

SIGAR

**Special Inspector General for
Afghanistan Reconstruction**

OFFICE OF SPECIAL PROJECTS

**USAID'S AFGHAN TRADE AND REVENUE:
PROGRAM HAS FAILED TO ACHIEVE GOALS
FOR IMPLEMENTATION OF E-PAYMENT
SYSTEM TO COLLECT CUSTOMS REVENUES**



AUGUST 2017

SIGAR-17-61-SP



SIGAR

Office of the Special Inspector General
for Afghanistan Reconstruction

August 17, 2017

The Honorable Wade Warren
Acting Administrator, U.S. Agency for International Development

Mr. Herbert B. Smith
USAID Mission Director for Afghanistan

The Afghan government's ability to efficiently and effectively collect customs duties—a key source of government income—is of critical importance to its long-term sustainability.¹ In previous reports, SIGAR has raised concerns about customs duty collections and their impact on the Afghan government's ability to sustain its operations.² For example, in a March 5, 2015 SIGAR inquiry letter to the U.S. Agency for International Development (USAID) Administrator, SIGAR pointed out that representatives from the U.S. embassy's Economic 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 which ran from December 21, 2013, through December 20, 2014 are believed to have been stolen.³ USAID officials suggested that eliminating or significantly stemming corruption in the customs process could potentially double the customs revenue remitted to the Afghan government.

The following report discusses SIGAR's review of one component of USAID's Afghanistan Trade and Revenue (ATAR) program that was intended to implement an electronic payment (e-payment) system that would provide a more efficient and effective way to collect custom duties. USAID, in consultation with its ATAR implementing partner, Chemonics, established an objective of collecting 75% of all custom duties electronically by the end of this planned \$77.8 million four year project (November 2013-November 2017).⁴ However, our review found that by the end of December 2016, less than 1% (.59%) of all custom duty collections were being collected electronically.

We provided a draft of this review to USAID for comment on July 27, 2017. USAID provided comments on August 17, 2017. In its comments, USAID highlighted the challenges it encountered implementing the e-payment system, including the need for Da Afghanistan Bank and the Afghanistan Customs Department to work together and the willingness of traders to use the system. USAID also pointed out, as does our report, that the implementation of the e-payment system was only one component of the ATAR program. Finally, USAID agreed with our suggestion to hold Chemonics accountable to the terms of the contract and direct it to comprehensively assess the reasons why it failed to achieve the goals of the e-payment component, and stated that a "root cause analysis" would be completed by August 31, 2017.

We conducted our work in Kabul, Afghanistan; at inland customs depots and border crossing points throughout Afghanistan; and in Washington, D.C. from September 2016 through May 2017, in accordance with SIGAR's

¹ For example, for the first 11 months of FY 1395 (December 22, 2015 thru November 21, 2016), custom duties accounted for \$380 million, or approximately 30 percent of the taxation and customs revenue collected by the Afghan government.

² SIGAR, *Afghan Customs: U.S. Programs Have Had Some Successes, but Challenges will Limit Customs Revenues as a Sustainable Source of Income for Afghanistan*, SIGAR 14-47-AR, April 15, 2014; SIGAR, *Inquiry Letter: Afghan Customs Revenue; Questions for CENTCOM and CSTC-A*, SIGAR-15-37-SP, March 5, 2015; SIGAR, *Inquiry Letter: Afghan Customs Revenue Questions for U.S. Embassy Kabul*, SIGAR-15-38-SP, March 5, 2015.

³ SIGAR, *Inquiry Letter: Afghan Customs Revenue; Questions for USAID*, SIGAR-15-39-SP, March 5, 2015.

⁴ The ATAR program was preceded by the four year Trade Accession and Facilitation for Afghanistan (TAFA) program, which was also implemented by Chemonics Inc. from 2009-2013, at a total cost of \$83.8 million,

quality control standards. These standards require that we carry out work with integrity, objectivity, and independence, and provide information that is factually accurate and reliable. For more information on the policies and procedures and quality control standards for conducting special project work, please see SIGAR's website (www.SIGAR.mil). SIGAR performed this special project under the authority of Public Law No. 110-181 and the Inspector General Act of 1978, as amended. Should you or your staff have any questions about this project, please contact Mr. Matthew Dove, Director of Special Projects, at (703) 545-6051 or matthew.d.dove.civ@mail.mil.

