

112TH CONGRESS }  
*1st Session*

COMMITTEE PRINT

{ S. PRT.  
112-21

# **EVALUATING U.S. FOREIGN ASSISTANCE TO AFGHANISTAN**

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## **A MAJORITY STAFF REPORT**

PREPARED FOR THE USE OF THE  
**COMMITTEE ON FOREIGN RELATIONS**  
**UNITED STATES SENATE**

ONE HUNDRED TWELFTH CONGRESS  
FIRST SESSION

JUNE 8, 2011



Printed for the use of the Committee on Foreign Relations

Available via World Wide Web:  
<http://www.gpoaccess.gov/congress/index.html>

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U.S. GOVERNMENT PRINTING OFFICE

66-591 PDF

WASHINGTON : 2011

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## LETTER OF TRANSMITTAL

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UNITED STATES SENATE,  
COMMITTEE ON FOREIGN RELATIONS,  
*Washington, DC, June 8, 2011.*

DEAR COLLEAGUES: This report takes a close look at how the United States is spending civilian aid dollars in Afghanistan to make sure we are pursuing the most effective strategy in support of our national security objectives. We spend more on aid to Afghanistan than any other country and the environment in which the State Department and U.S. Agency for International Development (USAID) operate is difficult and dangerous. With the upcoming transition to an Afghan security lead in 2014 and the increased responsibilities our civilians will absorb from the military, we have a critical planning window right now to make any necessary changes to support a successful transition.

This report is meant to continue a close working relationship between the Senate Foreign Relations Committee and the Obama administration on ensuring that our assistance programs in the region meet their objectives. Given this committee's jurisdiction to conduct oversight of the State Department and USAID and the levels of funding in Afghanistan, I asked the committee's majority staff to conduct a thorough review of U.S. civilian assistance. This report is the product of two years of staff research and travel. It is intended to provide constructive and timely guidance for administration officials at every level who are working to guarantee that our taxpayer-financed aid to Afghanistan is spent in the most effective and efficient manner possible.

Sincerely,

JOHN F. KERRY,  
*Chairman.*



# EVALUATING U.S. FOREIGN ASSISTANCE TO AFGHANISTAN

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## EXECUTIVE SUMMARY

*The Senate Foreign Relations Committee has been at the forefront of examining progress in Afghanistan. This report—which is the most comprehensive congressional investigation to date of our foreign assistance to Afghanistan—continues that effort. Building on 2 years of staff research and travel, the report focuses on funding appropriated by Congress to the State Department and the U.S. Agency for International Development (USAID) in the Function 150 account. It does not cover U.S. military aid, such as the Commander’s Emergency Response Program (CERP), which we believe deserves closer scrutiny.*

*The committee provided a draft of this report to the State Department and USAID. In a response letter to Chairman John F. Kerry on June 6, Deputy Secretary of State Thomas R. Nides underscored the importance of sustainability and expressed support for our recommendation to develop a multiyear assistance strategy. His comments are reproduced in Appendix VI. USAID Administrator Rajiv Shah acknowledged the need to do more to spend our aid money effectively in Afghanistan and provided several recent examples of how USAID is addressing the issues raised in this report. His comments are reproduced in Appendix VII.*

Today, the United States spends more on foreign aid in Afghanistan than in any other country, including Iraq. After 10 years and roughly \$18.8 billion in foreign aid, we have achieved some real successes.<sup>1</sup> There has been a sevenfold increase in the number of children attending school and significant improvements in health care. But we should have no illusions. Serious challenges remain that will prevent us from achieving our goals unless they are addressed.

Foreign assistance can be a vital tool for promoting stability in Afghanistan. Given the security challenges and limited resources at its disposal, USAID has performed admirably and assumed considerable risks in support of the President’s civil-military strategy for

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<sup>1</sup>The figure of \$18.8 billion refers to total Function 150 assistance to Afghanistan between FY2002–2010, which excludes total Function 050 assistance for the Afghan Security Forces Fund (ASFF), CERP, and counternarcotics. See Appendix I for more details.

Afghanistan.<sup>2</sup> However, we believe the administration can be more effective in how it spends aid in Afghanistan. U.S. assistance should meet three basic conditions before money is spent: our projects should be *necessary, achievable, and sustainable*.

The State Department and USAID are spending approximately \$320 million a month on foreign aid in Afghanistan.<sup>3</sup> In part, the administration has been using aid to “win hearts and minds.” For instance, roughly 80 percent of USAID’s resources are being spent in Afghanistan’s restive south and east. Only 20 percent is going to the rest of the country.<sup>4</sup> Most of the funds in Afghanistan’s south and east are being used for short-term stabilization programs instead of longer term development projects, though that balance may now be changing.

The evidence that stabilization programs promote stability in Afghanistan is limited. Some research suggests the opposite, and development best practices question the efficacy of using aid as a stabilization tool over the long run. As discussed below, the unintended consequences of pumping large amounts of money into a war zone cannot be underestimated.

We must understand the impact of our assistance—positive and negative—on the local population. For instance, we are investing heavily in agriculture to provide alternatives to joining the Taliban and discourage poppy cultivation. While this may be the right approach, the strategy has raised expectations and changed incentive structures among Afghans. The administration is pursuing an assistance strategy based on counterinsurgency theories that deserve careful, ongoing scrutiny to see if they yield intended results.

Foreign aid, when misspent, can fuel corruption, distort labor and goods markets, undermine the host government’s ability to exert control over resources, and contribute to insecurity. According to the World Bank, an estimated 97 percent of Afghanistan’s gross domestic product (GDP) is derived from spending related to the international military and donor community presence. Afghanistan could suffer a severe economic depression when foreign troops leave in 2014 unless the proper planning begins now.<sup>5</sup>

The administration is understandably anxious for immediate results to demonstrate to Afghans and Americans alike that we are making progress. However, insecurity, abject poverty, weak indigenous capacity, and widespread corruption create challenges for spending money. High staff turnover,<sup>6</sup> pressure from the military,

<sup>2</sup> USAID and its implementing partners have lost over 370 personnel in Afghanistan over the last 7 years. Administrator Rajiv Shah, Ninth Annual Princeton Colloquium to address “Rethinking U.S. Foreign Aid and Policy,” Woodrow Wilson School, Princeton University, April 9, 2011.

<sup>3</sup> Conversations with senior Embassy Kabul officials, May 2011.

<sup>4</sup> For more information, see: Response to Questions for the Record submitted to Secretary of State Hillary Rodham Clinton by Chairman John Kerry, March 2, 2011, Nos. 21 and 22. Note that we include the “southwest” in our calculations for USAID resource allocations in Afghanistan’s “south and east.” See Appendixes II and III for funding breakouts by province for FY 2009–2010 and FY 2011. According to USAID’s Rajiv Shah, “roughly 65–70 percent of all our resources are being spent in those [south, southwest, and east] areas.” Shah’s comments are reproduced in Appendix VII.

<sup>5</sup> Dr. Ashraf Ghani, “Preparing for Transition: A Policy Note on Development,” policy memo sent to Senate Foreign Relations Committee Majority Staff, May 12, 2011.

<sup>6</sup> According to a former development specialist at USAID’s Mission in Kabul, the staff turnover rate in Afghanistan is more than 85 percent a year. Rajiv Chandrasekaran, “U.S. military dismayed by delays in 3 key development projects in Afghanistan,” Washington Post, April 28, 2011, [http://www.washingtonpost.com/world/us-military-dismayed-by-delays-in-3-key-development-projects-in-afghanistan/2011/04/22/AFD6jq8E\\_story.html](http://www.washingtonpost.com/world/us-military-dismayed-by-delays-in-3-key-development-projects-in-afghanistan/2011/04/22/AFD6jq8E_story.html).



imbalances between military and civilian resources,<sup>7</sup> unpredictable funding levels from Congress, and changing political timelines have further complicated efforts. Pressure to achieve rapid results puts our civilians under enormous strain to spend money quickly.

We need to take a closer look at how we are spending money in Afghanistan and the impact it is having on the Afghan state. The U.S. Government relies heavily on contractors in Afghanistan, but multiple reports and the recent crisis at Kabul Bank have raised alarms about the lack of robust oversight. Most U.S. aid bypasses the Afghan Government in favor of international firms. This practice can weaken the ability of the Afghan state to execute its budget, lead to redundant and unsustainable donor projects, and fuel corruption. The United States has committed to funding more aid directly through the Afghan Government, but stronger measures must first be taken to ensure greater accountability of our funds.

The U.S. strategy is focused on building the capacity of Afghan institutions to deliver basic services. The State Department and USAID are currently spending approximately \$1.25 billion on such efforts.<sup>8</sup> But our overreliance on international technical advisors to build Afghan capacity may undermine these efforts. Our aid projects need to focus more on sustainability so that Afghans can absorb our programs when donor funds recede.

The administration is taking welcome steps to improve oversight. We support USAID Administrator Shah's initiatives such as USAID Forward, which will incorporate more vigorous measurement and accountability tools, streamline contracting rules, and fund smaller, local agents of change. USAID has also established the Accountable Assistance for Afghanistan initiative (A3) to ensure dollars are not being diverted from their purpose by extortion or corruption. These and other steps, including planned improvements to USAID's acquisition strategy and support for third party monitoring and evaluation, will help ensure proper use of U.S. taxpayer funds.

We believe additional action is needed and provide recommendations throughout the report. Perhaps the single most important step the U.S. Government can take is to work with the Afghan Government and other donors to standardize Afghan salaries and work within Afghan Government staffing constraints. Donor practices of hiring Afghans at inflated salaries have drawn otherwise qualified civil servants away from the Afghan Government and created a culture of aid dependency.

As we draw down our troops in Afghanistan, our civilians will have to absorb missions currently performed by the military. The State Department and USAID will need adequate resources to en-

<sup>7</sup> According to James Kunder, former USAID acting deputy administrator, "it's time to focus on the underlying reason our fighting forces feel inadequately supported: There are a thousand Defense Department personnel for every one USAID employee around the world. Administrations and Congresses controlled by both parties allow this preposterous imbalance in capability to continue. This particular Congress has gone one better, deeply cutting USAID and State Department funding despite warnings from Defense Secretary Robert M. Gates and uniformed commanders that inadequate civilian capacity means more American soldiers deployed and, regrettably, more dead and wounded." James Kunder, "Afghan Aid Efforts are Crucial to the War Effort," Letter to the Editor, Washington Post, May 3, 2011, [http://www.washingtonpost.com/opinions/afghan-aid-programs-are-crucial-to-the-war-effort/2011/05/01/AFFhLZjF\\_story.html](http://www.washingtonpost.com/opinions/afghan-aid-programs-are-crucial-to-the-war-effort/2011/05/01/AFFhLZjF_story.html).

