



# SIGAR

Testimony

Before the Subcommittee on the Middle East and  
North Africa, Committee on Foreign Affairs  
U.S. House of Representatives

## Oversight of USAID and State Department Reconstruction Efforts in Afghanistan

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Chairman Ros-Lehtinen, Ranking Member Deutch, and Members of the Subcommittee,

I am pleased to be here today to discuss oversight of U.S. Agency for International Development (USAID) and Department of State (State) reconstruction efforts in Afghanistan. As of March 31, 2014, cumulative appropriations for relief and reconstruction in Afghanistan totaled approximately \$103.17 billion. Combined, approximately \$22 billion from these appropriated funds have been allocated to USAID and State—USAID, \$17.53 billion and State, \$4.42 billion—to help rebuild Afghanistan through a wide range of projects and programs in areas such as healthcare, education, agriculture, counter-narcotics, and rule of law/anti-corruption. USAID receives the vast majority of its funds through the Economic Support Fund; State primarily receives its funds through the International Narcotics Control and Law Enforcement Fund. (See appendices I and II for additional information on appropriations, obligations, and disbursements in the Economic Support Fund and the International Narcotics Control and Law Enforcement Fund.)

The United States' efforts in Afghanistan will continue beyond 2014 in what is being called the "Transformation Decade,"<sup>1</sup> as will our Office's duties and responsibilities. More than \$18 billion obligated by U.S. agencies for reconstruction efforts remains to be disbursed. In addition, Congress continues to appropriate reconstruction funds for Afghanistan including \$6.62 billion for fiscal year 2014. SIGAR has been and will remain a critical component of the oversight community in Afghanistan, but like all U.S. agencies operating in-country it is reducing its footprint. However, no matter the number of personnel, my agency's job is to provide vigorous oversight of the reconstruction funds that will continue for Afghanistan.

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<sup>1</sup> In August 2013, the Departments of Defense and State released the latest revision of the U.S. Civil-Military Strategic Framework for Afghanistan. The framework, which replaces an October 2012 version, provides strategic guidance for all American civilian and military personnel serving in Afghanistan and outlines U.S. priorities through what the framework calls the "Transformation Decade" of 2015–2024.

SIGAR remains committed to doing so in the most complete, objective, fair, and professional manner possible.

From its inception in January 2008 through March 2014, SIGAR has issued 70 performance audit, financial audit, and inspection reports focused on USAID and State reconstruction efforts in Afghanistan. These reports—41 for USAID and 29 for State—provide specific examples of how projects were planned, implemented, and overseen, and contain 127 and 111 recommendations to USAID and State, respectively. SIGAR has closed the majority of these recommendations due to corrective actions that USAID and State have taken. For example, prompt and timely corrective action by State has resulted in a number of positive outcomes, including the implementation of two policies that assist in ensuring accountability of U.S. funds paid to foreign contractors and subcontractors; putting \$103 million of at-risk funds to better use; and the recovery of more than \$6.6 million.<sup>2</sup> In the coming months, SIGAR will be issuing separate audit reports on USAID and State that will assess the status of all recommendations made to these two agencies.

Experts inside and outside the government agree that 2014 is a pivotal year in Afghanistan—Afghans will be electing a new president later this week, all indicators point to the signing of a bilateral security agreement that will allow a U.S. military presence through 2017, U.S. and other North Atlantic Treaty Organization (NATO) nations will continue their withdrawal of troops and equipment, and the ultimate responsibility for security transfers to the Afghan National Security Forces by year's end. Yet, as one of the worlds' most impoverished, insecure, and corrupt countries, Afghanistan presents extraordinary challenges for those committed to helping it address its serious problems. The most critical question facing

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<sup>2</sup> Given these positive results, it is somewhat disconcerting to note that nine recommendations—some involving Afghan election issues—were closed but not implemented because State's inaction made them obsolete.

Afghanistan today—after 12 years of reconstruction efforts and more than \$103 billion in U.S. appropriated funds—centers on whether it can successfully transition to become a secure, viable, and self-sufficient nation. By all measures, it will be an enormous challenge and the risks are high.

My testimony today focuses on five of the many challenges, or what we are calling “high-risk areas,” facing USAID and State as they move forward in Afghanistan—sustainability, corruption, counternarcotics, on-budget assistance, and contract management and oversight. It should be noted that these high-risk areas are inexorably intertwined. For example, Afghanistan’s pervasive corruption deprives the country of funds sorely needed to narrow the gap between expenditures and revenues. As a result, the country needs greater international donations than would otherwise be required to sustain what has been provided through reconstruction efforts. In another example, despite the United States’ counternarcotics efforts, opium poppy cultivation in Afghanistan is at record levels. As a result, the Taliban can continue to finance its activities, which obstructs the reconstruction effort. Security conditions on the ground have affected SIGAR’s and other organization’s ability to conduct reconstruction oversight. Nonetheless, as evidenced by the SIGAR and United States Institute of Peace jointly sponsored international monitoring symposium held in February 2014, we are working to find ways to ensure that vigorous oversight of U.S. reconstruction efforts continues.

**Sustainability: The enormous size of the U.S. government’s reconstruction effort has placed a financial and operational burden on the Afghan government that it simply cannot sustain.**

In 1988, USAID published a report on U.S. assistance to Afghanistan between 1950 and 1979, which identified a number of lessons learned, based on the U.S. government’s experience in Afghanistan.<sup>3</sup> Chief among them was that U.S. assistance to Afghanistan had been “over-ambitious, both as to scale and timing” and that, “in many ways, the program was larger than could be effectively administered by either the U.S. or Afghan governments.”

Unfortunately, the U.S. government does not appear to have learned from this report. As SIGAR’s and others’ work has shown, the size of the U.S. government’s current reconstruction effort has placed an unmanageable financial and operational burden on the Afghan government.

Development efforts are a major contributor to Afghanistan’s growing fiscal gap. As a result, each new development project that USAID or State funds increases operations and maintenance costs, adding pressure to Afghanistan’s operating budget. Indeed, Afghanistan’s fiscal sustainability ratio—domestic revenues versus operating expenses—remains one of the lowest in the world. Recent World Bank calculations show that Afghanistan’s fiscal sustainability ratio has declined, from 66.5 percent in fiscal year 2011 to 60.1 percent in fiscal 2012. More troubling though is the fact that this ratio is projected to drop even lower in coming years.<sup>4</sup> As a result, Afghanistan’s ability to pay for discretionary services will increasingly become more limited and further delay progression toward self reliance.

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<sup>3</sup> “Retrospective Review of U.S. Assistance to Afghanistan: 1950-1979,” Submitted to USAID by Devres, Inc., October 31, 1988.

<sup>4</sup> World Bank, *Afghanistan Economic Update*, October 2013.

A 2011 report on Afghanistan’s fiscal sustainability, prepared for USAID by Chemonics International, Inc., found that, even under conservative assumptions, the size of operation and maintenance expenditures associated with all external development spending is almost equal to Afghanistan’s current operating budget.<sup>5</sup> USAID officials told SIGAR they are concerned that the U.S. and the Afghan governments could be left with “stranded assets” if project implementation and follow-up are not handled correctly. Each day, it becomes clearer that the reconstruction effort has provided too much, too fast for the Afghans to absorb. While this could lead to resentment and feelings of abandonment on the part of Afghans as they watch facilities sit ideal and deteriorate beyond repair, more significantly it results in a waste of U.S. taxpayers’ money.

In essence, U.S. reconstruction efforts have been guided by over-ambitious expectations of the Afghan government’s ability to afford development projects. Following are several examples in the health sector and in the energy sector, which raise serious doubts about whether the Afghan government can sustain completed reconstruction projects without massive donor support.

In April 2013, SIGAR reported that USAID built two hospitals for the Afghan Ministry of Public Health (MOPH) that the ministry would likely not be able to afford.<sup>6</sup> SIGAR found that the estimated annual operation and maintenance costs of the two new hospitals could be more than five times the annual operating costs for the hospitals they were replacing. For example, while the old Gardez provincial hospital had operating costs of approximately \$611,000, including costs for operation and maintenance, salaries, and supplies, the International

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<sup>5</sup> Afghanistan Fiscal Sustainability Model Summary Report, produced for USAID by Chemonics International, Inc., September 2011.

<sup>6</sup> SIGAR Audit 13-9, *Health Services in Afghanistan: Two New USAID Funded Hospitals May Not Be Sustainable and Existing Hospitals Are Facing Shortages in Some Key Medical Positions*, April 2013.

Organization for Migration, which received a USAID cooperative agreement to build the new hospital, estimated that its operation and maintenance costs alone would exceed \$1.1 million annually. A USAID-contracted engineering firm estimated that annual operation and maintenance costs for the new Gardez hospital would be even higher—as much as \$2.1 million. Further, USAID estimated higher fuel costs for the new hospital, ranging from \$1.6 million to \$3.2 million. Similarly, the old hospital in Khair Khot district had total operating costs of about \$98,000, including costs for operation and maintenance, salaries, and benefits, but USAID estimated annual operating costs for the new facility of more than \$587,000. Despite the projections for these two hospitals, neither USAID nor the Afghan government allocated funds to cover these additional costs.

