, 2013), and a projected 96 billion Afghanis (\$1.7 billion) in fiscal year 1393 (December 21, 2013 through December 20, 2014). For taxes on international trade and transactions, the Afghan government collected 32.5 billion Afghanis (\$660 million) in fiscal year 1390, 21.4 billion Afghanis (\$409 million) in the 9-month fiscal year 1391, 30.2 billion Afghanis (\$535 million) in fiscal year 1392, and a projected 34.7 billion Afghanis (\$598 million) in fiscal year 1393.

³ See SIGAR Audit 14-47-AR, *Afghan Customs: U.S. Programs Have Had Some Successes, but Challenges Will Limit Customs Revenue as a Sustainable Source of Income for Afghanistan*, April 15, 2014. This audit report followed our October 2013 alert letter highlighting concerns related to the construction and usage of a border crossing point at the Weesh-Chaman border crossing between Afghanistan and Pakistan (see SIGAR Alert Letter 14-2-AL, *Weesh Border Crossing Point Design Issues*, October 10, 2013).

customs processes—a risk management system and an electronic payment system—that would help combat corrupt practices.

Exacerbating these challenges was the ongoing drawdown of the international military and advisory presence throughout Afghanistan. We reported that “...when there is a U.S. presence at the [Afghan] border, the BMTF mentors are able to provide additional oversight and advisory services to Afghan officials, which helps to stem corrupt activities...when BMTF officials are not physically present at border crossings, corrupt and criminal activities often resume.” The report highlighted similar concerns pertaining to USAID’s ability to effectively implement and oversee its ongoing Afghanistan Trade and Revenue (ATAR) program given the security environment and stated,

ATAR will likely face security-related challenges similar to those of the BMTF over the planned 4-year life of the program. This may result in the alteration of ATAR initiatives as security realities on the ground overcome planned program activities. This withdrawal will likely result in customs locations receiving varying levels of mentoring, support, and training, allowing opportunities for corruption to go unchecked at customs locations that do not have BMTF mentors or ATAR program support.

About the time of the release of our report, DHS and BMTF personnel steadily pulled back from border crossings and customs locations, and by the end of November 2014, they had all left Afghanistan. Their departure coincided with the lowest customs revenue collection in at least the last 4 years.⁴

Furthermore, as we reported in December 2014, Afghanistan has one of the lowest rates of domestic revenue collection in the world. If a sizeable portion of the Afghan government’s total annual domestic revenue collections is being stolen, it is a major problem given the government’s projected budget deficits.⁵ To make up for this shortfall in 2014, the U.S. provided over \$100 million to the Afghan government so that it could pay its employees and continue delivering basic services.⁶ According to Afghanistan’s fiscal year 1394 national budget statement, the negative impacts on the economy that resulted in the budget deficit for fiscal year 1393 will continue into fiscal year 1394 with domestic revenue increasing slowly. These continued economic conditions could lead to another shortage in revenue that will likely require the Afghan government to obtain additional assistance from the international community and the U.S. government.

The Afghan government’s ongoing challenges in collecting customs revenue are of great concern, given that customs revenue regularly accounts for over a third of the Afghan government’s domestic revenue. In order to gain a clearer understanding of how U.S. reconstruction programs are addressing the Afghan government’s need for a sustainable revenue collection system, I request that you provide responses to the following questions, with the appropriate supporting documentation.

⁴ As a percent of total domestic revenues.

⁵ SIGAR, *High-Risk List*, December 2014.

⁶ According to senior U.S. Embassy Kabul officials, these funds were re-programmed from planned funding for the World Bank-administered Afghanistan Reconstruction Trust Fund.

1. How has the departure of DHS officials, as well as the departure of BMTF mentors, affected the revenue generation capacity of the Afghan government? What are the current strengths and vulnerabilities of Afghanistan's customs assessment and collection processes?
2. Since the departure of DHS officials, as well as the departure of BMTF mentors, has the U.S. Embassy directly monitored the operations of Afghanistan's border crossings and customs assessment and collection locations?
3. Does the U.S. Embassy currently have any direct oversight of the training facilities for Afghan personnel who assess and collect customs duties, such as the training and operations at Afghanistan's National Customs Academy?
4. Aside from USAID's ATAR, what programs are U.S. government agencies currently supporting that are focused on enhancing Afghanistan's customs assessment and collection processes and agencies?
5. Does the U.S. Embassy have an estimate of the amount of customs revenues that are lost annually through smuggling, theft, and corruption? If so, please provide a methodology for calculating the estimate.
6. Does the U.S. Embassy have estimates of the projected contribution of customs revenues to the Afghan government's future budgets? If so, please provide a methodology for calculating the estimates.
7. Since January 1, 2014, has any equipment, materials, or goods bound for the U.S. Embassy been delayed because of customs issues or assessed customs fees? If so, how were the matters resolved?
8. Is any equipment, materials, or goods bound for the U.S. Embassy currently delayed because of customs issues or assessed customs fees?

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. Please provide the requested information by March 19, 2015. Should you or your staff have any questions about this request, please contact Mr. Jack Mitchell, Director of Special Projects, at [REDACTED] or [REDACTED].

Thank you in advance for your cooperation in this matter. I look forward to your response.