<sup>8</sup> The figure of \$1.25 billion includes USAID estimated costs on capacity-building in Afghanistan (see Appendix IV) and INL current task order year spending on capacity-building projects in Afghanistan (see Appendix V).

sure a smooth transition and avoid repeating the mistakes we made in Iraq.<sup>9</sup> Transition planning should find the right balance between avoiding a sudden dropoff in aid, which could trigger a major economic recession, and a long-term phaseout from current levels of donor spending.

There must also be unity of effort across the U.S. Government and international community. If we conclude that a civilian program lacks achievable goals and needs to be scaled back, no other actors should take over the effort. Too often, when our civilians determine that a project is infeasible, we simply transfer the program to other actors, such as the U.S. military or other donors.

The theme echoed throughout this report is that our strategies and projects should meet the conditions of being *necessary, achievable, and sustainable* before funding is allocated. The report describes how these principles have been applied in practice through the cases of the National Solidarity Program and Basic Package of Health Services (Case Study A) and the ongoing effort to improve sub-national governance through the Performance-Based Governors Fund (Case Study B).

Finally, this report offers three overarching recommendations for the administration to pursue a more effective assistance strategy in Afghanistan:

(1) *Consider authorizing a multiyear civilian assistance strategy for Afghanistan.* The administration and Congress should consider working together on a multiyear authorization that includes: (a) a clearly defined assistance strategy; (b) the tools, instruments, and authorities required for a successful development approach; (c) a plan as to how U.S. funding will leverage and partner with Afghan domestic policies, with multilateral efforts—including the World Bank, Asian Development Bank, and Islamic Development Bank—and with private sector financing; (d) the civilian resources needed for a successful military draw down and transition; (e) the steps needed to ensure accountability, oversight, and effectiveness; and (f) metrics that measure performance and capture outcomes. The strategy should also establish benchmarks for the Afghan Government to fulfill its international commitments, outline goals for improving donor coordination, and include specific annual funding levels. This process would clarify the U.S. assistance strategy, offer greater predictability on future funding levels, and provide Congress with robust tools for oversight.

(2) *Reevaluate the performance of stabilization programs in conflict zones.* We must challenge the assumption that our stabilization programs in their current form necessarily contribute to stability. The administration should continue to assess the impact of our stabilization programs in Afghanistan and reallocate funds, as necessary.

(3) *Focus on sustainability.* We should follow a simple rule: *Donors should not implement projects if Afghans cannot sustain them.* Development in Afghanistan will only succeed if Afghans are legitimate partners and there is a path toward sustainability. The Afghan Government must have sufficient technical capability and

<sup>9</sup>U.S. Senate, Committee on Foreign Relations, Committee Print, Majority Staff, 112th Cong., 1st sess., “Iraq: The Transition from a Military Mission to a Civilian-led Effort,” January 31, 2011, <http://foreign.senate.gov/download/?id=C4ABBB7E-FFD6-4162-BB55-878EC62FE445>.

funding to cover operation and maintenance costs after a project is completed. A sustainability strategy would consolidate our programs, increase on-budget aid, streamline our rules and controls, and pursue a limited number of high-impact programs that do not require complex procurement or infrastructure. We should also focus on raising domestic revenue, reducing aid dependency, and developing partnerships with the private sector to create jobs. Success should not be measured by outputs or the amount of money spent, but by the ability of Afghan institutions to deliver services, the Afghan private sector to generate jobs and grow the economy, and Afghan civil society and public institutions to provide avenues for citizens to hold their government accountable and participate in political and civic life. More thought should be given to the type of projects we fund. Our aid should be visible among Afghans, and we should have a robust communications strategy in place so Afghans know what U.S. civilian aid in Afghanistan is accomplishing.

#### WHY FOREIGN ASSISTANCE TO AFGHANISTAN MATTERS

Foreign assistance is critical to advancing U.S. policy interests overseas. When implemented effectively, it can play a valuable role in promoting security, building governance, fostering economic development, and supporting civil society. Development can help consolidate military gains and support our diplomatic efforts, which is why both President George W. Bush and President Obama elevated development to accompany defense and diplomacy in their respective national security strategies. The goal of our assistance in Afghanistan is to create the conditions for a more stable, democratic government capable of resisting attempts by Al Qaeda and other insurgent groups from returning and establishing safe havens from which to launch attacks on the U.S. homeland.

The administration's fiscal year 2012 request for Afghanistan includes roughly \$3.2 billion in foreign aid.<sup>10</sup> This funding level reflects the pivotal role the State Department and USAID are expected to play to help consolidate our military gains and ensure a successful transition. It gives our Embassy and USAID Mission in Kabul the necessary resources to build basic Afghan capacity.

Our military leaders, including General David Petraeus, strongly support this request.<sup>11</sup> It represents a roughly 22-percent decrease from FY 2010-enacted levels, which we believe is a responsible reduction. The cut reflects our shared desire to find the right-sized footprint in Afghanistan, which will provide needed civilian resources without engaging in long-term nation-building.

<sup>10</sup>Department of State, Congressional Budget Justification, Foreign Operations, Annex: Regional Perspectives, Fiscal Year 2012, pp. 604 and 864.

<sup>11</sup>On March 4, 2011, General Petraeus wrote to Senator Graham about the dangers of further cuts to the State Department budget. He stated that the proposed cuts will "undermine our plans for a conditions-based transition to Afghan lead and our long-term goal of a stable and peaceful Afghanistan. During this [transition] period, [the State Department] will shoulder important responsibilities for economic development and national and subnational governance capacity-building, which includes support for ministry development, rule of law, and long-term economic development and infrastructure projects. Without a fully resourced [State Department] role, the hard-earned progress our troopers have made could be put at risk . . . Indeed, as we look beyond 2014, it is clear that the State Department will shoulder the lion's share of requirements to support our enduring commitment to Afghanistan. The funding required to build that capacity must start now and continue for the foreseeable future."

We support the President's FY 2012 request and recognize the value of foreign assistance in achieving our national security objectives. However, we believe the administration can be more effective in how it spends money in Afghanistan. As we begin the transition process to Afghan-led security and as our civilians absorb more tasks from the military, our civilian assistance strategy must focus on what is *necessary, achievable, and sustainable*. While the U.S. Government will continue to support the government and people of Afghanistan with foreign assistance after our troops come home, in the words of USAID Administrator Shah, we must provide assistance "in a way that allows our efforts to be replaced over time by efficient local governments, thriving civil societies and vibrant private sectors."<sup>12</sup>

#### PRESIDENT OBAMA'S FOREIGN ASSISTANCE STRATEGY FOR AFGHANISTAN

In March 2009, President Obama's initial interagency review of U.S. policy toward Afghanistan and Pakistan found that "a complete overhaul of our civilian assistance strategy is necessary," which would require "a significant change in the management, resources, and focus of our foreign assistance."<sup>13</sup>

Congress appropriated approximately \$2.8 billion in FY 2009 and \$4.2 billion in FY 2010 funds for Afghanistan to increase our civilian presence in the field, build the capacity of Afghan institutions, and support military operations.<sup>14</sup> According to U.S. Ambassador to Afghanistan Karl Eikenberry, these budget increases properly funded "a mission that in past years was poorly defined and underresourced."<sup>15</sup> Former Special Representative for Afghanistan and Pakistan (SRAP) Richard Holbrooke led an interagency effort that resulted in a "whole-of-government" approach.

Today, the focus of U.S. assistance in Afghanistan is to build the capacity of Afghan institutions and promote economic development in order to create jobs and weaken popular support for the insurgency. Secretary of State Hillary Clinton has argued that this approach is "far from an exercise in nation-building" because it aims "to achieve realistic progress in critical areas" and is aligned with our security objectives.<sup>16</sup> The goal is to transition to an Afghan lead for security responsibility by the end of 2014.

To accomplish this mission, the State Department and USAID dramatically increased the number of civilians on the ground in Afghanistan from 531 civilians in January 2009 to about 1,300 today,

<sup>12</sup> Administrator Rajiv Shah, Testimony before the Commission on Wartime Contracting in Iraq and Afghanistan, Washington, DC, April 1, 2011, p. 4, [http://www.wartimecontracting.gov/docs/hearing2011-04-01\\_testimony-Shah.pdf](http://www.wartimecontracting.gov/docs/hearing2011-04-01_testimony-Shah.pdf).

<sup>13</sup> "White Paper of the Interagency Policy Group's Report on U.S. Policy Toward Afghanistan and Pakistan," March 2009, pp. 1–2, [http://www.whitehouse.gov/assets/documents/Afghanistan-Pakistan\\_White\\_Paper.pdf](http://www.whitehouse.gov/assets/documents/Afghanistan-Pakistan_White_Paper.pdf).

<sup>14</sup> These figures refer to total 150 budget function assistance in FY 2009 and FY 2010. For more information, see: Appendix I.

<sup>15</sup> Ambassador Karl W. Eikenberry, Testimony before the Senate Committee on Armed Services, December 8, 2009, p. 2, <http://armed-services.senate.gov/statemnt/2009/December/Eikenberry%2012-08-09.pdf>.

<sup>16</sup> Department of State, Office of the Special Representative for Afghanistan and Pakistan, "Afghanistan and Pakistan Regional Stabilization Plan," Updated February 2010, p. 2, <http://www.state.gov/documents/organization/135728.pdf>.

with approximately 920 in Kabul and 380 in the field.<sup>17</sup> The number of civilians is expected to peak at roughly 1,450 by mid-2014, according to Embassy officials. But overall funding levels peaked in 2010. This means that the Embassy will have more civilians in the field with fewer resources in 2014, just as the security transition is in full swing.

Safely maintaining civilians in Afghanistan is costly. According to senior Embassy officials, each U.S. civilian costs about half a million dollars. This figure covers training, salaries, and travel expenses but excludes security costs covered by the military, which civilians will have to absorb as we begin drawing down troops. It also excludes the cost of emergency protection details (EPD) that transport our civilians in theatre. An EPD for an Ambassador in Kabul, for instance, can cost approximately \$8 million a year.<sup>18</sup>

In light of funding constraints, the State Department and USAID may want to consider a smaller civilian footprint—a “civilian ebb”—that gives priority to the key aspects of the civilian mission that are *necessary, achievable, and sustainable*.