In January 2010, SIGAR issued an audit report on USAID’s efforts to build the Kabul Power Plant, a 105 megawatt power plant on the outskirts of Kabul city.<sup>7</sup> The U.S. and Afghan governments together made the decision to build the plant and, in 2007, the Afghan government committed to paying for the fuel required to operate the plant and commercializing the operations of Afghanistan’s electricity revenues to cover fuel costs and operation and maintenance expenses within one year of the plant’s creation.

In June 2008, the USAID Mission Director in Afghanistan certified to Congress that USAID had concluded the Afghan government was capable of meeting these commitments.<sup>8</sup> However, it soon became apparent that this conclusion was unrealistic. One key basis for USAID’s certification was the expectation that the Afghan government would be able to

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<sup>7</sup> SIGAR Audit 10-6, *Contract Delays Led to Cost Overruns of the Kabul Power Plant and Sustainability Remains a Key Challenge*, January 2010.

<sup>8</sup> This certification was submitted in compliance with Section 611(e) of the Foreign Assistance Act of 1961, which provides that whenever certain types of funds are proposed to be used for a capital assistance project exceeding \$1 million, the USAID Mission Director must certify that the country has the capability to effectively maintain and utilize the project.

commercialize its utility sector. By 2010, though, the utility sector for the Kabul area was projected to suffer an annual operating loss of \$250 million. Similarly, although the Afghan government had committed to paying fuel costs for the plant, in 2009, the Afghan Minister of the Economy requested that USAID reserve \$28 million in funds originally set aside for its contribution to the Afghanistan Reconstruction Trust Fund, in part to cover fuel costs at the Kabul Power Plant and other power plants in southern Afghanistan.

One contributing factor behind the high costs associated with operating and maintaining the Kabul Power Plant was the Afghan and U.S. governments' joint decision to build a dual fuel plant—one capable of operating on diesel or heavy fuel. According to staff of the contractor hired by USAID to build the plant, a senior Afghan government official had advocated for a dual fuel plant since heavy fuel oil is considerably cheaper than diesel fuel and would increase the chances that the Afghan government could operate the plant with its own resources. The contractor's staff noted that the full costs of using heavy fuel oil include additional infrastructure investments, handling costs, and operation and maintenance expenses associated with greater wear and tear placed on the generators. Moreover, heavy fuel oil is not available in Afghanistan and would require the creation of a heavy fuel import and distribution network solely for the Kabul Power Plant. The contractor estimated that up to \$4 million could be saved if the plant were converted to a diesel-only plant, but USAID officials declined to pursue this option due to political sensitivities surrounding the issue and prior commitments they had made to the Afghan government.

Last year, SIGAR reexamined USAID's efforts to strengthen the electricity sector in Kabul. In an audit report focused on USAID assistance to support commercialization of the Kabul regional department of Da Afghanistan Breshna Sherkat (DABS), Afghanistan's national power utility, SIGAR found that USAID's assistance had helped DABS-Kabul reduce its losses

and increase revenues, a positive development.<sup>9</sup> However, SIGAR also found that DABS-Kabul—the same power utility that USAID had expected in 2008 to produce enough revenue to cover operation and maintenance costs of the Kabul Power Plant—was not self-sufficient and without an Afghan government subsidy would operate at a loss unless it significantly improved its revenue generation capability.

DABS-Kabul is well ahead of other DABS regional departments, including that in Kandahar, which the U.S. government expects to cover the costs of a number of critical U.S. and other international donor funded energy sector projects in that region. In July 2012, SIGAR issued a report on the Afghanistan Infrastructure Fund, which provides funding for large-scale infrastructure projects jointly managed and implemented by USAID and U.S. Forces-Afghanistan (USFOR-A).<sup>10</sup> Many of these projects are in the energy sector and include significant initiatives such as the Kandahar Bridging Solution, which provides fuel, operation, and maintenance for all Department of Defense (DOD) and USAID-procured generators in Kandahar, and improvements to the Northeast and Southeast Power Systems, two high voltage transmission networks. SIGAR found that, although USAID and USFOR-A prepared sustainment plans for these projects, as required, the plans did not include any analysis of the costs of sustaining them. Moreover, the likelihood that the Afghan entities charged with financing these projects can afford them is questionable. For instance, DABS-Kandahar, which is responsible for sustainment of the Southeast Power System and, ultimately, the operation of U.S. government-procured generators in Kandahar, has limited capability to bill customers, collect revenues, and maintain its infrastructure. As SIGAR noted in this July 2012 report, estimates at the time called for the U.S. government to support the Kandahar Bridging Solution through

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<sup>9</sup> SIGAR Audit 13-7, *Afghanistan's National Power Utility: Commercialization Efforts Challenged by Expiring Subsidy and Poor USFOR-A and USAID Project Management*, April 2013.

<sup>10</sup> SIGAR Audit 12-12, *Fiscal Year 2011 Afghanistan Infrastructure Fund Projects Are behind Schedule and Lack Adequate Sustainment Plans*, July 2012.

calendar year 2012, when either DABS would take over fuel procurement or other power sources would come online. Not surprisingly, those estimates were overly optimistic, and U.S. funding for the Kandahar Bridging Solution has continued.

During my March 2014 trip to Afghanistan, a senior U.S. military official told me the fuel provided through the Kandahar Bridging Solution will end by December 2014. Afghan officials also told me that if the U.S. military stops providing the fuel, DABS will probably not have the financial resources to purchase fuel needed to maintain the power provided by the generators funded through the Afghanistan Infrastructure Fund. In other words, unless the U.S. government or another international donor provides more fuel to DABS, thousands of homes and businesses in Kandahar will no longer have access to power beginning in early 2015, even assuming the most optimistic estimates for the time needed to complete the Kajaki Dam and other key electrical grid projects designed to connect Kandahar to the country's larger electrical grid. DOD officials have told us that the department intends to continue purchasing fuel through possibly September 2015.

However, DOD's plans to continue purchasing fuel are still under development. We are seeking additional information from the Office of the Secretary of Defense. To help offset the power generation gap, USAID and DABS officials in Kandahar have drafted a "bridging solution to the bridging solution." Under their draft proposal, DABS will obtain power through a new solar power plant in eastern Kandahar and a hydro-electric turbine at Dahla Dam. Although I commend USAID and DABS for trying to develop a solution to this serious challenge, I have concerns about USAID and the Afghan government's ability to jointly develop, undertake, and complete two new large-scale infrastructure projects before the end of this year.

State projects and programs have also failed to consider Afghan needs. For example, State contracted for the construction of six communications towers in southern Afghanistan, with a combined value of at least \$6.5 million. The contract to build the towers was completed before operations and maintenance contracts were solicited. State estimated the cost at \$2 million, but the operation and maintenance bids came back four to five times higher. At this point, it is unclear why the towers are not being used, what plans exist for future use, and who will maintain them. Clearly, the lack of adequate planning jeopardizes State's investment in these towers and could result in another example of significant waste of U.S. taxpayers' money.

I would be remiss not to mention that, although the exception, SIGAR auditors and inspectors have found some projects during their oversight work which have been successfully sustained. For example, our April 2013 inspection report on the Qala-I-Muslim Medical Clinic—a \$160,000 clinic in Kabul province funded by DOD's Commander's Emergency Response Fund—found that the project appeared to be a success story. The community of 4,000 people supported the clinic's construction, a villager donated the land, and the facilities are being used daily.<sup>11</sup> MOPH has fulfilled its commitment to sustain the clinic and our inspection showed that the heating system worked, floors were clean, bedding was plentiful and well kept, and the pharmacy was well stocked. USAID-provided educational information on pre- and post-natal care was also accessible to all patients.

Nevertheless, whether it be the energy sector or the health sector or any other, the pitfalls of placing unreasonable expectations on the Afghan government regarding its ability to sustain the costs of operating and maintaining development projects are clear. Among these pitfalls are cost overruns, delays, and waste of reconstruction funds, to name a few. Perhaps most

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<sup>11</sup> SIGAR Inspection 13-7, *Qala-I-Muslim Medical Clinic: Serving the Community Well, But Construction Quality Could Not Be Fully Assessed*, April 17, 2013.

significant, though, is the possibility that the Afghan public and the Afghan government will lose confidence that their key partner in the reconstruction effort, the U.S. government, has their best interest at heart.

**Corruption: Long-standing and pervasive corruption could destroy Afghanistan's prospects for continued foreign assistance and for the development and reforms needed to make the government self-sustaining.**

Corruption poses the most severe threat to the integrity of U.S. government reconstruction aid to Afghanistan. Transparency International has listed Afghanistan tied for last place with Somalia and North Korea as the country perceived as the most corrupt of 177 countries rated.<sup>12</sup> Afghans themselves agree. In a number of internationally recognized surveys, Afghans identify corruption as one of the most serious challenges facing their country.<sup>13</sup>

In a 2013 survey conducted by the International Security Assistance Force, for instance, 80 percent of Afghans described corruption as a major problem, and 65 percent said it was worse than a year before. And a U.S. military study, commissioned by General Joseph F. Dunford, Commander, USFOR-A, summarized the danger with corruption as follows, "Corruption directly threatens the viability and legitimacy of the Afghan state." The study went on to say, "Corruption alienates key elements of the population, discredits the government and security

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<sup>12</sup> Transparency International, "Corruption Perceptions Index 2013," Summary Brochure, <http://cpi.transparency.org/cpi2013/results/>.