Sincerely,

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

John F. Sopko
Special Inspector General
for Afghanistan Reconstruction

In its January 11, 2017, High Risk List report, SIGAR found that much of the more than \$115 billion the United States had committed to Afghanistan reconstruction projects and programs up until that point was at risk of being wasted because the Afghans cannot sustain them—financially or functionally—without massive, continued donor support.⁵ For example, Afghanistan’s projected domestic revenues for the current fiscal year are only expected to account for about 38 percent of the Afghan government’s budgeted costs, with donors (of which the U.S. government is the largest) providing the remaining 62 percent.⁶

Improving the Afghan government’s ability to sustain itself with reduced donor support has been a key priority for both the U.S. government and international donors. The collection of customs duties on goods entering Afghanistan is one of the largest revenue sources for the Afghan government, and improving the efficient and effective collection of custom duties is important to the government’s long-term sustainability.⁷ In previous reports, SIGAR has raised concerns about the impact of corruption on customs duty collections and the negative impact on the Afghan government’s revenues. For example, in an April 2014 audit report, we found that, “customs fees in Afghanistan are processed in cash at the inland customs depots, where the imported cargo is inspected and assessed customs duties. This system can lead to customs brokers traveling long distances with large quantities of cash to pay customs fees assessed on imported goods. The current cash-based payment system is inefficient, leaves customs brokers vulnerable to theft, and increases the opportunities for corruption to occur within the customs process.”⁸

To help combat the issues related to the endemic corruption that has plagued the Afghan government’s cash-based customs payment system, USAID, through its Trade Accession and Facilitation for Afghanistan (TAF) program implemented by Chemonics Inc. from 2009-2013 at a cost of \$83.8 million, developed an electronic payment (e-payment) system to process and collect customs duties. The effort to implement an e-payment system was one component of the broader TAF program. However, in our 2014 audit, we found that, “progress in implementing an electronic payment system for customs duties has been slow.”⁹ As a result of the slow e-payment implementation, TAF’s follow-on program, the Afghan Trade and Revenue Project (ATAR) would continue implementation of the system and the ATAR implementing partner, again Chemonics, was expected “to increase the amount of customs revenue collected electronically from zero (currently) to 75 percent by the end of the 4-year performance period.”¹⁰

Additionally, in March 2015, SIGAR wrote to the Department of Defense, the Department of State, and USAID to share concerns raised by many U.S. Embassy Kabul officials during Special Inspector General Sopko’s February 2015 trip to Afghanistan about the Afghan government’s inability to meet its budgetary obligations due to projected decreases in revenue. U.S. officials noted at that time that a large portion of the revenue decline then occurring could be attributed to concerns that approximately half of customs duties for Afghan FY 1393 (December 21, 2013 through December, 20, 2014) were believed to have been stolen.¹¹ In response to

⁵ SIGAR, *High Risk List*, January 2017, p. 26.

⁶ SIGAR, *Quarterly Report to Congress*, April 30, 2017, p.62.

⁷ For the first 11 months of 1395-Dec. 22, 2015 thru Nov. 21, 2016- Customs duties accounted for 30 percent or about \$380 million of the total amount of taxation and customs revenue collected by the Afghan government.

⁸ SIGAR, *Afghan Customs: U.S. Programs Have Had Some Successes, but Challenges Will Limit Customs Revenues as a Sustainable Source of Income for Afghanistan*, SIGAR 14-47-AR, April 15, 2014, pp.12-13.

⁹ *Ibid*, p. 13.

¹⁰ *Id.*

¹¹ SIGAR, *Inquiry Letter: Afghan Customs Revenue; Questions for CENTCOM and CSTC-A*, SIGAR-15-37-SP, March 5, 2015; SIGAR, *Inquiry Letter: Afghan Customs Revenue; Questions for U.S. Embassy Kabul*, SIGAR-15-38-SP, March 5, 2015; SIGAR, *Inquiry Letter: Afghan Customs Revenue; Questions for USAID*, SIGAR-15-39-SP, March 5, 2015.