President Obama’s review of our assistance strategies in the region resulted in a profound change in the coordination of U.S. foreign assistance to Afghanistan and Pakistan. Traditionally, USAID leads our foreign assistance efforts with policy guidance from the State Department. Under the President’s new strategy, SRAP housed at the State Department in Washington, DC, is charged with overseeing all civilian operations. The Embassies in Kabul and Islamabad have followed suit by establishing new Assistance Coordinator positions staffed by senior Foreign Service officers to oversee the aid.

The migration of foreign assistance responsibilities from USAID to the State Department was intended to increase coordination among government agencies, reduce stove-piping, and ensure that development supports U.S. foreign policy.

This “whole-of-government” approach has succeeded to some degree. For instance, Embassy Kabul’s Coordinating Director for Development and Economic Affairs (CDDEA), led by an Ambassador-level coordinator, supervises the work of 14 sections and agencies at the U.S. mission, including USAID, the U.S. Department of Agriculture, the Treasury attaché, the Federal Aviation Administration, and the Department of Transportation. Similarly, the Embassy’s Rule of Law Directorate, a civilian-military effort led by an Ambassador-level coordinator supported by senior military officers, coordinates and supervises agencies working on rule of law and law enforcement programs. These include USAID, the State Department’s International Narcotics and Law Enforcement (INL) Bureau, the Department of Justice, the Drug Enforcement Administration, the Federal Bureau of Investigation, the U.S. Marshals Service, and the Department of Homeland Security. Both these functions have served the U.S. Ambassador and Embassy Kabul in their efforts to coordinate our development and assistance programs.

<sup>17</sup> Department of State, Office of Inspector General, “Report of Inspection,” Report Number ISP-I-10-32A, February 2010, p. 11, <http://oig.state.gov/documents/organization/138084.pdf>.

<sup>18</sup> Conversation with senior Embassy Kabul officials, April 2011.

However, this new approach has also added multiple Ambassador-level officials at the Embassy in addition to the SRAP, created new layers of bureaucracy, diminished USAID's voice at the table, and put decisionmaking on development issues in the hands of diplomats instead of development experts.

#### USING DEVELOPMENT DOLLARS TO SUPPORT COIN

The U.S. counterinsurgency strategy (COIN) in Afghanistan calls on the military to secure key areas—"clear" and "hold," while USAID and its counterparts follow up with the "build" and "transfer" phases. The goal is to provide security, strengthen local government institutions, and build critical infrastructure, such as roads, schools, and clinics. In theory, these steps can improve lives and weaken popular support for the insurgency.

This past year saw a marked shift in resources from Kabul to the regional, provincial, and district levels in nearly all of the 34 provinces, particularly in the south and east where the U.S. military surge is concentrated. The shift responded to the need for increased civil-military cooperation at the provincial and district levels to hold territory cleared by military operations.

Roughly 77 percent—or about \$1.65 billion—of USAID's total FY 2009–10 resources are being spent in Afghanistan's south and east. In FY 2011, according to USAID projections, roughly 81 percent—or about \$872 million—will go to these regions.<sup>19</sup> Most of the funds in Afghanistan's south and east are being used for short-term stabilization programs instead of longer term development projects. Given these levels and the trend lines indicating increased funding for the south and east as a percentage of total FY 2011 funds, our stabilization strategy deserves closer scrutiny.<sup>20</sup>

Stabilization projects are designed to respond to urgent humanitarian and reconstruction requirements in areas of instability. Practitioners in the field argue that stabilization is not development and that stabilization projects, if pursued over an extended period, can have negative consequences. Working closely with provincial reconstruction teams (PRTs) and district support teams (DSTs), USAID plans to shift from stabilization to transitional development as security improves.

This section examines the theory guiding our stabilization efforts and our agricultural investments. It also considers the consequences of our stabilization strategy on the local population.

#### COIN THEORY AND STABILIZATION

Our stabilization strategy assumes that short-term aid promotes stability in counterinsurgency (COIN) operations and "wins hearts and minds" by improving security, enhancing the legitimacy and reach of the central government, and drawing support away from the Taliban. It presumes that the international community and the

<sup>19</sup> Response to Questions for the Record submitted to Secretary of State Hillary Rodham Clinton by Chairman John Kerry, March 2, 2011, Nos. 21 and 22. Note that we include the "southwest" in our calculations for USAID resource allocations in Afghanistan's "south and east." For more information, see: Appendixes II and III. According to USAID's Rajiv Shah, "roughly 65–70 percent of all our resources are being spent in those [south, southwest, and east] areas." Shah's comments are reproduced in Appendix VII.

<sup>20</sup> See Appendixes II and III.

Afghan Government have shared objectives when it comes to promoting longer term development, good governance, and the rule of law.<sup>21</sup>

These assumptions may not be correct. In March 2010, a conference at Wilton Park in the United Kingdom brought together leading experts on the role of development in counterinsurgency. The conference report found “a surprisingly weak evidence base for the effectiveness of aid in promoting stabilization and security objectives” in Afghanistan.<sup>22</sup>

The key is to understand the root causes of insecurity, which may differ in each province and district. Take the case of the United Kingdom’s stabilization program in Helmand province between 2006 and 2008. According to a recent Tufts University study, the stabilization model adopted by the British during this period assumed that poverty and a limited government presence were fueling the negative perceptions of governmental authorities and international development projects.<sup>23</sup> Field research, however, suggests that local residents in Helmand are more concerned about the lack of security and poor governance.<sup>24</sup> Taliban intimidation and rampant insecurity beyond the main towns of Lashkar Gah and Gereshk have deterred the population from cooperating with the government. Poor governance has exacerbated these trends, allowing the Taliban to exploit the grievances of politically marginalized groups.<sup>25</sup>

Administrator Shah agrees that “we must strive to uncover the true drivers of instability in a region, based . . . on local perspectives . . . What we’ve found is that it is generally not the case that a lack of schools or roads drives conflict. Often the situation is far subtler, having to do with local power dynamics or long-held grudges.”<sup>26</sup> Our aid strategy cannot assume that poverty or unemployment alone fuel the insurgency. For example, according to the World Bank, poverty rates in the insurgency-plagued Helmand and Kandahar provinces are less than 30 percent. By contrast, in the more peaceful central and northern provinces, poverty rates run from between 42 and 58 percent in Bamyan and Ghor to upward of 58 percent in Balk province.<sup>27</sup>

In a recent study of the drivers of political violence, USAID found limited evidence linking poverty and low education to support for radical groups.<sup>28</sup> Development aid can have violence-reducing effects when used to help local governments deliver basic serv-

<sup>21</sup> “Winning Hearts and Minds in Afghanistan: Assessing the Effectiveness of Development Aid in COIN Operations,” Report on Wilton Park Conference 1022, March 2010, p. 1, [http://usacac.army.mil/cac2/coin/repository/Assesing\\_Effectiveness\\_of\\_Development\\_Aid\\_in\\_COIN\\_%281\\_Apr\\_10%29.pdf](http://usacac.army.mil/cac2/coin/repository/Assesing_Effectiveness_of_Development_Aid_in_COIN_%281_Apr_10%29.pdf).

<sup>22</sup> Ibid.

<sup>23</sup> Stuart Gordon, “Winning Hearts and Minds: Examining the Relationship Between Aid and Security in Afghanistan’s Helmand Province,” Feinstein International Center, Tufts University, April 2011, <https://wikis.uit.tufts.edu/confluence/pages/viewpage.action?pageId=44797077>.

<sup>24</sup> Ibid.

<sup>25</sup> Ibid., p. 6.

<sup>26</sup> Administrator Rajiv Shah, “Insights,” USAID Frontlines, December 2010/January 2011, [http://www.usaid.gov/press/frontlines/fl\\_jan11/FL\\_jan11\\_insights.html](http://www.usaid.gov/press/frontlines/fl_jan11/FL_jan11_insights.html).

<sup>27</sup> “The World Bank in Afghanistan,” International Development Association Results, May 2011.

<sup>28</sup> “Dampening Processes of Radicalization at the Individual and Societal Level,” Development to Counter Insurgency, USAID Evidence Summit, 2010, pp. 5–6.

ices, but achieving this in Afghanistan remains challenging.<sup>29</sup> Providing legitimate employment opportunities may be part of the solution, but the literature is inconclusive.<sup>30</sup>

Security and governance matter. Development spending can strengthen the government and weaken insurgents in areas that are secure and enjoy good governance. It can also have the opposite effect when security and governance are poor or absent. As historian Mark Moyar observes:

. . . the United States spent more than \$100 million repairing and upgrading the Kajaki hydropower plant to provide electricity to Helmand and Kandahar provinces, but last year half of its electricity went into areas where the insurgents control the electric grid, enabling the Taliban to issue electric bills to consumers and send out collection agents with medieval instruments of torture to ensure prompt payment. The consumers in these places use the power for the irrigation of fields that grow poppies, which in turn fuel the opium trade from which the Taliban derive much of their funding.<sup>31</sup>

Aid carries risks and demands a sophisticated understanding of the local context, patterns of insurgent recruitment, and organizational structure of violent groups. Otherwise, our resources can inadvertently raise local tensions, cause infighting among local groups, and exacerbate rent-seeking behavior among corrupt actors.<sup>32</sup>

Given the conflicting research on the effects of aid in promoting stability, more analysis is needed before we continue investing a significant amount of our aid in conflict zones.

#### AGRICULTURE AND THE CHALLENGES OF STABILIZATION

As we continue our assistance efforts in insecure parts of Afghanistan, we need to consider whether our aid will have a net positive effect. This is especially true in the area of agriculture, which forms the backbone of our strategy in the south.

The administration's "top reconstruction priority is implementing a civilian-military agriculture development strategy to restore Afghanistan's once vibrant agriculture sector with support from USAID, the U.S. Department of Agriculture, and the Army National Guard Agri-business Development Teams."<sup>33</sup> Given that approximately 80 percent of Afghans rely on agriculture for their livelihoods, the focus is on immediate job creation, particularly in the insurgency-plagued provinces of Helmand and Kandahar. Projects include cash-for-work programs and longer term agribusiness and

<sup>29</sup>"Disrupting the Formation of Groups Willing to Employ Terror and Other Political Violence to Achieve their Aims," Development to Counter Insurgency, USAID Evidence Summit, 2010.

<sup>30</sup>For a review of the literature on development and counterinsurgency, see Annex.