<sup>13</sup> The findings of a 2014 National Corruption Survey conducted by Integrity Watch Afghanistan showed that Afghans' perceptions and experiences of corruption have deteriorated compared to 2012. While respondents believed corruption to be the third biggest problem in the country in 2012, they held that it was the second biggest problem after security in 2014.

forces, undermines international support, subverts state functions and rule of law, robs the state of revenue, and creates barriers to economic growth.”<sup>14</sup>

The Joint Staff report drew in part on SIGAR audits and echoed observations made by academics and individuals involved in coalition efforts to stabilize and develop Afghanistan. Displaying a critical awareness and candor often missing from official documents, the report laid out some key findings:

- The initial U.S. strategy in Afghanistan fostered a political climate conducive to corruption.
- Massive military and aid spending overwhelmed the Afghan government’s ability to absorb it. This, coupled with weak oversight, created opportunities for corruption.
- The lack of a common understanding of the nature of corruption stymied efforts to combat it.
- The lack of political will on the part of both the international community and the Afghan government to combat corruption resulted in a culture of impunity that frustrated anti-corruption efforts.
- The failure to develop a comprehensive U.S. anti-corruption strategy reduced the effectiveness of various anticorruption initiatives.

The U.S. military used a proxy force—composed largely of warlords associated with Afghanistan’s Northern Alliance—to drive the Taliban and al-Qaeda from power in 2001. However, as several civilian and military analysts have pointed out, and as the military’s latest study reiterates, these warlords often used U.S. support to operate with impunity to increase their political power and improve their economic positions. Afghan political leaders have built

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<sup>14</sup> Joint Coalition Operational Analysis (JCOA), a division of Joint Staff J-7, *Operating Counter/Anti-corruption Study*, Feb. 28, 2014.

allegiances by cutting political deals that put powerful figures in key government positions and allowed them to behave with impunity.

Some of these figures have used their government positions to entrench and expand their patronage networks. In some cases, these patronage networks have morphed into criminal networks involved in everything from extrajudicial land seizures and extortion, to narcotics trafficking and money laundering.

Rule-of-law and democracy scholar Sarah Chayes of the Carnegie Endowment for International Peace argues that the military gave short shrift to corruption, even as its presence aggravated the problem:

At every echelon, short-term security imperatives repeatedly trumped corruption concerns. Battalion commanders got cozy with police officials whose men were shaking down locals at every checkpoint, with a blow or an insulting sneer, or were imprisoning people for ransom, or demanding young sons for service as tea-boys—and other activities. Diplomats stood shoulder-to-shoulder with provincial governors who were key nodes in predatory government networks...And Afghans were watching. “People think the Americans must want the corruption,” a former Kandahar neighbor remarked.<sup>15</sup>

Corruption also directly undermines key assistance programs run by USAID and State. One of SIGAR’s most recent reports—related to developing the capacity of the Afghan government to assess and collect customs revenue—notes that corruption is affecting all levels of

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<sup>15</sup> Sarah Chayes, “The Military Must Hunt Corruption, Not Just Terrorists,” DefenseOne, 4/6/2014, <http://www.defenseone.com/ideas/2014/04/military-must-hunt-corruption-not-just-terrorists/81973/>, accessed April 7, 2014.

the customs process and is the biggest obstacle to increasing Afghan customs revenues.<sup>16</sup>

Although the scale and impact of corruption in Afghanistan's customs process is difficult to quantify, USAID officials hypothesize that eliminating or significantly reducing corruption in the customs process could double the customs revenues remitted to the central government. The U.S. Department of Homeland Security's Customs and Border Protection has administered the Border Management Task Force (BMTF)—a program that mentors Afghan Customs Department, Afghan Border Police, and Afghan Customs Police agents at border control points and inland customs depots—and the task force has noted that criminal networks use intimidation to smuggle commodities, resulting in the estimated loss of approximately \$25 million annually for wheat and rice imports alone. In a separate estimate, USAID officials stated that about \$60 million is lost annually to commercial smuggling. However, complicating efforts to combat criminal and patronage networks are reports from BMTF advisers that Afghan employees are being kidnapped and intimidated because they are listening to the advisers and properly collecting customs duties.

Several developments in Afghanistan suggest that an emerging civil society is increasingly focused on exposing and combating corruption. It has a robust media that has highlighted and reflected Afghan dissatisfaction with corruption. International donors and the Afghan government have also established the Joint Anti-Corruption Monitoring and Evaluation Committee (MEC) to address international concerns about corruption. The MEC, which has Afghan and international representation, has proved to be an important body that has grappled with serious issues, identified corrupt practices, and made recommendations to improve transparency and accountability. It produced the single most important report on the Kabul Bank scandal. It has also pointed out that the Afghan Attorney General's Office has not followed legal requirements in hiring prosecutors and needs to raise prosecutors' salaries "to reduce the

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<sup>16</sup> SIGAR 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.

incentive for corruption.”<sup>17</sup> Another MEC corruption-vulnerability assessment reported that Afghanistan’s pension-administration system suffered from opportunities for bribery, fake documents, lack of information on beneficiaries, and “unfair influence of high-ranking government officials.”<sup>18</sup> Such courageous work from civil society actors like the MEC needs continued multifaceted support from the international community.

Nevertheless, former International Security Assistance Force (ISAF) commander General John Allen testified before the Senate Foreign Relations Committee on April 30, 2014, regarding what he viewed as the worst threat to Afghanistan’s future—corruption, not the Taliban or Pakistan. Framing his opening remarks in the form of a letter to the next Afghan president, General Allen underscored, “While the Afghan National Army will battle your nation's foes and, in that context, battle the Taliban, the battle for Afghanistan—the real fight—will be won by righteous law enforcement, a functioning judiciary, and an unambiguous commitment to the rule of law. .... Wrestling back the institutions of governance from corruption must be one of your highest priorities. .... Corruption is the dry rot of democracy.”

Given General Allen’s remarks, it is disturbing to note, that SIGAR reported in September 2013 that the U.S. anti-corruption activities in Afghanistan are not guided by a comprehensive U.S. strategy or related guidance that defines clear goals and objectives for U.S efforts to strengthen the Afghan government’s capability to combat corruption and increase accountability. In the absence of a relevant and specific anti-corruption strategy, agency officials informed us that two documents guide their current anti-corruption efforts in Afghanistan—the Tokyo Mutual Accountability Framework and the U.S. Civil-Military Strategic Framework for

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<sup>17</sup> MEC Backgrounder, “Illegal hiring of prosecutors and lack of comprehensive training contributes to impunity and risks of corruption,” <http://www.mec.af/files/BackgrounderAGO.pdf>, accessed March 24, 2014.

<sup>18</sup> MEC Backgrounder, “Summary of the VCA on Pension Administration,” <http://www.mec.af/files/SummaryVCApensionprocess.pdf>, accessed April 7, 2014.

Afghanistan. However, we found that both documents lacked specific goals and objectives with measurable outcomes for anti-corruption activities against which the U.S. government can measure its progress. This troubling evidence suggests that the U.S. government lacks a comprehensive anti-corruption strategy to deal with what General Allen and other experts view as the most serious threat to success in Afghanistan.<sup>19</sup>

**Counternarcotics: The expanding cultivation and trafficking of drugs is one of the most significant factors putting the entire U.S. and international donor investment in the reconstruction of Afghanistan at risk.**

During my trips to Afghanistan in late 2013 and early 2014, I met with U.S., Afghan, and international officials involved in implementing and evaluating counternarcotics programs. In the opinion of almost everyone I spoke with, the situation in Afghanistan is dire with little prospect for improvement in 2014 or beyond. Afghan farmers are growing more opium poppies today than at any time in their history. The UN Office of Drugs and Crime (UNODC) estimates the value of opium plus its heroin and morphine derivatives produced by Afghanistan at nearly \$3 billion—or the equivalent of about 15 percent of Afghanistan’s Gross Domestic Product (GDP)—in 2013.<sup>20</sup> This was a substantial increase over 2012 when the value of Afghan opiates totaled about \$2 billion and equaled about 11 percent of Afghanistan’s GDP.<sup>21</sup>

The narcotics trade is poisoning the Afghan financial sector and fueling a growing illicit economy. This, in turn, is undermining the Afghan state’s legitimacy by stoking corruption,

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<sup>19</sup> SIGAR Special Report 13-9, *U.S. Anti-Corruption Efforts: A Strategic Plan and Mechanisms to Track Progress are needed in Fighting Corruption in Afghanistan*, September 2013.

<sup>20</sup> United Nations Office for Drugs and Crime (UNODC), *Afghanistan Opium Survey 2013*, December 2013.

<sup>21</sup> United Nations Office for Drugs and Crime (UNODC), *Afghanistan Opium Survey 2012*, May 2013.

nourishing criminal networks, and providing significant financial support to the Taliban and other insurgent groups. There are already signs that elements within the Afghan National Security Forces are reaching arrangements with rural communities to allow opium poppy cultivation, or even encouraging production, as a way of building local patronage networks and to establish rent-seeking opportunities.<sup>22</sup>

In sum, the expanding cultivation and trafficking of drugs is one of the most significant factors putting the entire U.S. and international donor investment in the reconstruction of Afghanistan at risk. All of the fragile gains we have made over the last 12 years on women's issues, health, education, rule of law, and governance are now, more than ever, in jeopardy of being wiped out by the narcotics trade which not only supports the insurgency, but also feeds organized crime and corruption. We must also not overlook the reality that the narcotics trade poses dangers far beyond Afghanistan's borders. As much as 90 percent of the world's global opium supply comes from the country's poppy fields. Opiates originating in Afghanistan find their way to every corner of the globe, including Canada and, to a limited extent, the United States.<sup>23</sup> In the process, they foster global drug addiction and international crime.