SIGAR's inquiry letters, USAID officials suggested that eliminating or significantly stemming corruption in the custom process could potentially double the customs revenues remitted to the Afghan government.¹²

USAID awarded a four year (November 2013 through November 2017) \$77.8 million contract to Chemonics for the implementation of the ATAR program. The goal of the program was to improve the Afghan government's customs processes and revenue generation, mitigate opportunities for corruption in the customs and trade process, and strengthen "the business climate of Afghanistan to enable private investment, enhanced trade, job creation, and fiscal sustainability."¹³ ATAR has three components: "1) improving the capacity of the Afghan government to formulate and implement a liberal policy framework for trade and investment in accordance with international standards; 2) enhancing integration in the regional and world economy through the promotion of trade and agreements, enhanced economic corridors governance, and private sector linkages throughout South and Central Asia; and 3) strengthening revenue generation for fiscal sustainability and trade facilitation through reforms and anti-corruption measures in customs and taxation."¹⁴ Component three contains specific requirements related to the implementation of an e-payment system, and calls for (1) strengthening revenue generation for fiscal stability, and (2) introducing anti-corruption measures into the customs and taxation collection process. The implementation of the e-payment system was meant as a replacement to the cash-based system used in Afghanistan, which was in place through the time of our April 2014 audit. This review is focused on the extent to which USAID, through the ATAR program, is achieving the expected deliverable of increasing the share of Afghan customs revenues collected through e-payments to 75 percent of the total by the end of the 4-year performance period in November 2017.

To complete our review, we obtained and analyzed relevant documents, to include: contracts; work, monitoring, and evaluation plans; quarterly, annual, and mid-term evaluation reports; and other relevant documentation. We also obtained emails, and interviewed officials from USAID, Chemonics, and the Afghan government. We conducted our work in Kabul, Afghanistan; at inland customs depots and border crossing points throughout Afghanistan; and in Washington, D.C. from September 2016 through May 2017, in accordance with SIGAR's quality control standards. These standards require that we carry out work with integrity, objectivity, and independence, and provide information that is factually accurate and reliable.

BACKGROUND

The Afghan Customs Department (ACD) is responsible for assessing and collecting customs duties in Afghanistan and for operating a network of border crossing points and inland customs depots. Under the current system, vehicles crossing into Afghanistan must pass through a border crossing point before being allowed to travel farther into Afghanistan. Once in the country, the current Afghan customs process requires commercial vehicles must proceed to the nearest inland customs depot to undergo a customs inspection. During the inspection, Afghan customs officials determine the value of the transported goods and the customs duty is assessed and paid by the custom broker.

The ACD relies on the Automated System for Customs Data (ASYCUDA) to track customs data. Developed with the assistance of the United Nations, ASYCUDA is an electronic system designed to reduce transit times, encourage trade, and aid in tracking customs collection through the electronic collection of customs data. According to the ACD, ASYCUDA expedites the processing of customs documents and reduces physical interaction between customs officers and traders, reducing opportunities for corruption. Additionally, according

¹² SIGAR, *Inquiry Letter: Afghan Customs Revenue; Questions for USAID*, SIGAR-15-39-SP, March 5, 2015.

¹³ USAID contract number AID-OAA-1-12-0035, signed November 7, 2013, p.8.

¹⁴ *Id.*

to the ACD, all customs declarations are automatically consolidated into the central ASYCUDA system database and subsequently used to produce trade statistics.¹⁵

The objectives of the e-payment system are to: modernize and improve the way in which customs related duties and taxes are collected on behalf of the Ministry of Finance; bring more efficiency and to increase transparency in revenue collection made from customs taxes and avoid corruption; enhance administrative reforms, reducing the clearance time and tax payment duration, to facilitate the taxpayers, and modernization budget collection.¹⁶ Figure 1 shows how the customs process and the implementation of ATAR's e-payment system is intended to function in Afghanistan.

Figure 1 - Afghan Customs and ATAR's E-payment Process



Source: Chemonics.