<sup>31</sup>Mark Moyar, "Development in Afghanistan's Counterinsurgency: A New Guide," *Orbis Operations*, March 2011, p. 5, <http://smallwarsjournal.com/documents/development-in-afghanistan-coin-moyar.pdf>.

<sup>32</sup>"Disrupting the Formation of Groups Willing to Employ Terror and Other Political Violence to Achieve their Aims," Development to Counter Insurgency, USAID Evidence Summit, pp. 7–8.

<sup>33</sup>Department of State, Office of the Special Representative of Afghanistan and Pakistan, "Afghanistan and Pakistan Regional Stabilization Strategy," Updated February 2010, p. 5, <http://www.state.gov/documents/organization/135728.pdf>.



irrigation initiatives to increase linkages between farmers and markets and enhance water management.<sup>34</sup>

Since 2002, USAID has awarded about \$1.4 billion for agricultural programs. In a July 2010 report, however, the Government Accountability Office (GAO) found that USAID's agricultural programs "did not always establish or achieve their targets for each performance indicator."<sup>35</sup> Six of the eight programs that the GAO assessed failed to meet their annual targets and the three longest running programs declined in performance from 2006 to 2008.<sup>36</sup>

According to an article in the Washington Post last spring, USAID spent about \$250 million over one year on agricultural programs in Helmand and Kandahar alone. In the district of Nawa in Helmand province, which has a population of about 75,000, USAID spent an estimated \$400 per person. By contrast, the country's per capita income is about \$300 a year.<sup>37</sup>

The primary agricultural program is the Agricultural Vouchers for Increased Production in Afghanistan (AVIPA) Plus project, which was designed as a \$60 million national development program and then expanded to a \$360 million stabilization program, primarily in Helmand and Kandahar, with a significant cash-for-work component. As security improved last summer and fall, AVIPA Plus expanded into new districts and an additional \$89 million was added to the project at the request of the Agriculture Ministry to expand its seed/fertilizer voucher program to 32 provinces.

According to International Relief & Development, the implementing partner for AVIPA Plus, the project has resulted in 780 cash-for-work projects, employing 103,000 laborers and injecting nearly \$27 million in wages into the economy—the equivalent of creating 22,500 full-time jobs.<sup>38</sup>

However, NGO representatives who have worked in the area for many years argue that such statistics conflate day laborers with full-time employment and distort labor markets. More importantly, these programs can generate unintended and potentially adverse consequences. As Rajiv Chandrasekaran reported in the Washington Post, the cash surge in Nawa

is sparking new tension and rivalries within the community, and it is prompting concern that the nearly free seeds and gushing canals will result in more crops than farmers will be able to sell. It is also raising public expectations for

<sup>34</sup> U.S. Senate, Committee on Foreign Relations, Committee Print, Majority Staff, 112th Cong., 1st sess., "Avoiding Water Wars: Water Security and Central Asia's Growing Importance for Stability in Afghanistan and Pakistan," February 22, 2011, <http://foreign.senate.gov/download/?id=738A9FCF-FA1B-4ECD-9814-A1F6C5BE04D2>.

<sup>35</sup> United States Government Accountability Office, "Afghanistan Development: Enhancements to Performance Management and Evaluation Efforts Could Improve USAID's Agricultural Programs," GAO-10-368, July 2010, Highlights page, <http://www.gao.gov/new.items/d10368.pdf>.

<sup>36</sup> Ibid.

<sup>37</sup> Rajiv Chandrasekaran, "In Afghan region, the U.S. Spreads the Cash To Fight the Taliban," Washington Post, May 31, 2010, <http://www.washingtonpost.com/wp-dyn/content/article/2010/05/30/AR2010053003722.html?nav=emailpage>. Additionally, senior Embassy Kabul officials estimate that our military and civilian aid combined represents about four times the per capita gross domestic product. Conversation with senior Embassy Kabul officials, May 2011.

<sup>38</sup> Elizabeth Creel, International Relief & Development, e-mail message to Senate Foreign Relations Committee Majority Staff, March 30, 2011.

handouts that the Afghan Government will not be able to sustain once U.S. contributions ebb.<sup>39</sup>

In 2011, USAID plans to scale back AVIPA Plus as it implements longer term development programs under the Southern Region Agricultural Development Program (SRADP). But linkages between stabilization and development projects are not seamless. In agriculture, for instance, plans to construct cold storage facilities and build farm-to-market transportation networks may not be completed in time to sell additional crops and convince farmers not to return to opium farming. Moreover, scaling back may mean that many who benefited from artificially inflated incomes, temporary work, and subsidized seed will lose their benefits. We should use this opportunity to measure the real impact of our agriculture programs on security and design future programs accordingly.

#### CONSEQUENCES OF STABILIZATION ON LOCAL COMMUNITIES

U.S. stabilization projects have raised expectations and changed incentive structures in Afghanistan, according to development experts in the field. “There is no question that our foreign aid is distorting the economy,” according to Embassy Kabul.<sup>40</sup> In some cases, we have been paying Afghans to clean ditches and repair irrigation canals, tasks that they have been doing for free for generations. Community leaders have at times risked the ire of the Taliban to side with the U.S. and Afghan Governments in supporting short-term aid projects on the understanding that we would not abandon them.

To be sure, stabilization projects may yield short-term results, such as developing relationships with community elders that can provide useful intelligence. But these successes do not necessarily translate into the desired strategic outcome of winning over the local population. Too much aid can have a destabilizing effect on local communities that are unable to absorb the cash surge.

Drawing on the work of economist Dr. Charles Wolf, counterinsurgency expert Dr. David Kilcullen sees two different trends taking place when we pour large amounts of cash into restive areas.<sup>41</sup> On the one hand, there is a “substitution effect,” whereby development dollars shift popular support away from the insurgents and toward the government. But our aid can also have an “income effect,” whereby development programs increase the resources available to villagers and lead them to believe that they can improve their prospects of survival by entering into negotiations with the insurgents.<sup>42</sup> Many factors can influence the outcome, and we must do a better job of understanding them when we design our aid programs.

Snapshots from the field suggest we may not be winning over the local population through our current aid practices:

<sup>39</sup> Ibid.

<sup>40</sup> Conversation with senior Embassy officials, May 2011.

<sup>41</sup> Meeting with Dr. David Kilcullen, President and Chief Executive Officer, Caerus Associates, March 21, 2011.

<sup>42</sup> On the “income” and “substitution” effects of economic and social development programs in counterinsurgency, see: Dr. Charles Wolf, Jr., “Insurgency and Counterinsurgency: New Myths and Old Realities,” RAND Corporation, p. 7, <http://www.rand.org/content/dam/rand/pubs/papers/2005/P3132-1.pdf>.

Despite the considerable work that has been done, including the expansion of basic social services, major investments in roads and other infrastructure, and a communications revolution, negative perceptions persist that little has been done, the wrong things have been done, what was done is poor quality, the benefits of aid are spreading inequitably, and that much money is lost through corruption and waste. Research findings suggest policymakers should be cautious in assuming that aid projects help create positive perceptions of the deliverers of aid, or that they can help legitimize the government.<sup>43</sup>

New survey research in Afghanistan lends credence to these findings. According to the International Council on Security and Development's May 2011 report:

The U.S. troop surge has brought unquestionable military success, with many Afghans . . . now believing that international and Afghan forces are winning the fight against the Taliban. However, these military successes have also created "Blowback," which is negatively impacting Afghan hearts and minds in the south . . . The negative impacts of the military operations . . . and the general backdrop of news in the south, give the Taliban an opportunity to "Pushback" and gain ground by capitalizing on the increasing resentment of the foreign presence within the local population, which is emotionally volatile, traumatized, isolated, and easily manipulated by outside actors.<sup>44</sup>

We need more analysis of the effects—positive and negative—of our aid on the local population. We are pursuing a strategy based on counterinsurgency theories that deserve careful, ongoing scrutiny to see if they yield the intended results.

#### THE CHALLENGES OF SPENDING U.S. AID DOLLARS

Spending aid effectively in Afghanistan is extremely challenging, given the security climate, abject poverty, weak indigenous capacity, widespread corruption, and poor governance. High staff turnover,<sup>45</sup> pressure from the military, imbalances between military and civilian resources,<sup>46</sup> unpredictable funding levels from Con-

<sup>43</sup>"Winning Hearts and Minds in Afghanistan: Assessing the Effectiveness of Development Aid in COIN Operations," Report on Wilton Park Conference 1022, March 2010, p. 3, [http://usacac.army.mil/cac2/coin/repository/Assesing\\_Effectiveness\\_of\\_Development\\_Aid\\_in\\_COIN\\_%281\\_Apr\\_10%29.pdf](http://usacac.army.mil/cac2/coin/repository/Assesing_Effectiveness_of_Development_Aid_in_COIN_%281_Apr_10%29.pdf).

<sup>44</sup>"Afghanistan Transition: The Death of Bin Laden and Local Dynamics," The International Council on Security and Development, May 2011, p. 6, <http://www.icosgroup.net/static/reports/bin-laden-local-dynamics.pdf>.

<sup>45</sup>According to a former development specialist at USAID's Mission in Kabul, the staff turnover rate in Afghanistan is more than 85 percent a year. Rajiv Chandrasekaran, "U.S. Military Dismayed by Delays in 3 Key Development Projects in Afghanistan," Washington Post, April 28, 2011, [http://www.washingtonpost.com/world/us-military-dismayed-by-delays-in-3-key-development-projects-in-afghanistan/2011/04/22/AFD6jq8E\\_story.html](http://www.washingtonpost.com/world/us-military-dismayed-by-delays-in-3-key-development-projects-in-afghanistan/2011/04/22/AFD6jq8E_story.html).

<sup>46</sup>According to James Kunder, former USAID acting deputy administrator, "it's time to focus on the underlying reason our fighting forces feel inadequately supported: There are a thousand Defense Department personnel for every one USAID employee around the world. Administrations and Congresses controlled by both parties allow this preposterous imbalance in capability to continue. This particular Congress has gone one better, deeply cutting USAID and State Department funding despite warnings from Defense Secretary Robert M. Gates and uniformed

gress, and changing political timelines have further complicated efforts. Pressure to achieve rapid results puts our civilians under enormous strain to spend money quickly.

Afghanistan is not Iraq, which had a functioning state and robust government and civil society institutions. After the fall of the Taliban, we were faced with the challenge of building a democratic-style government and modern economy. The U.S. effort began in earnest in 2009, when the administration and Congress recognized the need for properly resourcing the civilian effort.