Meanwhile, the United States and other western donors assisting Afghanistan have, by and large, made counternarcotics programming a lower strategic priority at the same time that the 2014 drawdown of U.S. and coalition forces increases the security risks in the country. From 2002 through March 2014, the United States had provided more than \$7 billion for counternarcotics efforts and for agriculture and stabilization programs, which under the current U.S. strategy are considered an important part of the counternarcotics effort in Afghanistan.

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<sup>22</sup> David Mansfield and Paul Fishstein, Afghanistan Research and Evaluation Unit, *Eyes Wide Shut: Counter-Narcotics in Transition*, September 2013.

<sup>23</sup> The Drug Enforcement Administration (DEA) reports that only about 4 percent of the heroin found in American cities is of Afghan origin.

These funds do not include the wider state-building effort aimed at increasing security, improving governance, and promoting economic growth—all of which are required to achieve enduring reductions in opium production. The U.S. counternarcotics effort has evolved from one that emphasized eradicating poppy fields and interdicting drugs, to one more closely aligned with the overall U.S. counterinsurgency strategy. In 2010, the United States adopted a counternarcotics strategy which prescribed programs to break what the United States has described as the “narcotics-insurgency-corruption nexus” and help “connect the people of Afghanistan to their government.”<sup>24</sup>

Nonetheless, on my trips to Afghanistan in 2013 and earlier this year, no one at the Embassy could convincingly explain to me how the U.S. government counternarcotics efforts are making a meaningful impact on the narcotics trade or how they will have a significant impact after the 2014 transition. That is troubling, given the severity of the drug crisis, the well-documented link between opiates and the insurgency, and the potential of the drug trade to undermine the overarching U.S. goal of preventing terrorist groups from securing sanctuaries in Afghanistan. In addition, I was astonished to find that the counternarcotics effort does not seem to be a top priority during this critical transition period and beyond.

SIGAR has either completed or has ongoing audit and investigative work that touches on a number of programs related to the counternarcotics efforts. This work, which is described below, coupled with the sobering assessments of poppy cultivation and opium production, raises serious questions about the efficacy of U.S.-funded counternarcotics programs. To address these questions, SIGAR is planning to conduct a comprehensive audit of the U.S. counternarcotics effort to determine how U.S. funds have been spent, assess the degree to which U.S.-funded

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<sup>24</sup> Department of State, *U.S. Counternarcotics Strategy for Afghanistan*, March 2010.

counternarcotics programs have achieved their intended purposes, and examine the extent to which the counternarcotics effort has been integrated into a cohesive strategy to achieve U.S. reconstruction objectives.

SIGAR has found that U.S. programs critical to the counternarcotics effort—such as establishing special counternarcotics justice centers—have made limited progress and may not be sustainable. SIGAR published two audit reports in 2009 that examined the construction and administration of the Counternarcotics Justice Center (CNJC), which was established as a centralized location for the Afghan government to prosecute and detain narcotics offenders.<sup>25</sup> State’s Bureau of International Narcotics Control and Law Enforcement (INL) paid for the CNJC’s construction. It has also provided funding for programs that include mentoring, training, and providing advisory services to the police, prosecutors, and judges of the Criminal Justice Task Force who work at the CNJC. SIGAR’s first audit found that insufficient funding and inadequate utilities delayed construction for three years. Moreover, the CNJC’s detention facilities, which opened in May 2009, reached capacity within three months, forcing the center to send narcotics-related offenders to other locations.

SIGAR’s second report alerted U.S. officials that the CNJC’s detention facility was not being used for high profile drug traffickers as intended. Rather, the cells were being occupied by low-profile detainees. SIGAR also noted that, at the time, the CNJC did not have the procedures in place to handle a high case load.

The CNJC has made some headway toward convicting more senior Afghan officials. For example, the Nimroz Provincial Chief of Police, General Mohammad Kabir Andarabi, was

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<sup>25</sup> SIGAR Audit 09-04, *Actions Needed to Resolve Construction Delays at the Counternarcotics Justice Center*, August 27, 2009; SIGAR Audit 09-07, *Documenting Detention Procedures Will Help Ensure Counter-Narcotics Justice Center is Utilized as Intended*, September 30, 2009.

arrested for heroin and opium trafficking. At the end of September, the CNJC Primary Court issued a guilty verdict on one count of drug-related corruption and sentenced General Andarabi to 10 years in prison. However, these high-profile cases remain rare. Law enforcement officials tell SIGAR that Afghan authorities lack the political will to effectively prosecute senior officials.

The United States has placed priority on developing the Counter Narcotics Police of Afghanistan (CNPA), an Afghan force dedicated to combating the drug trade. Because the CNPA is a vital component of the entire counternarcotics effort, SIGAR is in the process of completing an audit of the U.S. effort to build the CNPA and particularly its provincial units. This audit evaluates the extent to which development and capacity-building of the CNPA's provincial units are based on a comprehensive interagency plan; facilities constructed for CNPA provincial units are being used as intended; and U.S. government assistance has contributed to building sustainable and capable provincial unit forces.

Established in 2003, the CNPA had an assigned strength of 2,759 personnel at the end of October 2013. Since 2006, DOD and State's INL have provided about \$900 million to train, equip, mentor, house, and sustain the CNPA.

DOD has told SIGAR that it expects the ability of the CNPA and other Afghan counternarcotics agencies to diminish as coalition forces draw down. DOD pointed out that the withdrawal is likely to have the biggest impact on the two provinces with the most poppy cultivation—Helmand and Kandahar. These areas have more insurgents and more entrenched narcotics networks. The Drug Enforcement Administration (DEA), which has been mentoring the CNPA, is closing a number of forward operating locations and reducing its footprint in others. The forward operating locations are being transitioned to the CNPA.

Without military support for security, intelligence, medical evacuation, and tactical air control for high-risk operations, DEA will have little ability to extend its operations beyond Kabul. Since DEA has augmented CNPA capabilities throughout Afghanistan, the pullback could have a serious negative impact on the CNPA's ability to do its job.

USAID has also supported agricultural and alternative development programs to improve agricultural production, increase access to markets, and provide alternatives to poppy cultivation. For example, USAID's \$20 million Kandahar Food Zone program is designed to identify and address the drivers of poppy cultivation in seven targeted districts in Afghanistan. It has two major components: capacity building at the Ministry of Counter Narcotics (MCN) and alternative livelihood projects. The capacity-building component seeks to build up the MCN's ability to create, implement, and manage alternative livelihood projects. The alternative livelihood component aims to improve community infrastructure and increase legal economic opportunities. As of December 31, 2013, the program has begun two community-level projects with an objective to identify the social, political, and economic drivers of poppy cultivation, and then tailor appropriate projects to them.

However, USAID has reported that the Kandahar Food Zone program office in Kandahar is closed because the Afghan Public Protection Force (APPF)—which provides security to program activities—has not fulfilled its contractual obligations to provide uniforms and weapons to APPF guards. Program staff are therefore currently working out of their homes until this situation is resolved. Despite this impediment, USAID told us as we were preparing our latest quarterly report that it is pleased with the program's collaboration across ministerial and provincial entities and said that the project identification process has been smooth.

In sum, the people I spoke with in Afghanistan in my last few trips talked about two possible outcomes following the 2014 transition in Afghanistan: a successful modern state, or an insurgent state. However, there is a third possibility: a narco-criminal state. Absent effective counternarcotics programs and Afghan political will to seriously tackle this grave problem, that third outcome may become a reality.

**On-Budget Assistance: Growing reliance on Afghan government institutions to manage money and deliver services increases the risk of waste, fraud, and abuse of reconstruction funds.**

Before 2010, the United States provided most of its assistance to Afghanistan through contracts, grants, and cooperative agreements that have been executed outside the Afghan budget and beyond the reach of Afghan officials. Since 2010, the United States and other donors have agreed in principle to provide more on-budget assistance to help Afghan government institutions build capacity to manage funds and deliver services. At the same time, the international donor community has made this aid conditional on the Afghan government tackling endemic corruption and demonstrating that it has the capacity to manage these funds in a transparent manner.

Therefore, a successful security and political transition in 2014 and continued international support depend to a great degree on the ability of the Afghan government to allocate, manage, and account for direct assistance funds; and to put the money to good use for its intended purposes.

On-budget, or direct assistance, strictly defined, is aid provided through a host nation's national budget. This assistance can be delivered through multinational trust funds or by individual governments through bilateral agreements. International donors contribute to

multinational trust funds that provide and oversee assistance to Afghanistan's national budget. Bilateral aid can consist of direct budget support for government salaries, all aspects of government functions, and earmarked projects to be managed by government institutions. State and USAID are both providing direct assistance to Afghanistan using multinational trust funds and bilateral agreements.