¹⁵ In our April 2014 audit, we found that “there have been electrical and connectivity problems with the ASYCUDA system at some of the border crossings, and the database is not a reliable source of information on goods moving in and out of Afghanistan. Further, according to Border Management Task Force representatives, there is limited oversight of the ASYCUDA system and customs officials may not be entering accurate information. USAID officials also stated that issues with ASYCUDA are likely to increase because the ACD possesses limited institutional capacity to operate the system and lacks the training capabilities to sustain the ASYCUDA system as the transition continues” (See, SIGAR 14-47-AR, April 15, 2014, p. 10).

¹⁶ Chemonics, *Electronic Payment of Customs Duties*, January 9, 2017.

ATAR DID NOT ACHIEVE “TANGIBLE RESULTS” RELATED TO THE IMPLEMENTATION OF THE E-PAYMENT SYSTEM, WHICH STILL ACCOUNTS FOR LESS THAN 1 PERCENT OF CUSTOM DUTIES COLLECTED

The “Tangible Results” section of the ATAR contract signed between USAID and Chemonics in early November 2013, stated that “Achievement of tangible results is the essence of the project. USAID will judge Chemonics’s success under the contract, or lack thereof, based on whether or not the tangible results – as set forth in this Statement of Work and further developed in the implementing partner’s Performance Management Plan (PMP) – are achieved.”¹⁷ The “Tangible Result” for the implementation of the e-payment system stated that, “customs revenue collected electronically will increase from 0 to 75%.”¹⁸

Chemonics prepared an annual work plan for each of the ATAR program’s four years that detailed the activities it would undertake to achieve the goals of the e-payment component of the program. In years one and two, Chemonics and USAID agreed that ATAR would focus on the development of an action plan for the implementation of the e-payment system, including agreements with the banks, establishing a pilot site for the system, developing a plan to deliver the system to all customs offices, and reaching out to traders to inform them of how the system works. The work plans for years three and four called for continued outreach and system training, but also established quarterly e-payment revenue generation targets. Table 1 shows the quarterly e-payment revenue generation targets contained in the ATAR work plans for years three and four.

Table 1 - ATAR Year 3 and 4 Quarterly E-payment Revenue Generation Targets

ATAR Year 3 Program Targets for E-payment Revenue Generation (% of all customs revenue) and E-Payment Percentage of Total Customs Revenues Collected					
Quarter	Q1	Q2	Q3	Q4	Year 3
Target E-Payment Collection (as percent of total customs revenues collected)	22%	32%	43%	53%	75%
Actual E-Payment Collection (as percent of total customs revenues collected)	<1%	<1%	1%	<1%	0.74%
ATAR Year 4 Program Targets for E-payment Revenue Generation (% of all customs revenue)					
Quarter	Q1	Q2	Q3	Q4	Year 4
Target E-Payment Collection (as percent of total customs revenues collected)	0%	0%	0%	75%	75%
-Actual Payment Collection (as percent of total customs revenues collected)	<1%	<1%	N/A	N/A	N/A

Source: Afghanistan Trade and Revenue (ATAR) Project Contract No. AID-OAA-I-12-00035, Year 3 Work Plan for Nov. 7, 2015 – Nov. 6, 2016, January 19, 2016; Afghanistan Trade and Revenue (ATAR) Project Contract No. AID-OAA-I-12-00035, Year 4 Work Plan for Nov. 7, 2016 – Nov. 6, 2017, September 26, 2016. Note: N/A indicates information not available at the time report was drafted.

¹⁷ USAID contract number AID-OAA-I-12-0035, signed November 7, 2013, p.29.

¹⁸ *Id.*

As shown in Table 1, Chemonics and USAID significantly revised the revenue generation targets downward for the first three quarters of program year four. Chemonics and USAID did so because the program failed to achieve any of the revenue generation targets established for year three. Given the revised targets for the program's first three quarters of year four, the program appears on track to meet the 0 percent target for quarters one through three, but is unlikely to meet the 75 percent target for quarter four.¹⁹ Specifically, ACD data shows that more than three years after the ATAR project began as a follow-on to USAID's TAFE programs that were first intended to develop and implement the e-payment system, e-payments still account for less than 1 percent (0.59 percent) of all customs duties collected.