Ongoing development aid will be needed for the foreseeable future to help Afghanistan become stable. This section examines how we can improve our assistance strategy. As discussed below, we must overcome the challenges that have undermined our efforts, including unrealistic timelines, lack of robust oversight, off-budget financing, capacity-building programs that rely heavily on technical advisors, and issues of Afghan ownership and fiscal sustainability.

#### POLITICAL VERSUS DEVELOPMENT TIMELINES

Development, when done properly, takes time and results cannot be measured immediately. In a country like Afghanistan, development will take generations. The U.S. Government has strived for quick results to demonstrate to Afghans and Americans alike that we are making progress. Indeed, the constant demand for immediate results prevented the implementation of programs that could have met long-term goals and would now be bearing fruit.

As recently as last summer, Embassy Kabul believed it had a 3- to 5-year window to accomplish its development goals. However, the political tide in the United States has been turning, with increased pressure to bring our troops home and draw down our military and civilian budgets in Afghanistan. Increasingly, the U.S. civilian strategy is linked to the shorter term military strategy on the ground. Resources are only appropriated from Congress on an annual cycle, which complicates efforts to undertake longer term civilian commitments.

Discussions are underway on a strategic agreement with Afghanistan that will frame the contours of our relationship following the withdrawal of U.S. troops. We expect there will be a longer term commitment of U.S. civilian resources for the people of Afghanistan. But the scope of this commitment is still under negotiation.

Given the emphasis on annual budget cycles in Washington and the lack of a multiyear authorization for Afghanistan that could provide a roadmap for future funding, the administration is again under pressure to demonstrate quick results to Congress. Many in Congress are fixated on “burn rates,” or how fast the money is spent and how much money is left in the “pipeline.” This results in undue emphasis at USAID and the State Department on getting money out the door to ensure future appropriations at significant levels. Political pressures create perverse incentives to spend money even when the conditions are not right.

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commanders that inadequate civilian capacity means more American soldiers deployed and, regrettably, more dead and wounded.” James Kunder, “Afghan Aid Efforts Are Crucial to the War Effort,” Letter to the Editor, Washington Post, May 3, 2011, [http://www.washingtonpost.com/opinions/afghan-aid-programs-are-crucial-to-the-war-effort/2011/05/01/AFFhLZjF\\_story.html](http://www.washingtonpost.com/opinions/afghan-aid-programs-are-crucial-to-the-war-effort/2011/05/01/AFFhLZjF_story.html).

Cutting back our foreign aid budgets is not the most prudent solution. As we learned in Iraq, there will be tremendous pressure on our civilians to absorb missions currently performed by the military as our troops begin to draw down.<sup>47</sup> The State Department and USAID must have the resources they need to ensure a smooth transition.

Our goal should be to reduce some of the political pressure to spend money quickly, especially when the conditions are not right. Some ideas under discussion include a multiyear authorization bill or creating a trust fund that could disperse funds as needed and appropriate. We welcome further discussions with the administration on these and other options.

#### LIMITED CONTRACTOR OVERSIGHT

The U.S. Government relies heavily on contractors and subcontractors in Afghanistan for aid projects. Contractors support direct-hire personnel, implement assistance projects, and address U.S. Government workforce shortfalls.

From FY 2007 to FY 2009, USAID obligated about \$3.8 billion to 283 contractors and other entities, including more than \$2 billion (53 percent) to 214 contractors, \$1.1 billion (nearly 30 percent) to 53 cooperative agreement partners, and \$625 million (17 percent) for 17 grants. Two contractors—Louis Berger International and Development Alternatives Inc.—accounted for about \$1 billion, or more than half the total of USAID’s contracts.<sup>48</sup>

During this same time period, the State Department’s Bureau of International Narcotics and Law Enforcement (INL) obligated about \$2.3 billion to four contractors, with DynCorp International accounting for more than 80 percent of INL’s total obligations.<sup>49</sup>

Contractors run the gamut from companies who implement USAID programs to individual experts who serve as technical advisors within Afghan institutions and ministries, as Deloitte representatives did at the Afghan Central Bank.

While there are many good reasons to use contractors in Afghanistan, there are also reasons for concern. The case of the Louis Berger Group Inc. (LBG) is instructive. A New Jersey-based engineering consulting firm that accounted for over a third of USAID’s total contract obligations in Afghanistan between FY 2007 and FY 2009, LBG recently admitted to submitting “false, fictitious, and fraudulent overhead rates for indirect costs . . . [resulting] in overpayments by the [U.S.] government in excess of \$10 million” from 1999 to 2007.<sup>50</sup> Such instances of fraud undermine our reconstruc-

<sup>47</sup> U.S. Senate, Committee on Foreign Relations, Committee Print, Majority Staff, 112th Cong., 1st sess., Iraq: The Transition from a Military Mission to a Civilian-led Effort, January 31, 2011, <http://foreign.senate.gov/download/?id=C4ABBB7E-FFD6-4162-BB55-878EC62FE445>.

<sup>48</sup> Special Inspector General for Afghanistan Reconstruction, Quarterly Report to the United States Congress, October 30, 2010, pp. 4 and 21, [http://www.sigar.mil/pdf/quarterlyreports/Oct2010/Lores/SIGAR4Q\\_2010Book.pdf](http://www.sigar.mil/pdf/quarterlyreports/Oct2010/Lores/SIGAR4Q_2010Book.pdf). See also: Special Inspector General for Afghanistan Reconstruction, “DOD, State, and USAID Obligated Over \$17.7 Billion to About 7,000 Contractors and Other Entities for Afghanistan Reconstruction During Fiscal Years 2007–2009,” Audit 11–4 Contract Performance and Oversight, October 27, 2010, pp. 9–17, <http://www.sigar.mil/pdf/audits/SIGAR%20Audit-11-4.pdf>.

<sup>49</sup> Ibid.

<sup>50</sup> David Voreacos, “Berger Group Pays \$69.3 Million for Iraq Overbilling,” Bloomberg Businessweek, May 5, 2011, <http://www.businessweek.com/news/2010-11-05/berger-group-pays-69-3-million-for-iraq-overbilling.html>.

tion efforts in Afghanistan and highlight the need for vigorous oversight of our war-zone contracts.

In addition to the risk of contractor fraud, the use of large numbers of contractors raises other significant opportunities for waste and mismanagement. By contracting with U.S. and international contractors at western prices (the “primes”), donor funds can be lost to corruption through multiple subcontractors over which the U.S. Government has little to no control (the “subs”). Projects may be built at costs substantially less than the amount originally paid, using substandard materials and methods. Poor security conditions and a lack of contracting officers overseeing contractor performance could deter site visits to confirm whether the project was properly built, or even built at all. Afghanistan is littered with abandoned or half-built structures.

Multiple reports have raised concerns about the lack of robust contractor oversight. The GAO finds “oversight inadequate at times, thus raising questions about the agencies’ ability to ensure accountability for multibillion dollar investments.”<sup>51</sup> The Special Inspector General for Afghanistan Reconstruction (SIGAR) warns that “the large U.S. investment in Afghanistan remains at significant risk of being wasted or subject to fraud and abuse.”<sup>52</sup> The bipartisan Congressional Commission on Wartime Contracting in Iraq and Afghanistan is particularly critical of overall U.S. Government assistance, noting that “tens of billions of taxpayers’ dollars have failed to achieve their intended use in Iraq and Afghanistan.”<sup>53</sup>

Part of the problem is a lack of qualified contracting officers, contracting officer’s representatives, and acquisition staff. Currently, USAID has approximately 85 Foreign Service contracting officers serving worldwide with three or more years of experience. Ten are serving in Afghanistan and USAID plans to increase this number to 18, which is an improvement from 2007 when there were only three contracting officers in Afghanistan.<sup>54</sup> However, this increase will not likely be sufficient to provide adequate oversight of contractor performance in Afghanistan. According to Maureen Shauket, USAID’s Director of the Office of Acquisition and Assistance, in order to meet the U.S. Government’s civilian average ratio of number of dollars per contracting officer, USAID would have to send nearly its entire overseas workforce to work only in Afghanistan.

Compounding the problem is the difficulty of getting contract staff with the right technical backgrounds to serve in places like Afghanistan. Congress needs to create incentives and find addi-

<sup>51</sup> Jacquelyn Williams-Bridgers, United States Government Accountability Office, “Key Issues for Congressional Oversight,” Testimony before the Subcommittee on State, Foreign Operations, and Related Programs, Committee on Appropriations, House of Representatives, March 3, 2011, Highlights page, <http://www.gao.gov/new.items/d11419t.pdf>.

<sup>52</sup> Special Inspector General for Afghanistan Reconstruction, Quarterly Report to the United States Congress, October 30, 2010, p. vi, [http://www.sigar.mil/pdf/quarterlyreports/Oct2010/Lores/SIGAR4Q\\_2010Book.pdf](http://www.sigar.mil/pdf/quarterlyreports/Oct2010/Lores/SIGAR4Q_2010Book.pdf).

<sup>53</sup> Commission on Wartime Contracting in Iraq and Afghanistan, “At What Risk: Correcting Overreliance on Contractors in Contingency Operations,” Second Interim Report to Congress, February 24, 2011, p. 7, [http://www.wartimecontracting.gov/docs/CWC\\_InterimReport2-lowres.pdf](http://www.wartimecontracting.gov/docs/CWC_InterimReport2-lowres.pdf).

<sup>54</sup> Kate Beale, USAID, e-mail message to Senate Foreign Relations Committee Majority Staff, April 21, 2011.

tional funding for USAID to build a corps of contract officers willing to serve in war zones.

The Kabul Bank incident underscores the importance of such a move. In 2010, massive fraud was uncovered at Kabul Bank, including loans totaling \$900 million to shareholders at the Bank, which is nearly 5 percent of Afghanistan's current Gross Domestic Product (GDP). Fraud of this scale resulted from failures at every level, including internal bank control; Kabul Bank's auditors—A.F. Ferguson & Co., a Pakistani affiliate of PricewaterhouseCoopers; Afghanistan's Central Bank; the Central Bank's advisors, Deloitte, under a USAID contract; the political establishment; and USAID.

At the time, USAID had only one contracting officer's technical representative overseeing the \$92 million contract with Deloitte to provide technical assistance to the Central Bank. An investigation undertaken by the USAID Office of Inspector General determined that Deloitte knew or should have known that there were serious problems at Kabul Bank and failed to alert USAID officials in Kabul.<sup>55</sup>

The failures do not end with Deloitte or USAID's lack of adequate oversight. Independent of its relationship with Deloitte, USAID should have known or suspected that there were serious problems at Kabul Bank. Within Afghanistan, the fraud at Kabul Bank has been described as an open secret, known and discussed by market participants. And yet, it appears that no one at USAID had the technical knowledge or private sector relationships to see what many others in the sector saw.