One of SIGAR's earliest reports related to safeguarding reconstruction funds was an audit of USAID's efforts to safeguard funds provided for salary support to Afghan government employees and technical advisors.<sup>26</sup> SIGAR found that, although USAID had provided salary support to Afghanistan since at least 2005, it did not begin collecting information on that support until 2008. Moreover, it was only through the process of compiling an inventory of salary support it had funded that it discovered it had been violating its own policy. Specifically, USAID had supplemented the salaries of Afghan ministers and senior presidential advisors, even though its policy prohibited supplementing policy-making officials' salaries under any circumstances.<sup>27</sup> SIGAR also found that, although USAID had conducted an assessment of the Afghan government's financial management capabilities, it had not conducted similar assessments of the human resources and payroll systems used to implement U.S. salary support to determine if necessary internal controls were in place to protect salary payments from mismanagement, waste, or misuse. SIGAR's own analysis of these systems found they had a number of significant weaknesses, such as incomplete implementation of an electronic payroll system and an inability to detect multiple supplements paid to single recipients.

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<sup>26</sup> SIGAR Audit 11-05, *Actions Needed to Mitigate Inconsistencies In and Lack of Safeguards over U.S. Salary Support to Afghan Government Employees and Technical Advisors*, October 2010.

<sup>27</sup> See USAID Automated Directives System 201.3.11.10, "Policy Guidance on Criteria for Payment of Salary Supplements for Host Government Employees [Cable 88State 119780, April 1988]. After discovering these violations, successive USAID Administrators twice waived the policy to allow for continued salary support to the Office of the President.

In SIGAR’s opinion, failing to adequately assess the internal controls within Afghan ministries responsible for handling U.S. salary support payments assumed an unacceptable level of risk. And this problem was not isolated to the issue of salary support. In July 2008, USAID and the MOPH signed an implementation letter establishing the Partnership Contracts for Health (PCH) program—a 5-year program to provide funding to the ministry for the delivery of health services throughout Afghanistan. USAID had conducted two assessments of the ministry prior to establishing the PCH program. The first concluded that the ministry’s operations were adequate for the purposes of accounting for and managing USAID funds provided directly to the ministry. The second found that the ministry had adequate experience and procurement capabilities to handle procurements funded under USAID host-country procurement procedures. However, in November 2010, USAID’s Office of Inspector General (OIG) reported that these pre-award assessments—which USAID used to certify the ministry’s ability to manage the \$236 million PCH program—were inadequate and did not provide reasonable assurance of detecting significant vulnerabilities.<sup>28</sup> Indeed, SIGAR’s own review of these assessments found that they consisted primarily of observations, walk throughs, and documentation reviews and that USAID conducted little testing of internal controls.<sup>29</sup>

When SIGAR examined USAID’s management of this program in 2013, it found that, despite USAID OIG’s 2010 findings, USAID had not reassessed operations within the ministry to determine whether funds provided under the PCH program were at risk. Moreover, although a later, more thorough assessment of the ministry was conducted through a USAID contract with Ernst & Young, and that assessment found significant internal control weaknesses at the ministry, USAID officials told SIGAR they had no obligation to address the deficiencies

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<sup>28</sup> USAID OIG, *Review of USAID/Afghanistan’s Ministerial Assessment Process*: F-306-11-001-s, November 6, 2010.

<sup>29</sup> SIGAR Audit 13-17, *Health Services in Afghanistan: USAID Continues Providing Millions of Dollars to the Ministry of Public Health despite the Risk of Misuse of Funds*, September 2013.

identified or to verify any corrective actions that the ministry may have implemented for the ongoing PCH program.<sup>30</sup>

USAID cited two main arguments for this position. First, the PCH program was executed through what USAID calls a “host-country contract.” According to certain USAID officials, that type of contracting did not constitute “direct government-to-government assistance,” thereby negating any need to address the findings of the Ernst & Young assessment, which was conducted solely as part of a different program that fell explicitly under the rubric of direct bilateral assistance. Second, USAID stated that the weaknesses identified through the Ernst & Young assessment did not matter because USAID had established a separate unit, the Grants and Contracts Management Unit (GCMU), through which all PCH funds would flow—separate from the rest of the ministry and better able to protect USAID’s funds. In its comments on SIGAR’s draft report, USAID stated, “It is in part because of the GCMU that the [ministry] and USAID have had such a strong success with the PCH program over the past several years and confidence in the management of the funds for the PCH program.”

These arguments were troubling for a number of reasons but, particularly, because SIGAR’s own investigative work has found that the GCMU has done little to protect USAID’s funds from waste and mismanagement. While details of SIGAR’s ongoing criminal investigation cannot be shared at this point, it is safe to say that, based on information SIGAR’s auditors and investigators have collected and corroborated, the GCMU constitutes, in many ways, a single point of failure when it comes to the protection of USAID funds for the PCH program.

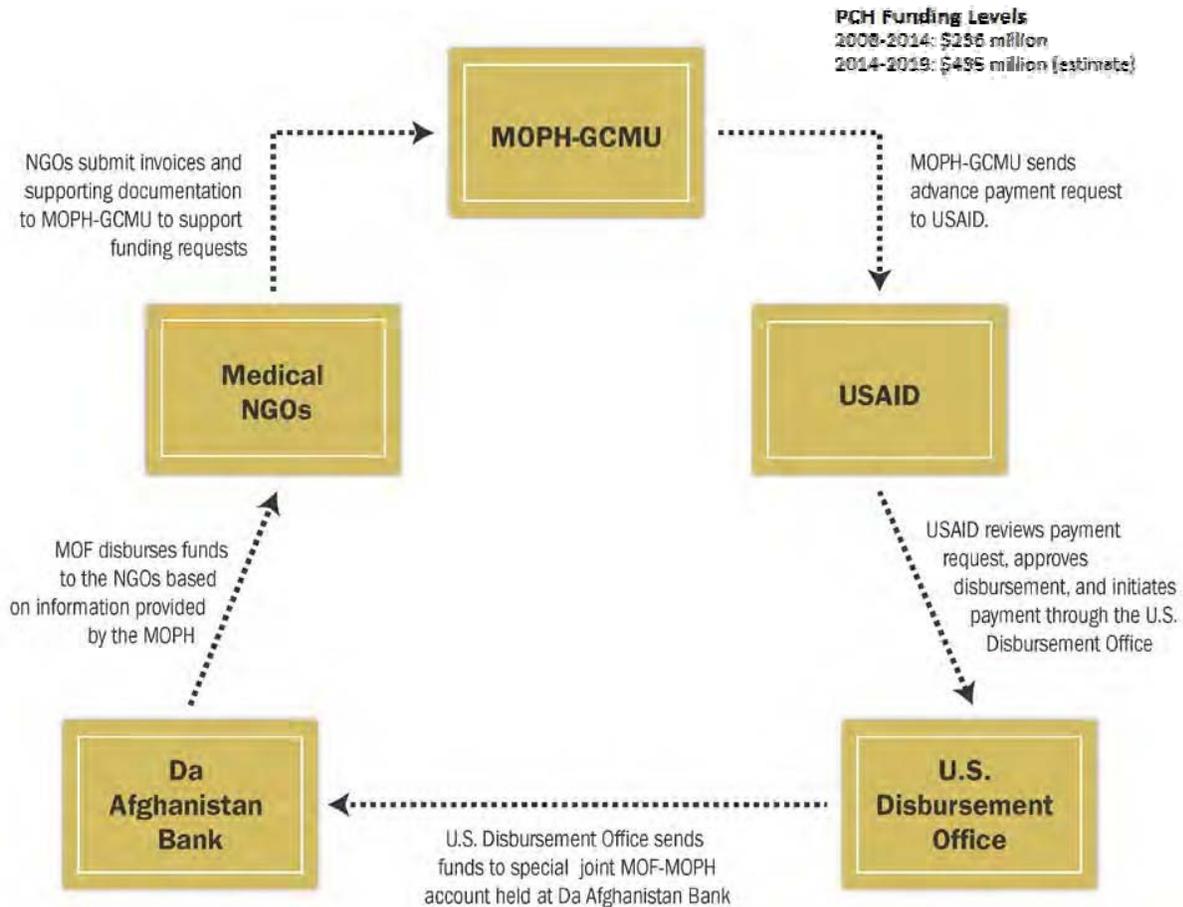
To provide direct assistance funds to MOPH for the PCH program, USAID depends heavily on cooperation and information from MOPH’s GCMU. As shown in figure 1, MOPH-

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<sup>30</sup> See SIGAR Audit 13-17, p.4, for a more complete discussion of this matter.

GCMU submits an advance payment request to USAID every 45 days to cover the estimated cost of the PCH program. This estimate is based on requests and supporting information provided to MOPH-GCMU by the nongovernmental organizations providing goods and services under the program. USAID reviews MOPH-GCMU's payment request, approves disbursement, and initiates payment through the U.S. Disbursement Office. The U.S. Disbursement Office then sends funds to an account at Afghanistan's central bank, Da Afghanistan Bank, jointly held by the Ministry of Finance and MOPH for the PCH program. Using information provided by MOPH-GCMU, the Ministry of Finance disburses funds to individual nongovernmental organizations to cover their anticipated expenses for goods and services.

**Figure 1 - MOPH-PCH Payment Process**



Source: SIGAR analysis of interviews and documentation.

This system presents a number of vulnerabilities.

- First, although the nongovernmental organizations implementing PCH submit invoices and other supporting documentation to MOPH-GCMU, MOPH-GCMU does not, as Ernst & Young found in its assessment of MOPH, have strong monitoring capabilities. Notably, Ernst & Young found that internal audit was a critical area within MOPH that needed improvement. Moreover, there is a risk that nongovernmental organizations and individuals within MOPH-GCMU could collude to inflate the estimated costs of the program.