When SIGAR posed the question to Chemonics regarding the establishment of the 75 percent target, one official stated, "I don't know the reasoning behind that" and the people who developed the target were likely unaware of obstacles in infrastructure linkages between ACD, Da Afghanistan Bank, and the commercial banks, or the difficulty involved in removing Da Afghanistan Bank from the lucrative cash-based customs process.

Table 2 shows the amount of customs revenues collected using the e-payment system in the two most recent Afghan fiscal years.

Table 2 - Customs Revenues Collected using the E-payment System (Afghan Fiscal Year)

Customs Revenue by Year (In millions of U.S. Dollars)			
	FY 1394	FY 1395	Consolidated for FY 1394 and FY 1395
Total Customs Revenue	\$870.63	\$953.51	\$1,824.14
Customs Revenue Paid through E-Payment	\$6.42	\$4.45	\$10.87
Percentage	0.74%	0.46%	0.59%

Source: ACD

Note: Afghan FY 1394 was December 21, 2014–December 20, 2015; FY 1395 was December 21, 2015–December 20, 2016. Note: In order to convert from Afghani to U.S. Dollars for FY 1394 a rate of 63.7 Afghani to the Dollar was used and for FY 1395 the conversion rate was 68.5 Afghani to the Dollar.

As was the case when we first reported on the early stages of e-payment implementation in April 2014, nearly all Afghan customs revenues are still collected in cash. Officials at Chemonics, USAID, and the Afghan government provided several reasons why the e-payment system remains unimplemented or unused even at locations where it has been implemented. Officials at Chemonics and USAID cited several types of challenges to implementation, including: (1) software and connectivity problems between Da Afghanistan Bank,²⁰ Afghan commercial banks, and the ACD; (2) a lack of political will to direct the move away from the cash-based system;

¹⁹ The third-year work plan for ATAR called for 75 percent of all customs duties to be collected using the e-payment system by program year four.

²⁰ It is Da Afghanistan Bank's responsibility to maintain domestic price stability, foster a stable financial system, and promote an efficient national payment system and sustainable economic growth. To achieve these objectives, Da Afghanistan Bank formulates and executes the government's monetary policy, and licenses and regulates financial institutions operating in Afghanistan. Da Afghanistan Bank is responsible for ensuring the health of the banking sector by controlling the issuance of licenses for banks and other informal financial institutions, such as hawalas and foreign exchange dealers (see, SIGAR, *Afghanistan's Banking Sector: The Central Bank's Capacity to Regulate Commercial Banks Remains Weak*, SIGAR Audit 14-16-AR, January 8, 2014).

(3) continued involvement of Da Afghanistan Bank in areas where commercial banks should operate;²¹ and (4) capacity issues at Afghan commercial banks that hinder the timely and efficient use of the e-payment system.

Another challenge to implementation of the e-payment system is an Afghan regulatory regime that ostensibly encourages the continued use of the cash-based system by corrupt actors benefiting from its lax controls, compared to the regulatory requirements associated with the use of the e-payment system at commercial banks. Corrupt actors (traders as well as customs officials) favor the cash-based customs system in part because Afghanistan's Anti-Money Laundering and Proceeds of Crime Law and regulation states that commercial banks must require customers to provide a source of funds for all cash transactions exceeding 500,000 AFN (\$7,328) credited into accounts. Such transactions are reported to the Financial Intelligence Unit or Financial Transaction Analysis and Report Center of Afghanistan and will be subject to their analysis to determine the source of the money. As a result, traders and brokers prefer to pay cash through Da Afghanistan Bank, which does not have such conditions. Traders also prefer not to pay custom duties and taxes through commercial banks because they do not want a financial record of their transactions, so that they can evade annual tax calculations by tax authorities or avoid subsequent analysis of their transactions by the Financial Intelligence Unit.