According to a former USAID Kabul Mission Director:

Because of the ill planned downsizing of USAID's technical staff over the past years and the difficulty in finding senior technical Foreign Service officers to serve in Afghanistan, the management of the Kabul Bank Deloitte contract was relegated to a junior officer. While he worked to the best of his ability, this important project demanded strong technical oversight and similar programs of this level of strategic importance will demand senior management expertise and a different system with USAID to ensure the availability of senior technical staff.

In another case involving an education project for teachers, USAID's contracting officer was unaware and did not consent to the award of subcontracts and did not approve of significant subcontract modifications totaling \$23.4 million out of a \$94 million contract.<sup>56</sup> These modifications included changes in the duration of subcontracts and terms of subcontractor performance, as well as significant funding increases.<sup>57</sup>

With respect to international narcotics and law enforcement programs, INL manages approximately \$927 million in contract services in Afghanistan. Yet it has only one Contracting Officer Rep-

<sup>55</sup>Tim Cox, "Review of USAID/Afghanistan's Bank Supervision Assistance Activities and the Kabul Bank Crisis," Report No. F-306-11-003-S, USAID Office of Inspector General, March 16, 2011.

<sup>56</sup>Department of State, Office of Inspector General, "Audit of USAID/Afghanistan's Building Education Support Systems for Teachers Project," Audit Report No. 5-306-10-006-P, January 29, 2010, p. 9, <http://www.usaid.gov/oig/public/fy10rpts/5-306-10-006-p.pdf>.

<sup>57</sup>Ibid.

representative (COR) in Washington overseeing five Civilian Police (CivPol) Program task orders amounting to \$800 million and seven In-country Contract Representatives (I-CORs) providing on-the-ground administrative contract support.<sup>58</sup>

The administration is taking welcome steps to improve oversight. We support initiatives such as USAID Forward, which will incorporate more vigorous measurement and accountability tools, streamline contracting rules, and fund smaller, local agents of change.<sup>59</sup> USAID has also established the Accountable Assistance for Afghanistan initiative (A3) to ensure dollars are not being diverted from their purpose by extortion or corruption. These and other steps, including planned improvements to USAID's acquisition strategy and support for third party monitoring and evaluation, will help ensure proper use of U.S. taxpayer funds.

Embassy Kabul is working closely with Task Force 2010 and Combined Joint Interagency Task Force (CJIATF)-Shafafiyat ("Transparency") to improve the quality of contractors and to prevent contracts with Afghan contractors who are corrupt or have ties to the insurgency. The United States is also working with the Afghan Government to change the way security is provided to our contractors. The military has ordered changes in the way goods and services are procured. SIGAR and the USAID Inspector General are investigating allegations of corruption relating to U.S. funds and have successfully prosecuted cases involving U.S. citizens.

More can still be done to reduce our reliance on contractors and ensure proper oversight of prime and subcontractors. For instance, as discussed below, more U.S. funding could be channeled to national Afghan programs and Afghan civil society organizations instead of large, international contractors. The State Department and USAID should take immediate steps to ensure sufficient staffing levels and relevant professional expertise of contracting officers before contracts are awarded, including steps to recruit and train people with the proper financial oversight backgrounds. Recommendations put forth by the bipartisan Congressional Commission on Wartime Contracting in Iraq and Afghanistan should also be implemented.<sup>60</sup>

#### ON-BUDGET VERSUS OFF-BUDGET FUNDING

Most international donors, including the United States, channel much of their aid "off-budget," meaning it does not go through the Afghan Government. Off-budget funding is appealing because it provides more financial and programmatic control to the donor, which is important in an environment where there are significant concerns about weak government capacity and corruption.

However, off-budget funding has significant downsides. It can weaken the ability of the Afghan state to control resources, which

<sup>58</sup> Of the seven I-CORs, four are located in Kabul, one in Kunduz, one in Jalalabad, and one in Kandahar. Christine Leming, Department of State, e-mail message to Senate Foreign Relations Committee Majority Staff, May 3, 2011.

<sup>59</sup> Administrator Rajiv Shah, Testimony before the Commission on Wartime Contracting in Iraq and Afghanistan, Washington, DC, April 2, 2011, [http://www.wartimecontracting.gov/docs/hearing2011-04-01\\_testimony-Shah.pdf](http://www.wartimecontracting.gov/docs/hearing2011-04-01_testimony-Shah.pdf).

<sup>60</sup> Commission on Wartime Contracting in Iraq and Afghanistan, "At What Risk: Correcting Over-Reliance on Contractors in Contingency Operations," Second Interim Report to Congress, February 24, 2011, [http://www.wartimecontracting.gov/docs/CWC\\_InterimReport2-lowres.pdf](http://www.wartimecontracting.gov/docs/CWC_InterimReport2-lowres.pdf).



results in donor duplication, and can fuel corruption. It has also led to the creation of thousands of donor-driven projects without any plan for sustaining them, including 16,000 CERP projects funded by the military at a cost of over \$2 billion.<sup>61</sup> As USAID notes, there is a daily tension between “building capacity in the Afghan Government, putting U.S. taxpayer money on-budget, and ensuring that urgent [Afghan] government functions happen.”<sup>62</sup>

Ultimately, the Afghan Government must be a genuine partner for our assistance efforts to succeed. It cannot be held accountable for processes over which it has little to no control. Thus, the U.S. Government is working to meet its Kabul Conference commitment to fund up to 50 percent of our aid “on-budget” by FY 2012 from approximately 21 percent in FY 2009, 35 percent in FY 2010, and 37–45 percent in FY 2011.<sup>63</sup>

According to the London and Kabul conference communiqués, delivering aid through the Afghan Government is “conditioned on the Government’s progress in further strengthening public financial management systems, reducing corruption, improving budget execution, developing a financial strategy and Government capacity towards the goal.”<sup>64</sup>

For instance, the Afghan Government committed at the Kabul Conference to pass an improved Audit Law as part of its effort to improve public financial management. This is also an Afghanistan Reconstruction Trust Fund (ARTF) benchmark. Yet the U.S. Treasury Department and many at Embassy Kabul believe that the Audit Law passed by the government is insufficient and does not meet the Afghan obligation under the ARTF benchmark. Failure to meet the benchmark would mean that for the first time, a certain amount of funds—approximately \$17 million—would not be disbursed to the Afghan Government, sending a signal that these commitments matter.<sup>65</sup> However, the U.S. Government’s current position is to accept the deficient Audit Law, despite strong internal opposition, in order to avoid a confrontation with the Afghan Government.

The United States has committed to funding more aid directly through the Afghan Government, but stronger measures must first be taken to ensure greater accountability of our funds.

Most of USAID’s on-budget aid—an estimated \$2.08 billion—is provided through the ARTF, a multidonor trust fund administered

<sup>61</sup>Josh Boak, “U.S.-funded infrastructure deteriorates once under Afghan Control, report says,” *Washington Post*, January 4, 2011, <http://www.washingtonpost.com/wp-dyn/content/article/2011/01/03/AR2011010302175.html?hpid=topnews>.

<sup>62</sup>See Appendix VII.

<sup>63</sup>Response to Questions for the Record submitted to Secretary of State Hillary Rodham Clinton by Chairman John Kerry, March 2, 2011, Nos. 13 and 14. According to USAID, “we currently spend approximately 38 percent of our funds on-budget.” For more information, see: Appendix VII.

<sup>64</sup>Tim Cox, “Review of USAID/Afghanistan’s Ministerial Assessment Process,” Review Report No. F-306-11-001-S, November 6, 2010, p. 2, <http://www.usaid.gov/oig/public/fy11rpts/f-306-11-001-s.pdf>.

<sup>65</sup>The ARTF is comprised of two “windows”: 1) a recurrent window that covers the costs of the government for operations, maintenance, and salaries for teachers, health workers, and civilian staff in the ministries and provinces, and 2) an investment window that supports government capacity-building projects and technical assistance.

by the World Bank.<sup>66</sup> ARTF is a valuable instrument through which the United States can disburse its aid.

But ARTF has its own challenges. It requires some structural changes to improve absorptive capacity and ensure adequate field oversight. Today, World Bank supervision is constrained by the Bank's limit of 100 personnel in-country, who are expected to oversee 46 small programs.<sup>67</sup> Donors should push for more robust supervision from the World Bank. Additionally, donors should consider using the ARTF for a smaller number, i.e., 5 to 7, of big "national programs" like the National Solidarity Program (NSP) to improve focus and oversight instead of dozens of smaller programs. Finally, since ARTF is World Bank-administered, USAID does not have authority to audit the ARTF and its programs directly. But the United States could argue for more rigorous application of the metrics and benchmarks of the ARTF performance fund.

Aside from ARTF, the U.S. Government also delivers money on-budget through Afghan ministries. To date, \$307 million has been transferred directly to Afghan ministries.<sup>68</sup> USAID expects to deliver at least \$509.4 million through Afghan ministries after having completed assessments to determine which ministries can manage USAID funds. Currently, 14 ministries and agencies receive direct assistance from the State Department and USAID.<sup>69</sup>

The administration's assessment of these ministries for specific projects has also run into challenges. As of September 2010, USAID had performed assessments of six ministries,<sup>70</sup> but USAID's Inspector General found that they "did not provide reasonable assurance of detecting significant vulnerabilities" that could result in the waste or misuse of U.S. Government resources.<sup>71</sup> USAID and the State Department do not follow the same standard assessment process. SIGAR has also expressed concern that "the United States and other donors do not have a process in place to assess whether Afghan institutions have the capacity to manage and account for donor funds."<sup>72</sup>

Embassy Kabul has taken some action to change the assessment process of ministries to ensure proper safeguards of U.S. funds.

<sup>66</sup> Response to Questions for the Record submitted to Secretary of State Hillary Rodham Clinton by Chairman John Kerry, March 2, 2011, No. 16.

<sup>67</sup> Scott Guggenheim, email message to Senate Foreign Relations Committee Majority Staff, April 18, 2011.

<sup>68</sup> Response to Questions for the Record submitted to Secretary of State Hillary Rodham Clinton by Chairman John Kerry, March 2, 2011, No. 18.