- Second, MOPH-GCMU does not have to provide any supporting documentation to USAID. Therefore, there is nothing to prevent MOPH-GCMU from submitting payment requests to USAID for more than is actually needed for the program.
- Third, the Ministry of Finance releases funds to the nongovernmental organizations based on information provided to it by MOPH-GCMU. Again, there is no control preventing MOPH-GCMU from falsifying the information it provides to the Ministry of Finance regarding the amount of funding that each nongovernmental organization should receive.

USAID has, however, made substantial progress since the days of its salary support program and, even, since the PCH program began. Most notably, USAID has strengthened its efforts to assess the capacity of a number of Afghan ministries to manage U.S. direct assistance funds. As SIGAR reported earlier this year, USAID contracted with both Ernst & Young and KPMG to conduct thorough public financial management assessments of 16 Afghan ministries.<sup>31</sup> These assessments were a significant improvement over the earlier, more limited assessments that USAID had conducted and that USAID OIG had criticized in its 2010 report. For example, SIGAR found that the contracted firms not only identified the internal controls in place at each of the ministries, but tested these internal controls as well. Moreover, USAID conducted an additional internal risk review of seven Afghan ministries in an effort to better understand the risks associated with using their systems to manage USAID's direct assistance funds.

Unfortunately, USAID's progress in assessing the risks associated with awarding funds directly to the Afghan ministries has not been matched by an equally robust strategy to ensure the Afghan government mitigates those risks. As noted in SIGAR's recent report on the ministerial assessments, Ernst & Young and KPMG concluded that all of the 16 ministries assessed were unable to manage and account for funds unless they implemented specific

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<sup>31</sup> SIGAR 14-32-AR, *Direct Assistance: USAID Has Taken Positive Action to Assess Afghan Ministries' Ability to Manage Donor Funds, but Concerns Remain*, January 2014.

recommendations outlined in the assessments. Similarly, USAID found, in each of its seven internal risk reviews, that the ministry was unable to manage direct assistance funds without a risk mitigation strategy and that the mission would not award direct assistance to the ministry “under normal circumstances.” Issues uncovered through the risk reviews include such serious problems as internal control environments inadequate to safeguard assets against theft and unauthorized use; failure to fully comply with Afghan procurement laws and regulations; and limited capacity to encourage and enforce code of government ethics.

Some of USAID/Afghanistan’s risk reviews also discussed each ministry’s ability and willingness to combat corruption. Specifically, USAID/Afghanistan found that DABS and the Ministries of Agriculture, Irrigation, and Livestock; Communication and Information Technology; Education; Mines and Petroleum; and Public Health had control environments that were “not adequate to mitigate risk of corruption.” Of those ministries, USAID/Afghanistan only identified DABS as demonstrating, “to a certain degree, the will to address concerns that could lead to corrupt acts.” Although USAID formulated 333 mitigating measures in total to address the serious risks identified within the seven ministries, it only required the ministries to implement 24 of them before they received direct assistance funds.

In response to SIGAR’s report on the ministerial assessments, USAID noted that it has taken a number of additional safeguards to protect direct assistance funds from waste, fraud, and abuse. For example, unlike its arrangement with MOPH for the PCH program, it now provides funds to ministries on a reimbursement basis for specific projects using separate, non-interest bearing bank accounts to which it has viewing access to provide the funds—a practice that USAID sometimes refers to as “projectizing” the money.

However, it is important to note that these safeguards are primarily external measures and, as such, do not directly address the underlying problems within the ministries identified through the risk reviews. In other words, they do little to build ministries' organic capabilities to manage donor funds—one of the primary purposes of providing direct assistance to the Afghan government.

To illustrate, the risk mitigation measures included in USAID's risk review of the Ministry of Agriculture, Irrigation, and Livestock identified several concrete actions that the ministry could take to address its internal problems. These actions included, among others, "define and restrict systems access to staff according to their roles and functions," "develop a policy for accounting for revenue," and "verify that adequate reference checks have been made on every prospective employee and properly documented." None of USAID's external measures—whether it be creation of separate bank accounts or distribution of funds on a reimbursement basis—would require the ministry to implement these basic and important steps.

Moreover, the effectiveness of USAID's external risk mitigation measures may be limited by ongoing problems within the ministries. For example, although USAID has developed a written monitoring and evaluation plan specific to its direct assistance program with the MOPH—as it has with a number of other ministries—USAID's risk review of that ministry found there was a serious risk of the ministry "concealing vital monitoring and evaluation information." In SIGAR's opinion, failing to address the underlying problems within the ministries constitutes, once again, an unacceptable assumption of risk.

SIGAR does not oppose direct assistance. But if the Administration and Congress proceed with plans to increase direct assistance, we believe it is critical that they focus on three issues that could dramatically threaten our reconstruction objectives:

- the lack of Afghan government capacity to manage and account for donor funds,
- the effect of pervasive corruption, and
- the need to ensure adequate, long-term oversight.

**Contract Management and Oversight Access: Effective oversight of reconstruction contracts in Afghanistan is a critical issue to support U.S. political, security, humanitarian, and development goals for that country.**

It is clear that the stakes in contract management and oversight are high in Afghanistan. Much of the U.S. reconstruction campaign takes the form of written agreements that result in commitments ranging from major programs to equip and train Afghan security forces, to small-scale endeavors to build schools and clinics or train judicial staff. Whether administered as contracts, grants, or cooperative agreements the undertakings result in obligations running into tens of billions of dollars. However, due to the lack of a central database, no U.S. agency has yet compiled a definitive amount that has been obligated—SIGAR is working to clarify the data.

SIGAR estimates that, based on preliminary data provided by DOD, State, and USAID, U.S. agencies had obligated nearly \$37 billion in contracts, grants, and cooperative agreements for Afghan reconstruction from fiscal year 2002 through February 2013. For example, USAID obligated about \$11.2 billion for more than 280 contracts, grants, and cooperative agreements. However, as SIGAR’s analysis continues, the amount of funds that we find obligated to contracts, grants, and cooperative agreements undoubtedly will continue to rise.

Unfortunately, the odds of applying consistent and effective contract management in Afghanistan are not good. In February 2013, for example, the Government Accountability Office (GAO) updated “key oversight issues” in Afghanistan and reported that DOD, State, and USAID

“face contract management and oversight challenges” and need to improve. The report noted agencies’ “difficulty in reporting reliable information on their contracts and contractor personnel in Afghanistan,” inadequate training and staffing among DOD personnel, and ad hoc contracting decisions at State and USAID for lack of a strategic plan.<sup>32</sup>

Further, in one of the broadest looks at USAID’s oversight of its Afghanistan programs, GAO reported that there were systematic weaknesses in USAID’s oversight and monitoring of project and program performance.<sup>33</sup> For example, USAID did not consistently follow its established performance management and evaluation procedures for Afghanistan agriculture and water sector projects. Moreover, GAO found that the USAID mission in Kabul was operating without a required performance plan.

In July 2013, a special section in SIGAR’s quarterly report to Congress focused on contracting in Afghanistan. The section featured examples of poor planning, bad contractor performance, ineffective management and oversight (including noncompliance with federal oversight rules), lack of documentation, improper release of contractor liability, and weak accountability—all contributing to waste, fraud, abuse, costly rework, and sustainability problems for the Afghan government.

SIGAR’s performance audits, financial audits, and inspection work underscores failings in contract management and oversight and the risk they create. Last month SIGAR issued an inspection report which assessed INL’s management and oversight of construction of the regional prison in Baghlan province.<sup>34</sup> After construction was completed in November 2012,

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<sup>32</sup> GAO, *Afghanistan: Key Oversight Issues*, GAO-13-218SP, February 2013.

<sup>33</sup> GAO, *Afghanistan: USAID Oversight of Assistance Funds and Programs*, GAO-12-802T, June 6, 2012.

<sup>34</sup> SIGAR Inspection Report 14-62-IR, *Baghlan Prison: Severe Damage to \$11.3 Million Facility Requires Extensive Remedial Action*, May 27, 2014.

building settlement occurred, which led to serious structural damage including wide cracks in three buildings. As a result, one building was demolished. Two other buildings also experienced collapsing walls and cracked structural beams and columns, and will likely need to be rebuilt. INL and its contractor, Omran Holding Group (OHG), an Afghan firm, do not agree on the cause of the building settlement and remain in negotiation regarding OHG's responsibility for repairing the facilities and paying for those repairs.

Nonetheless, both INL and OHG agree that OHG did not fully comply with all contract requirements. For example, OHG failed to construct a required stormwater management system and substituted lower-grade plumbing materials that had been prohibited by INL. OHG also failed to deduct 10 percent from its billed invoices to create a retainage fund as required by the contract. This led to an \$807,254 shortfall in funds, which should have been retained for INL's protection in the event of a contract dispute.

SIGAR is concerned that many of the construction deficiencies may be the result of fraudulent actions by the project's original contracting officer's representative—a former Embassy employee—and, possibly, OHG personnel. SIGAR is currently conducting a preliminary inquiry to determine whether any OHG or Embassy officials may have been complicit in these alleged activities. In 2013, the contracting officer and INL appointed a new contracting officer's representative and lead engineer for Baghlan prison. INL also took measures to correct problems at the site, such as the missing stormwater management system.