Afghan government officials we spoke to at several border crossing points and inland customs depots across Afghanistan stated that the e-payment process is inefficient for traders accustomed to the favored expediency of the cash-based system. For example, an ACD supervisor at the Andkhoy Inland Customs Depot in Faryab Province, stated that the e-payment system was implemented at their location but "it's a very long and inefficient process and that's why people do not use this method" and that 100 percent of customs duties at his station continues to be paid in cash. Those sentiments were echoed by Afghan government officials at the Hairatan Inland Customs Depot and Border Crossing Point in Balkh Province, and the Torkham Customs Border Crossing in Nangarhar Province, two border crossing points in the north and east of Afghanistan.

The ATAR contract states that if expected targets (tangible results) are not being achieved, "the contractor will assess the causes and alter project activities as necessary to address any identified issues. These analyses will be done in coordination and consultation with USAID, other donors, and government entities, and should serve as a guide for all stakeholders to adjust interventions."²² In August 2016, Chemonics provided USAID with a review that detailed several challenges associated with the implementation of the e-payment system and outlined plans to overcome those obstacles. Nevertheless, as of December 2016, the ATAR project's e-payment system has only accounted for 0.59 percent of all Afghan custom duties collected, and there was little evidence to show that the project would come anywhere close to achieving the 75 percent target outlined in the contract and annual work plans. However, USAID and Chemonics have not altered project targets to account for the reality of the situation, and instead continue to invest in an endeavor that appears to have no chance of achieving its intended outcome.

CONCLUSION

Since 2009, USAID has attempted to implement an e-payment system for collecting customs revenues in Afghanistan. USAID first attempted to implement such a system through its TAFE program, which it awarded to Chemonics and ran from 2009-2013 at a cost of approximately \$83.8 million. The effort to implement an e-payment system was one component of the broader TAFE program. USAID then attempted to implement an e-payment system through its \$77.8 million ATAR program, which ran from 2013-2017 and was also awarded to Chemonics. Again, the effort to implement the e-payment system was one component of the broader ATAR

²¹ Da Afghanistan Bank continues to facilitate transactions for the payment of customs duties, a commercial bank service, even though Article 125 of the Afghanistan Bank Law states that Da Afghanistan Bank was only authorized to provide commercial bank services until the end of 2005

²² USAID contract number AID-OAA-I-12-0035, signed November 7, 2013, p.29.

program. Neither TAFE nor ATAR appears to have adequately addressed the technological and political obstacles to the effective implementation and use of an e-payment system in Afghanistan. In particular, USAID and Chemonics appear to not have adequately considered how Da Afghanistan Bank's continued involvement in the customs process provides a way for traders to circumvent the rules and regulations intended to promote use of the e-payment system.

Despite USAID's ongoing commitment to implementing the e-payment system, and the potential positive effect such a system may have on curbing corruption in the customs process, it is clear that has failed to achieve the lofty outcomes called for in the contract and annual work plans. The system remains unimplemented at many locations and is unused at most of the locations where it has been implemented. Moreover, the goal of reaching 75 percent of customs duties collected through e-payment appears to have been totally unrealistic.

The ATAR contract expires in November 2017. If USAID continues to believe that the e-payment system is a worthwhile endeavor, it should hold Chemonics accountable to the terms of the contract and direct it to comprehensively assess the reasons why it failed to achieve the goals of the e-payment component and use that assessment as a guide to directly address impediments in the implementation of such a system in the future.

AGENCY COMMENTS

We provided a draft of this review to USAID for comment on July 27, 2017. USAID provided comments on August 17, 2017. In its comments, USAID highlighted the challenges it encountered implementing the e-payment system, including the need for Da Afghanistan Bank and the Afghanistan Customs Department to work together and the willingness of traders to use the system. USAID also pointed out, as does our report, that the implementation of the e-payment system was only one component of the ATAR program. Finally, USAID agreed with our suggestion to hold Chemonics accountable to the terms of the contract and direct it to comprehensively assess the reasons why it failed to achieve the goals of the e-payment component, and stated that a "root cause analysis" would be completed by August 31, 2017.




USAID | **AFGHANISTAN**
FROM THE AMERICAN PEOPLE

August 17, 2017

UNCLASSIFIED

MEMORANDUM

TO: John Sopko, Special Inspector General for Afghanistan Reconstruction

FROM: Herbert Smith, Mission Director, USAID/Afghanistan 

SUBJECT: Response to the Special Inspector General for Afghanistan Reconstruction (SIGAR) August 2017 report “USAID’s Afghan Trade and Revenue Program has Failed to Achieve Goals for Implementation of E-Payment System to Collect Customs Revenues.”