<sup>69</sup> Ministry of Finance (\$30 million), Ministry of Communications and Information Technology (\$1 million), Ministry of Public Health (\$236.5 million), USAID Salary Sup Special Posts (\$2 million), Ministry of Agriculture, Irrigation, and Livestock, Independent Directorate of Local Governance (\$85 million), Ministry of Finance and World Bank (\$2,079.5 million), Ministry of Education (\$25 million through Danish Development Agency), Ministry of Transportation and Civil Aviation (\$6 million), Ministry of Counter Narcotics, Ministry of Women's Affairs, Ministry of Justice, Attorney General's Office, and Ministry of Interior. For more information, see: Response to Questions for the Record submitted to Secretary of State Hillary Rodham Clinton by Chairman John Kerry, March 2, 2011, Nos. 15 and 16.

<sup>70</sup> Ministry of Rural Rehabilitation and Development (MRRD), Ministry of Agriculture, Irrigation, and Livestock (MAIL), Ministry of Education, Ministry of Communication and Information Technology, Ministry of Finance, and Ministry of Public Health. For more information, see: Response to Questions for the Record submitted to Secretary of State Hillary Rodham Clinton by Chairman John Kerry, March 2, 2011, Nos. 18 and 19.

<sup>71</sup> Tim Cox, "Review of USAID/Afghanistan's Ministerial Assessment Process," Review Report No. F-306-11-001-S, November 6, 2010, p. 4, <http://www.usaid.gov/oig/public/fy11rpts/f-306-11-001-s.pdf>.

<sup>72</sup> Special Inspector General for Afghanistan Reconstruction, Quarterly Report to the United States Congress, October 30, 2010, p. 10, <http://www.sigar.mil/pdf/quarterlyreports/Oct2010/Lores/SIGAR4Q—2010Book.pdf>.

More must be done. The U.S. Treasury Department, which has expertise in budgetary assessments and oversight, could assist with assessments in conjunction with the World Bank to ensure that our standards are harmonized with other donors. Increasing on-budget funding should be conditioned on the Afghan Government's success in meeting its Kabul Conference commitments. The Afghan Government must comply with International Monetary Fund (IMF) requirements to resolve the Kabul Bank crisis. Finally, the FY 2010 Supplemental Appropriations Act of 2010 requires the Secretary of State to certify that progress has been made in the areas of fighting corruption and improving governance before Economic Support funds and International Narcotics Control and Law Enforcement (INCLE) funds can be disbursed.<sup>73</sup>

Measurable progress on the part of the Afghan Government in these areas will demonstrate that it is committed to improving public financial management and able to protect money from fraud and abuse. Steps must also be taken to simplify the Afghan Government's public financial control systems, which are too complicated and limit disbursement rates.

#### CAPACITY BUILDING USING TECHNICAL ADVISORS

Ultimately, success will depend on the ability of the Afghan Government to provide basic services and security in a transparent, accountable, and effective manner. The United States should focus its assistance on the core state functions that are necessary for success. Donors will not be able to keep paying for the costs of running the Afghan Government indefinitely.

Given this reality, the U.S. strategy is focused on building the capacity of Afghan institutions to deliver basic services. But our over-reliance on international technical advisors to build Afghan capacity may undermine these efforts.

According to Dr. Ashraf Ghani, Afghanistan's former Finance Minister and current Presidential advisor, in 2001 Afghanistan had approximately 240,000 civil servants, including doctors and teachers.<sup>74</sup> The international aid effort, with its inflated salaries, may have chipped away at this elementary form of governmental capacity. Instead of investing in vocational and higher education that would have given Afghans the skills to run their country, donors hired technical advisors to do these jobs at roughly 10 times the cost.<sup>75</sup>

For instance, in the last fiscal year, the Afghan Ministry of Education's entire budget for vocational and higher education was only \$35 million.<sup>76</sup> In contrast, the State Department and USAID are currently spending approximately \$1.25 billion on capacity-building

<sup>73</sup> U.S. Congress. Supplemental Appropriations Act, 2010. 111th Cong., 2nd sess., H.R. 4899, Section 1004, subsection c(1).

<sup>74</sup> According to Dr. Ashraf Ghani, as reported in *The Times*, "When we started in 2001 we had 240,000 civil servants willing to work for a government salary of £25 a month. By 2004 all the talented ones had left to become drivers for the UN, the World Bank or charities." Christina Lamb, "Afghans Plead for £25bn in Aid as Disorder Grows," *The Times*, June 8, 2008, <http://www.timesonline.co.uk/tol/news/world/asia/article4087300.ece>.

<sup>75</sup> Clare Lockhart, Institute for State Effectiveness, email message to Senate Foreign Relations Committee Majority Staff, April 24, 2011.

<sup>76</sup> *Ibid.*

efforts.<sup>77</sup> A significant portion is spent on technical advisors. The United States is currently funding approximately 260 civilian advisors, according to senior Embassy officials.

Technical advisors work with an organization for a limited time to generate institutional capacity, train Afghans to perform effectively, and enable them to teach their own successors. Their work can be critical in such areas as fiscal policy and pension reform, where highly specialized technical assistance is needed. There are a number of cases where technical advisors have made a positive impact in Afghanistan.

But there can be substantial downsides. Technical advisors are expensive—each one can cost between \$500,000 and \$1 million annually.<sup>78</sup> They can be difficult to supervise, given the shortage of qualified contracting personnel. They may fail to report evidence of corruption or wrongdoing, believing their allegiance is to the Afghan ministry rather than the U.S. Government. They may do the job of Afghans themselves or impose their own vision on the institution rather than train the Afghan staff or advise the Afghan minister. Or they may introduce unsustainable high-tech methods.

Once they are trained, Afghans may leave their ministry to take a job for inflated wages with international firms or missions, resulting in brain drain from Afghan institutions. The Afghan Government finds it nearly impossible to retain competent workers when foreign governments, aid agencies, nongovernmental organizations, and private companies offer them inflated salaries and benefits (“top-up salaries”)—sometimes 10 to 20 times the amount of base government salaries—to perform jobs within Afghan Government institutions.

For instance, wage levels for Afghan Government staff such as teachers, health workers, and administrative staff are in the realm of \$50 to \$100 per month, but drivers, assistants, and translators for aid projects are paid upward of \$1,000 per month.<sup>79</sup> According to a State Department official, 40 Afghans working in professional positions within the government received between \$3,000 and \$5,000 per month in salary supplements from the U.S. Government, although this particular program ended in March 2011.<sup>80</sup> Many of these donor-supported positions are not even authorized in the government’s staffing charts.<sup>81</sup> These practices undermine the

<sup>77</sup>The figure of \$1.25 billion includes USAID estimated costs on capacity building in Afghanistan (see Appendix IV) and INL current task order year spending on capacity-building projects in Afghanistan (see Appendix V). USAID’s \$1.1 billion capacity-building projects include \$219 million to assist the Civil Service Institute to build the capacity of line ministry employees; \$102 million to create effective municipal governance; \$94 million to improve teacher performance and build capacity within the Ministry of Education; \$92 million to develop economic and regulatory policy and support the private sector; \$84 million to build the capacity of the Ministry of Public Health; and \$41 million to develop the institutional capacity of the National Assembly.

<sup>78</sup>Clare Lockhart, Institute for State Effectiveness, email message to Senate Foreign Relations Committee Majority Staff, April 24, 2011.

<sup>79</sup>Ibid.

<sup>80</sup>Conversation with senior Embassy Kabul officials, April 2011.

<sup>81</sup>Special Inspector General for Afghanistan Reconstruction, Quarterly Report to the United States Congress, October 30, 2010, p. 11, <http://www.sigar.mil/pdf/quarterlyreports/Oct2010/Lores/SIGAR4Q—2010Book.pdf>. “Since 2002, the United States and other international donors have paid the salaries of thousands of civilian government employees and technical advisors to help build the capacity of the GIRA. Afghanistan’s Ministry of Finance estimated that 17 donors were paying more than \$45 million a year in salary support for 6,600 civilian employees and advisors. This support is separate from the money provided by the Afghan Reconstruction Trust Fund (ARTF). The ARTF pays for much of Afghanistan’s regular civil service through its contribution to Afghanistan’s operating budget. Since 2002, the United States has provided

goal of generating long-term Afghan capacity and are unsustainable.

In order for technical advisors to play a constructive role, they must be monitored effectively. But our overreliance on them and minimal oversight has proved costly and made it harder for them to do their jobs. The administration should consider other options. For example, the Scott Family Liberia Fellows program recruits young professionals, including qualified Liberians, to support the Government of Liberia at a fraction of the cost.<sup>82</sup> Too often, our aid programs assume that building capacity can only be done through hiring international experts to provide technical assistance. The Scott Family Fellows program suggests an alternative model from which to draw best practices.

Embassy Kabul is addressing these issues. For instance, the Embassy now meets with technical advisors twice a month to monitor their work and ensure proper oversight. The Embassy should also examine the efficacy of its technical advisors and limit their use where they are not making progress.

Perhaps the most important step the U.S. Government can take in conjunction with the Afghan Government and other donors is to standardize Afghan salaries and work within Afghan Government staffing constraints. This single step would have a significant and lasting effect on improving the capacity of the Afghan Government. Until this problem is resolved, programs such as the Afghan Civil Service Support program, which is an \$84 million USAID program to train 4,000 civil servants in Kabul and 12,000 more in all 34 provinces, may have limited impact in building Afghanistan's civil service.<sup>83</sup>

#### TRANSITIONING TO AFGHAN OWNERSHIP

Increasing and improving on-budget funding, paring back the number of technical advisors, and standardizing salaries are important first steps for strengthening the capacity of the Afghan Government. But ultimately, Afghans have to be able to absorb donor programs. The United States must focus its assistance programs on Afghan ownership and sustainability, especially as we prepare for the 2014 transition.

Too often, this is not the case. For example, in the past 5 years, the State Department has spent approximately \$2 billion on coun-

nearly \$922 million to the ARTF. The United States pledged \$590 million for 2010 and has contributed \$215 million of this amount to date." *Ibid.*, p. 10.