In October 2013, SIGAR issued an inspection report covering the DOD/State-funded contract to build the Justice Center courthouse in Parwan province. The contract was awarded to CLC Construction Company, with completion set for November 2011. SIGAR and other U.S. inspectors found construction flaws and use of inferior materials. SIGAR also found no evidence

that the project’s contracting officer representative conducted monthly reviews or submitted required reports to the contracting center—but did hear from the contracting officer representative that he felt unqualified to determine whether the contractor was performing according to contract. In October 2013, the behind-schedule contract was terminated for default after the contractor had been paid nearly \$400,000.<sup>35</sup>

On December 20, 2013, SIGAR referred CLC Construction Company and several affiliated parties to the Department of the Army for debarment from future contracting throughout the Executive Branch of the United States Government pursuant to Section 9.406 of the Federal Acquisition Regulation. The basis for this referral of CLC and its affiliates are the allegations of unsatisfactory performance, false statements, and major fraud against the United States as part of its performance on the Justice Center in Parwan province. Based on SIGAR’s referral, the Department of the Army proposed all parties for debarment on March 5, 2014. All remain in proposed debarment status and are excluded from contracting with the United States Government. A final debarment determination is pending from the Army.

In June 2013, a SIGAR Alert advised Ambassador James B. Cunningham and senior USAID officials of its observations from examining a nearly \$70 million USAID cooperative agreement with International Relief and Development Inc. (IRD) for projects to promote agriculture, reduce instability, and “improve the confidence of Afghans in their government.” The alert letter noted that USAID did not review and approve IRD’s work plan until 4 months into its execution, when about \$44 million had already been obligated. The alert letter summarized the issue as follows:

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<sup>35</sup> SIGAR Inspection Report 14-7, *Justice Center in Parwan Courthouse: Poor Oversight Contributed to Failed Project*, October 2013.

Robust oversight by funding agencies—in this case USAID—is the first line of defense when U.S. government dollars are on the line. In environments such as Afghanistan, strong oversight is especially important. However, in the case of the [IRD-run] program, USAID did not exercise oversight as effectively as it could and should have. As a result, equipment was purchased that may be left unused or stolen; inflated prices for agricultural products were potentially paid; and unnecessary costs for storing, disassembling, and distributing unneeded [water] pumps were incurred.<sup>36</sup>

SIGAR is sensitive to the fact that oversight in an environment like Afghanistan is uniquely challenging. Without a doubt, one of the greatest impediments to strong oversight is the problem of limited mobility due to insurgent violence. Put another way, even if U.S. contract management and oversight personnel were fully staffed, adequately trained, consistently conscientious in applying rules and documenting results, and uniformly diligent in imposing accountability, there would still be a critical obstacle in their way—access to contract worksites and records. U.S. officials have told us that it is often difficult for program and contracting staff to visit reconstruction sites in Afghanistan. SIGAR personnel have direct experience with this problem, having already encountered difficulty obtaining military escort to travel into contested areas. In early 2013, for example, SIGAR was unable to visit infrastructure projects in northern Afghanistan valued at \$72 million because they are located in areas that could not be reached by U.S. civilian employees. SIGAR refers to these inaccessible reconstruction sites as areas outside the “oversight bubbles.” Now, these areas outside the security bubbles and oversight reach include billions of dollars worth of U.S.-funded reconstruction.

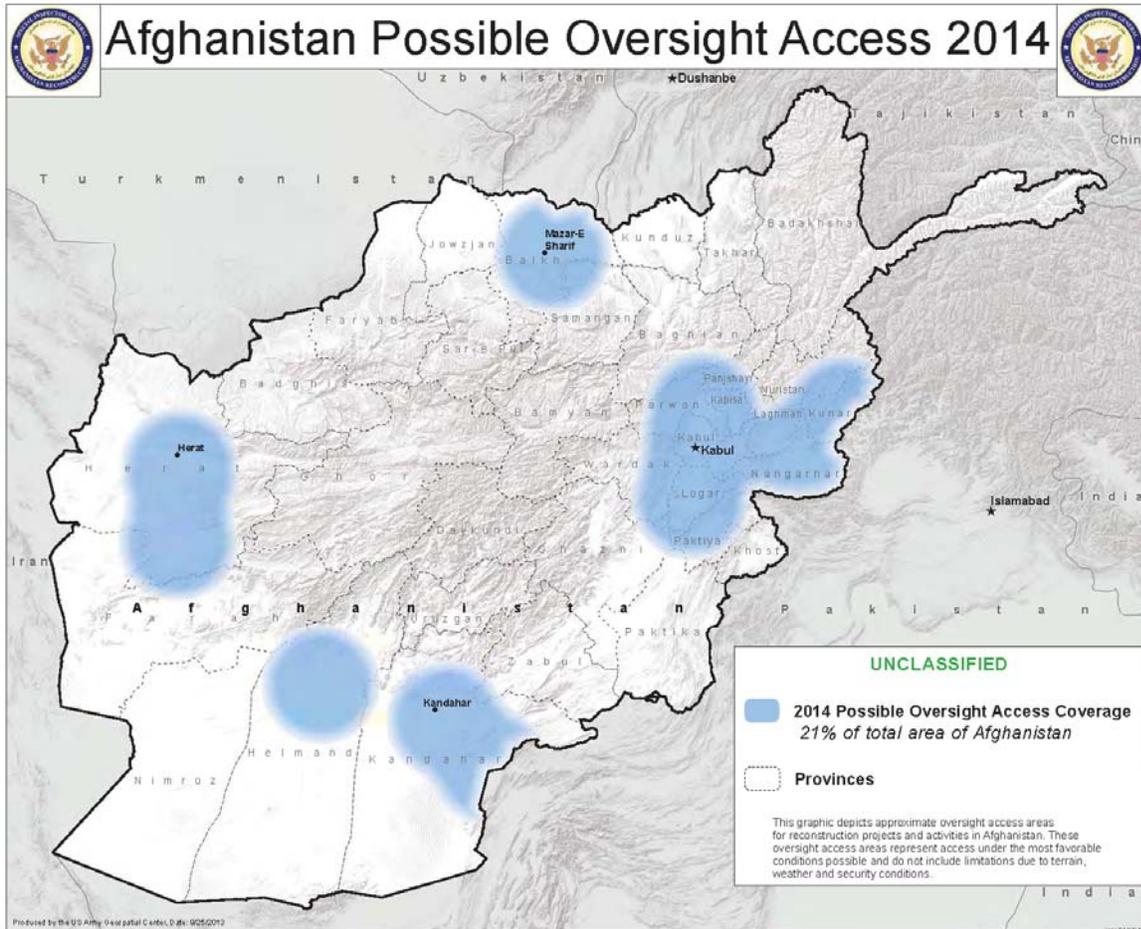
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<sup>36</sup> SIGAR Alert 13-2 to Ambassador Cunningham et al., regarding USAID’s Southern Regional Agricultural Development Program, June 27, 2013.

The areas covered by these “oversight bubbles” are defined by the ability of the U.S. government to provide both adequate security and rapid emergency medical support to civilian employees traveling to the area. U.S. military officials have told us that they will provide civilian access only to areas within a one-hour round trip of an advanced medical facility. Although exceptions can be made to this general policy, we have been told that requests to visit a reconstruction site outside of these “oversight bubbles” will probably be denied. Similarly, State Department officials have warned us that their ability to reach reconstruction sites will be extremely limited due to constraints on providing emergency medical support without assistance from DOD.

Significant portions of Afghanistan are already inaccessible to SIGAR, other inspectors general, GAO, and other U.S. civilians conducting oversight, such as contracting officers. SIGAR believes this constraint on oversight will only worsen as more U.S. and coalition bases close. The following map illustrates SIGAR’s concerns.

**Figure 2 - Afghanistan Possible Oversight Access 2014**



Source: U.S. Army Geospatial Center

Although it is difficult to predict the future of the U.S. presence in Afghanistan, it is likely that only about 20 percent of Afghanistan will be accessible to U.S. civilian oversight personnel by the end of the transition in December 2014—nearly a 50 percent decrease since 2009. We have been told by State Department officials that this projection may be optimistic, especially if the security situation does not improve, and given the President’s recent announcement regarding the future U.S. military presence in Afghanistan, it is likely that civilians will no longer have access to many of the areas shown on the map above, especially

after 2016. The shrinking “oversight-bubbles” may be mitigated by agencies’ use of remote or third-party monitoring—which may present their own management issues.

In February 2014, SIGAR and the United States Institute of Peace jointly hosted a symposium on managing and overseeing programs in contingency environments. This event, attended by a host of nongovernmental, think-tank, and government officials, including USAID officials, highlighted the specific challenges of remote monitoring—assessing how projects are proceeding in areas that U.S. government officials typically cannot visit. We plan to issue a report on the results of this symposium in the coming weeks. Clearly, the scale of the Afghan reconstruction mission, the standard challenges of contract management and oversight, the specific challenges of operating in Afghanistan, and the constricting access to Afghan sites all combine to form a setting of substantial and continuing risk to financial stewardship and mission success.

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In conclusion, implementing, managing, and overseeing reconstruction programs in Afghanistan is uniquely challenging. The phased withdrawal of U.S. and coalition forces from Afghanistan over the next several years does not mark the end of the Afghanistan reconstruction mission. Billions of dollars already appropriated remain to be spent by USAID, State, and DOD, and the U.S. government has committed to provide billions more over the coming years. Now, more than ever, conducting oversight will be essential if the U.S. government intends to protect these funds and ultimately the massive military and civilian investment the U.S. government made in Afghanistan over the last 13 years.