The U.S. Government, the Government of Afghanistan, and international development partners all recognize the importance of increasing revenue collection for Afghanistan’s fiscal sustainability. USAID’s Afghanistan Trade and Revenue (ATAR) project was developed “to strengthen the business climate of Afghanistan to enable private investment, enhanced trade, job creation, and fiscal sustainability” through the security and development transition that accompanied the drawdown of international military forces.¹ This is no small undertaking.

While this report examines one facet of the ATAR project, a customs e-payment system, ATAR is a broad project with many objectives. The project has achieved several significant results. ATAR supported Afghanistan’s accession to the World Trade Organization (WTO) in 2016; facilitated the underlying legislative reforms required for WTO accession in areas such as trade policy, customs, food safety and intellectual property; and assisted the Afghan government in concluding bilateral market access negotiations on goods and services with nine WTO members. ATAR facilitated negotiations on trade and transit agreements with regional trading partners including the Afghanistan Pakistan Transit Trade Agreement, Central Asia Cross Border Transit Agreement, South Asia Free Trade Agreement, and the Lapis Lazuli initiative. It also helped the Afghan Customs Department improve its risk management system and align the system with international standards.

USAID recognizes that a target increase from 0 to 75% in revenue collected electronically was dependent on traders being interested and willing to use electronic payments and that Da Afghanistan Bank (DAB) and the Afghan Customs Department (ACD) fully implement the program. USAID, working closely with our implementing partner and other donors continually made efforts to convince the relevant government agencies and Afghan business associations that a fully functional electronic payments system would streamline the collection of revenue at customs facilities and decrease the opportunity for corruption.

¹ ATAR Contract, Section C.1 Introduction, page 8.

Implementation of a functioning e-payment system for paying customs duties requires that the Da Afghanistan Bank and the Afghanistan Customs Department work together and that the Afghan government clear the way for the use of the e-payment system. However, achieving an increase to 75% of revenue being collected by electronic payments was beyond the manageable interest of ATAR alone.

President Ghani and CEO Abdullah have committed to increasing the usage of the e-payment system and USAID continues to express to the Afghan government that the e-payment system is not being utilized to its potential. As the efficiency of the e-payment system is critical to its uptake, USAID is currently focused on speeding the transfer of funds. When a trader uses e-payment at commercial banks in the regions, clearance and settlement by DAB is often delayed because the commercial bank networks cannot communicate directly with DAB's Afghanistan Clearance and Settlement System (ACSS). This means that commercial bank branches need to manually scan and transmit all paperwork to their bank headquarters in Kabul for entry into the DAB ACSS. This is all very time-consuming. With ATAR's assistance, DAB is now working to enable the commercial bank branches to communicate directly with its ACSS.

USAID still considers the e-payment system to be the most effective method for reducing corruption at customs clearance points. Consequently, it has directed Chemonics to conduct a root cause analysis by August 31, 2017, to determine why the e-payment activity goals were not achieved and make recommendations on resolving these issues.

cc: Ravindral Suaris, Controller, USAID/Afghanistan
Joan Simon Bartholomaus, U.S. Embassy/Kabul
OAPA Audit

This project was conducted
under project code SP-147.

SIGAR's Mission

The mission of the Special Inspector General for Afghanistan Reconstruction (SIGAR) is to enhance oversight of programs for the reconstruction of Afghanistan by conducting independent and objective audits, inspections, and investigations on the use of taxpayer dollars and related funds. SIGAR works to provide accurate and balanced information, evaluations, analysis, and recommendations to help the U.S. Congress, U.S. agencies, and other decision-makers to make informed oversight, policy, and funding decisions to:

- improve effectiveness of the overall reconstruction strategy and its component programs;
- improve management and accountability over funds administered by U.S. and Afghan agencies and their contractors;
- improve contracting and contract management processes;
- prevent fraud, waste, and abuse; and
- advance U.S. interests in reconstructing Afghanistan.

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