Sincerely,



John F. Sopko
Special Inspector General
for Afghanistan Reconstruction



Embassy of the United States of America

Kabul, Afghanistan

March 24, 2015

Mr. Jack Mitchell
Director of Special Projects
Office of the Special Inspector General
for Afghanistan Reconstruction (SIGAR)
1550 Crystal Drive, Suite 900
Arlington, VA 22202

Dear Mr. Mitchell:

The U.S. Embassy in Kabul welcomes the opportunity to respond to Special Inspector General Sopko's March 5 letter regarding Afghan customs revenues. The Embassy shares SIGAR's concerns on this important topic and associated challenges. Below please find our responses to the questions set forth in Mr. Sopko's letter.

1. How has the departure of DHS officials, as well as the departure of BMTF mentors, affected the revenue generation capacity of the Afghan government? What are the current strengths and vulnerabilities of Afghanistan's customs assessment and collection processes?

- With ongoing reductions in U.S. civilian and military personnel in Afghanistan, the U.S. government has largely lost its ability to monitor and assess customs collections processes. We do not assess a correlation between DHS officials' and BMTF mentors' presence and an increase/decrease in revenue collections.

2. Since the departure of DHS officials, as well as the departure of BMTF mentors, has the U.S. Embassy directly monitored the operations of Afghanistan's border crossings and customs assessment and collection locations?

- Since the departure of DHS officials and BMTF mentors, the U.S. Embassy has not directly monitored the operations of Afghanistan's border crossings and customs assessment and collection locations. The U.S. Embassy has largely lost visibility on these issues. We note that USAID's Afghanistan Trade and Revenue (ATAR) program provides technical expertise to the

Afghanistan Customs Department (ACD). USAID and ATAR staff have limited access to ACD facilities. ATAR representatives working in regional Customs Clearance Depots have access to facilities. (Please see USAID Afghanistan Mission Director's March 19, 2015 Memorandum to SIGAR responding to Inquiry Letter 15-39-SP for more detailed information on the ATAR program.)

3. Does the U.S. Embassy currently have any direct oversight of the training facilities for Afghan personnel who assess and collect customs duties, such as the training and operations at Afghanistan's National Customs Academy?

- The U.S. Embassy has no direct oversight of the training facilities for Afghan personnel who assess and collect customs duties. The Embassy has no oversight of the training and operations at Afghanistan's National Customs Academy.

4. Aside from USAID's ATAR, what programs are U.S. government agencies currently supporting that are focused on enhancing Afghanistan's customs assessment and collection processes and agencies?

- Aside from USAID's ATAR program, the Embassy is not aware of programs supported by U.S. government agencies that focus on enhancing Afghanistan's customs assessment and collection processes.
- The U.S. State Department maintains an Export Control and Related Border Security (EXBS) program at U.S. Embassy Kabul. This program is not involved in customs assessments and collections, but rather in nonproliferation and export controls. The Kabul-based EXBS advisor works with Afghan government ministries, international donors, non-governmental organizations and U.S. agencies to plan, coordinate and deliver training, equipment and services designed to improve Afghanistan's nonproliferation policies and export control system, including its legal/regulatory authorities, licensing practices and procedures, nonproliferation related law enforcement border control capabilities, government-industry outreach, and interagency coordination. The advisor works closely with Afghanistan to optimize EXBS assistance, ensure it complements other assistance activities, and verify that EXBS donated equipment is deployed, operational, and used for intended purposes. The EXBS office provides reports on the status of Afghanistan's nonproliferation policies, export control system, and border control capabilities.

- In summer 2015, the Public Affairs Section at U.S. Embassy Kabul, in collaboration with the Economic Section, will send ten Afghanistan Customs Department (ACD) officials and recent graduates of the ACD training center to the United States on a three-week International Visitor Leadership Program (IVLP) single-country project. The program aims to increase the capacity of the ACD to cooperate effectively with its counterpart customs agencies in bordering states by highlighting best practices in relation to electronic data interchange, risk management, and post-audit clearance practices. The program will build upon a joint U.S.-E.U. training program consisting of two weeks of customs training provided by the University of Latvia and the U.S. Department of Commerce's Commercial Law Development Program (CLDP) earlier in summer 2015. Participants will visit U.S. border crossing points and learn best practices used by the U.S. Department of Homeland Security Customs and Border Patrol (CBP). CLDP agreed to lend its expertise, as facilitator of the Central Asia Trade and Investment Framework (TIFA) Customs Work Group, to design a program of U.S. visits to complement the summer 2015 training course. The program will also contain an anti-corruption focus. The program will seek to develop early-career customs officials to foster strong future relationships between the U.S. government and ACD. IVLP is the U.S. State Department's premier professional exchange program.

5. Does the U.S. Embassy have an estimate of the amount of customs revenues that are lost annually through smuggling, theft, and corruption? If so, please provide a methodology for calculating the estimate.

- The Embassy does not have an estimate for the total amount of customs revenues lost annual through smuggling, theft, and corruption.

6. Does the U.S. Embassy have estimates of the projected contribution of customs revenues to the Afghan government's future budgets? If so, please provide a methodology for calculating the estimates.

- The Embassy does not have estimates of the projected contribution of customs revenues to the Afghan governments' future budgets.

7. Since January 1, 2014, has any equipment, materials, or goods bound for the U.S. Embassy been delayed because of customs issues or assessed customs fees? If so, how were the matters resolved?

- No equipment, materials, or goods bound for the U.S. Embassy have been delayed because of customs issues or assessed customs fees in the time period mentioned.

8. Is any equipment, materials, or goods bound for the U.S. Embassy currently delayed because of customs issues or assessed customs fees?

- No equipment, materials, or goods bound for the U.S. Embassy are currently delayed because of customs issued or assessed customs fees.

We appreciate and share your concerns on this important issue.

Sincerely,



Charles Randolph
Program Coordinator
Coordination Directorate