Our work has shown that there are many challenges to successfully accomplishing this mission, five of which appear time and time again in SIGAR’s audits, inspections, and special projects—sustainability, corruption, counternarcotics, on-budget assistance, and contract management and oversight access. These intertwined and interdependent challenges form the core of SIGAR’s oversight mission and our planning for future audits, inspections, investigations, and special projects centers around adequately examining and devising actionable solutions to these challenges. Encouragingly, it also appears as if our message of the importance of oversight and accountability is being received by agencies funding Afghanistan reconstruction efforts. In particular, USAID’s Administrator stated in a recent op-ed in the *Washington Post* that it has reformed its practices to ensure U.S. taxpayer dollars are used effectively and for their intended purpose.<sup>37</sup> He stated that USAID has saved millions by suspending or cutting off funding to discipline contractors. This is a positive step forward to ensure reconstruction funds are not wasted to fraud, waste, and abuse.

We look forward to working with USAID, State, and the Congress as we continue to oversee the critical work the United States and its coalition partners are undertaking in Afghanistan. We hope that as the U.S. agencies continue their important work during the “Transformation Decade,” they keep in mind these seven simple, but critical questions that SIGAR developed last year to guarantee a greater chance of success:

- Does the project or program clearly contribute to U.S. national interests or strategic objectives?
- Do the Afghans want it and need it?
- Has the project or program been coordinated with the Afghan government, other implementing agencies, and international donors?

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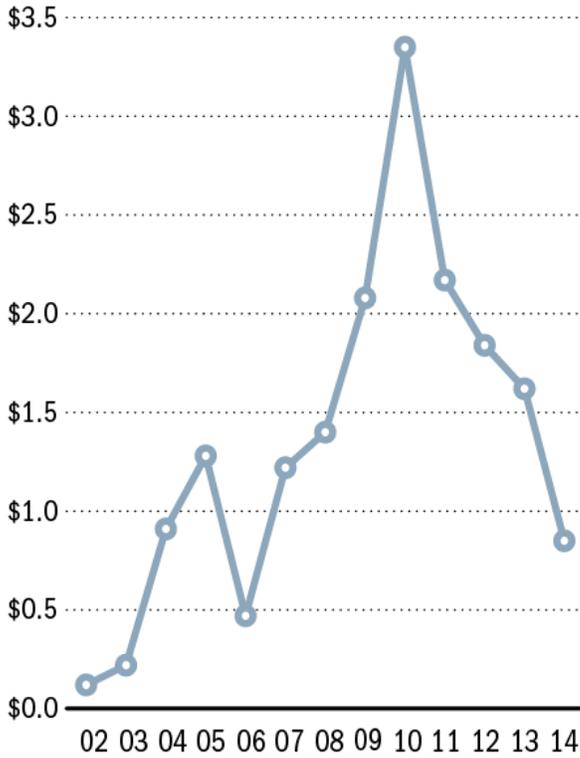
<sup>37</sup> Rajiv Shah, Administrator, USAID, “How to Keep Afghanistan on the Right Track,” *Washington Post*, May 30, 2014.

- Do security conditions permit effective implementation and oversight?
- Does the project or program include safeguards to detect, deter, and mitigate corruption?
- Do the Afghans have the financial resources, technical capacity, and political will to sustain the project or program?
- Have implementing agencies established real metrics for determining outcomes and measuring success?

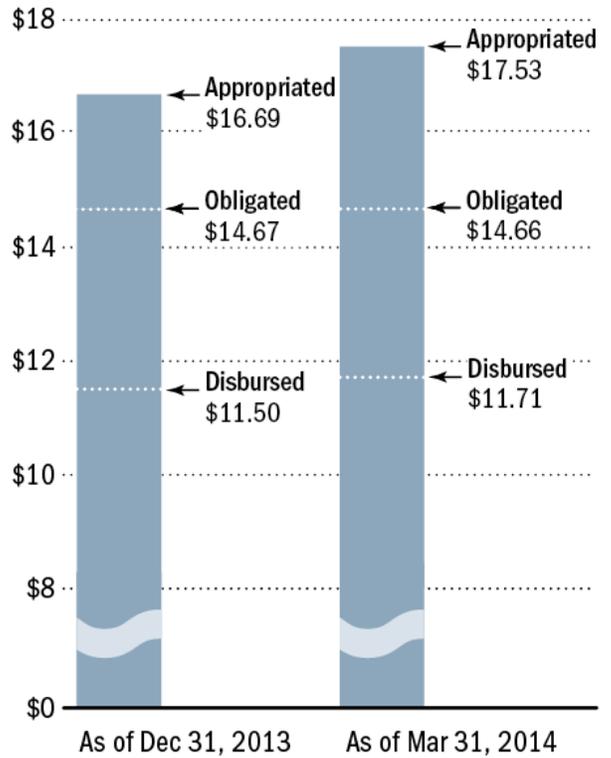
Thank you for the opportunity to testify today. I look forward to answering your questions.

## Appendix I - Economic Support Fund (ESF) Appropriations, Obligations, and Disbursements

**ESF APPROPRIATIONS BY FISCAL YEAR**  
(\$ BILLIONS)



**ESF FUNDS, CUMULATIVE COMPARISON**  
(\$ BILLIONS)

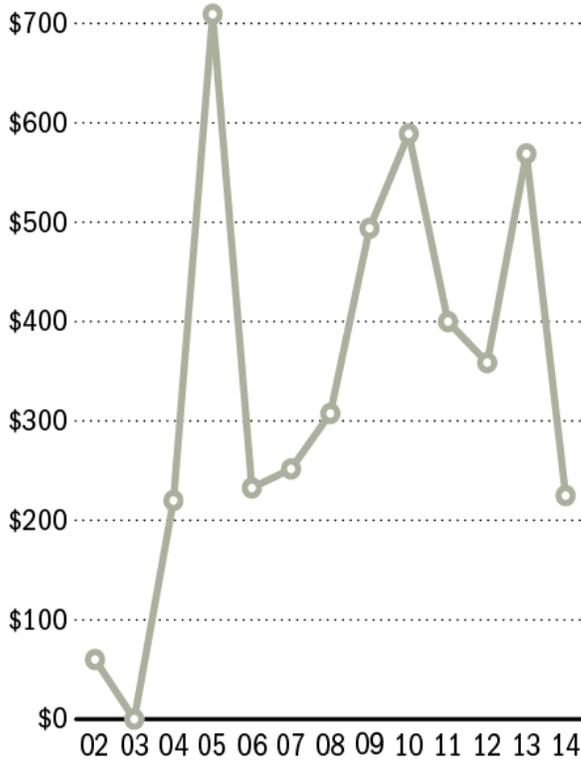


Notes: Numbers have been rounded. FY 2014 figure reflects draft allocation amount for Afghanistan and is subject to final Congressional approval. FY 2011 figure includes \$101 million that was transferred to the ESF from the Afghanistan Infrastructure Fund. Updated data resulted in a lower obligation figure than reported last quarter.

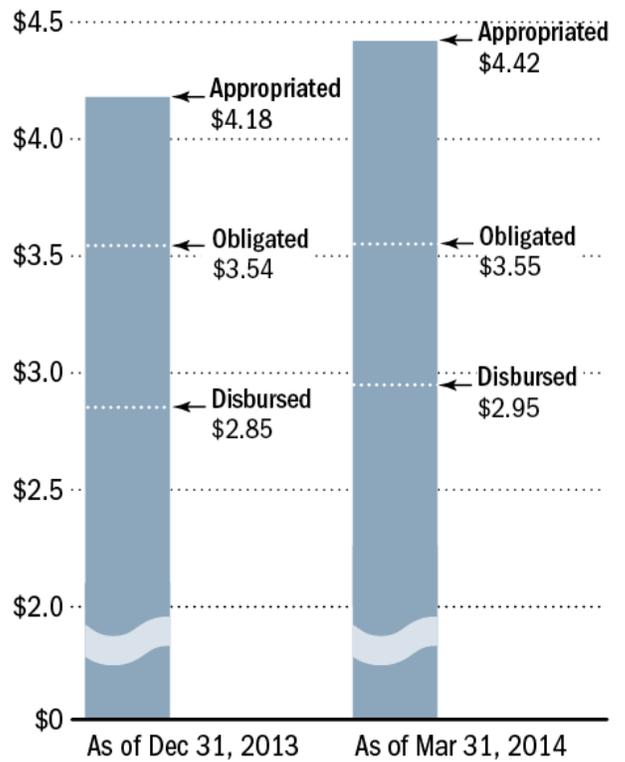
Sources: USAID, responses to SIGAR data call, 4/7/2014 and 1/7/2014; State, responses to SIGAR data call, 4/15/2014 and 6/27/2013.

## Appendix II - International Narcotics Control and Law Enforcement (INCLE) Appropriations, Obligations, and Disbursements

**INCLE APPROPRIATIONS BY FISCAL YEAR**  
(\$ MILLIONS)



**INCLE FUNDS, CUMULATIVE COMPARISON**  
(\$ BILLIONS)



Notes: Numbers have been rounded. FY 2014 figure reflects draft allocation amount for Afghanistan and is subject to final Congressional approval. Data may include inter-agency transfers.

Sources: State, responses to SIGAR data call, 4/15/2014, 4/11/2014, and 1/13/2014.