<sup>82</sup>"The Scott Family Fellows program aims to recruit young professionals to support the Government of Liberia as it recovers from 14 years of brutal civil war. These young professionals fill a huge capacity gap and work in Liberia as "special assistants" to senior Liberian government officials, primarily Cabinet members. They typically have a Masters degree and one or two years of relevant experience. The program puts a special emphasis on encouraging qualified Liberians to apply. The Fellows work long hours in a range of activities from mundane administrative tasks to more profound policy issues, all with the goal of helping Liberia in its urgent reconstruction and development efforts. The Scott Family Fellows program is funded by a generous \$1,000,000 grant from the family of Edward W. Scott, Jr. When announcing the program in February 2007, Liberian President Ellen Johnson Sirleaf said, 'This is just the kind of support we need from our friends. I am very grateful to Ed Scott and his family for their generous support.' Since its inception, the program has expanded to include other fellows funded by Humanity United, the McCall MacBain Foundation, the Open Society Institute and the Nike Foundation." Scott Family Liberia Fellows, Center for Global Development, Initiatives, accessed April 19, 2011, <http://www.cgdev.org/section/initiatives/—active/scottfellows>.

<sup>83</sup>Embassy of the United States, Kabul, Afghanistan, "Afghanistan Civil Service Commission and U.S. Government Sign Memorandum of Understanding to Begin Civil Service Support Program," February 22, 2010, <http://kabul.usembassy.gov/pre—2202.html>.

ternarcotics programs in Afghanistan, including \$60 million since 2007 to support two counternarcotics compounds near the Kabul airport<sup>84</sup> and in Kunduz province. While it is a U.S. objective to transfer responsibilities and ownership of these compounds from the United States to Afghanistan, the State Department's Inspector General found the Department still "has not addressed how and when the Afghan Government will be able to assume control and sustain day-to-day operations."<sup>85</sup>

In other instances, we have transferred programs to Afghan control even when the capacity does not yet exist. For example, despite a request from Afghanistan's Ministry of Education (MoE) for a longer extension, USAID is granting a no-cost, 3-month extension for a successful 5-year program that expands access to primary education classes for more than 84,000 children, over 63 percent of which are girls. The \$31 million program, called the Partnership for Advancing Community-Based Education (PACE-A), involves four prominent international NGOs—CARE International, Catholic Relief Services, International Rescue Committee, and the Aga Khan Foundation—who have experience providing education in areas not served by the MoE.

To support the sustainability of these efforts, the NGOs work closely with the MoE to integrate classes into the formal education system and strengthen the MoE's ability to assume responsibility for these classes.<sup>86</sup> Turning this program over to the MoE prematurely could end access to education for many students, particularly girls, and jeopardize the relationships built in these communities with village mullahs that defied the Taliban to allow their girls to attend school.

#### FISCAL SUSTAINABILITY FOR THE AFGHAN GOVERNMENT

Strengthening the capacity of the Afghan Government to undertake basic government functions is important, but it will require fiscal sustainability to succeed. According to the World Bank, an estimated 97 percent of Afghanistan's GDP is derived from spending related to the international military and donor community presence. A precipitous withdrawal of international support, in the absence of reliable domestic revenue and a functioning market-based economy, could trigger a major economic recession.<sup>87</sup> USAID and the State Department recognize these challenges and their current planning is "anticipating both the impact of the U.S. troop withdrawal on the Afghan economy, and on U.S. civilian resources."<sup>88</sup>

<sup>84</sup> The Kabul compound is home to two specialized Afghan counternarcotics units—the National Interdiction Unit and the Specialized Investigative Unit—and is designed to support up to 400 Afghan counternarcotics agents to work, train, and live while on duty. For more information, see: Department of State, Office of Inspector General, "Performance Evaluation of PAE Operations and Maintenance Support for the Bureau of International Narcotics and Law Enforcement Affairs' Counternarcotics Compounds in Afghanistan," Report Number MERO-I-11-02, February 2011, p. 7, <http://oig.state.gov/documents/organization/157927.pdf>.

<sup>85</sup> *Ibid.*

<sup>86</sup> According to one of PACE-A's implementing partners, approximately 51 percent of the schools in the entire consortium project have been integrated into the Ministry of Education, a process that usually takes three years.

<sup>87</sup> Dr. Ashraf Ghani, "Preparing for Transition: A Policy Note on Development," policy memo sent to Senate Foreign Relations Committee Majority Staff, May 12, 2011.

<sup>88</sup> See Appendix VII.

At present, donors are picking up most of the costs of running the Afghan Government. Scott Guggenheim, formerly with the World Bank, has noted that domestic revenues only cover one-fifth of public spending and two-thirds of public spending is off-budget, which means that donors pay for most development services.<sup>89</sup>

Achieving fiscal sustainability will require the Afghan Government to (1) substitute donor grants for the operating and development budget; (2) assume external budget obligations on the operating budget; (3) pay for a share of technical assistance for core civil service functions; (4) fund the Kabul process; and (5) invest in operations and maintenance for acquired assets. Transition planning should find the right balance between avoiding a sudden drop-off in aid, which could trigger a major economic recession, and a long-term phaseout from current donor levels.

These are daunting tasks. Analysts estimate that it could cost between \$6 and \$8 billion a year alone to sustain the Afghan National Security Forces, depending on the final size of the force. Without significant domestic revenue generation, the Afghan state will not be self-sufficient for decades and donors, particularly the United States, will have to bear the costs. With the right planning, Afghanistan may be able to generate substantial revenues from its sizeable mineral deposits in the future, but we do not see any signs of near-term revenue generation from its mineral wealth.

In the short term, it will be critical to build the private sector and attract foreign investment. Our aid programs should be designed with foreign capital in mind. Our capacity-building efforts should focus on key ministries and institutions that must work for the Afghan Government to deliver rather than an across-the-board approach to strengthen all ministries. Instead of creating additional off-budget assets like schools, clinics, and roads, our attention must turn to how the Afghan Government will sustain and staff what the donor community has already built.

## CASE STUDIES

### CASE STUDY A: SUCCESS OF NATIONAL PROGRAMS WITH LOCAL BUY-IN—THE NATIONAL SOLIDARITY PROGRAM AND BASIC PACKAGE OF HEALTH SERVICES

*The National Solidarity Program and Basic Package of Health Services illustrate how national-level programs that are on-budget and have significant Afghan buy-in can achieve more with less. These programs exemplify the goals of being “necessary, achievable, and sustainable.”*

<sup>89</sup>The World Bank notes that domestic revenue collection in Afghanistan reached \$1.65 billion in 2010/2011, double the 2007/2008 rate as a result of significant efforts by the Ministry of Finance. Afghanistan’s core budget in this period, a combination of domestic revenue and off-budget expenditures, was \$4.6 billion. Its external budget, comprised of donor-financed off-budget expenditures, was reported by the Ministry of Finance to be \$6 billion, though the actual amount may be as high as \$16 billion. For more information, see: Response to Questions for the Record submitted to Secretary of State Hillary Rodham Clinton by Chairman John Kerry, March 2, 2011, No. 17.

Imposing governance from the center has never been effective in Afghanistan.<sup>90</sup> According to anthropologist Thomas Barfield:

While governments in the developed world are the unquestioned suppliers of governance to their local communities, this has not been the case historically in Afghanistan. Here one finds adequate local governance in the absence of formal government institutions . . . Successful regimes in Afghanistan have recognized this reality by devolving considerable informal decisionmaking power to local communities, letting them solve their own problems so that the state does not have to intervene. In return, local communities have recognized the sovereignty of the Afghan national state and have not challenged its legitimacy.<sup>91</sup>

As Barfield's analysis suggests, our goal should be to strengthen local traditions of governance even as we work to develop the central institutions of the Afghan state. Assistance programs that are successful in Afghanistan involve strong participation and ownership from local communities. As President Karzai noted at the Kabul conference:

Despite some noteworthy achievements, we have learned together that delivering our resources through hundreds of isolated projects will not generate the desired results, achieve public visibility, or support the establishment of good governance. It is time to concentrate our efforts on a limited number of national programs and projects to transform the lives of our people, reinforce the social compact between state and citizens, and create mechanisms of mutual accountability between the state and our international partners.<sup>92</sup>

The best example of this is the National Solidarity Program (NSP), which is the Afghan Government's principal community development program. The United States is the largest NSP donor, giving \$528 million from June 2002 to September 2010, including \$225 million from FY 2010 funds through the ARTF.<sup>93</sup> NSP promotes subnational governance by setting up community development councils (CDCs) and training them to manage small-scale projects funded by block grants. The program currently reaches 23,000 villages, covering 351 of Afghanistan's 398 districts in all 34 provinces.<sup>94</sup>

According to Guggenheim, who largely designed the program, NSP works because the government apex role is strong but simple, execution is outsourced to the communities, disbursements are transparent, standardized, and streamlined, and there is strong

<sup>90</sup> Thomas Barfield and Neamatollah Nojumi, "Bringing More Effective Governance to Afghanistan: 10 Pathways to Stability," *Middle East Policy* 17 (December, 2010): 40–52.

<sup>91</sup> *Ibid.*, p. 40.

<sup>92</sup> Statement by President Karzai at International Kabul Conference, July 20, 2010.

<sup>93</sup> Office of the Special Inspector General for Afghanistan Reconstruction, "Afghanistan's National Solidarity Program Has Reached Thousands of Afghan Communities, but Faces Challenges that Could Limit Outcomes," March 22, 2011, pp. ii and 5, <http://www.sigar.mil/pdf/audits/SIGARAudit-11-8.pdf>.

<sup>94</sup> *Ibid.*



monitoring and evaluation with expatriate help. SIGAR's recent audit of NSP found strong community oversight of NSP funds:

The high level of community involvement in NSP activities—CDC elections, social audits, and community contributions—has resulted in a degree of local ownership of NSP-funded projects which helps safeguard assets. Facilitating partners reported that, in some cases, community members intervened and recovered money when block grant funds were stolen by thieves or embezzled by CDC members. According to one facilitating partner, the Taliban are less likely to burn NSP schools because communities defend them.<sup>95</sup>

While NSP is one of the best development programs in Afghanistan, it too can be improved. Currently, unpredictable donor contributions block strategic planning and communities only receive one-time bloc grants, despite having created significant community social infrastructure that could be used to further ongoing governance and development programs. Ensuring consistency in funding will be critical as NSP expands into less permissive areas. NSP could become a key pillar of transition because it can provide villages with a tangible dividend from peace.

The United States could also work with the Government of Afghanistan to improve oversight and internal controls, strengthen reporting mechanisms on local governance, and ensure that block grants and payments to facilitating partners are disbursed in a timely fashion.<sup>96</sup> By opening its transport system to senior Afghan staff, the United States could facilitate monitoring and oversight of NSP disbursements. There are a number of national programs that were initially designed for Afghanistan in addition to NSP that could work well with donor support.

Another successful model of delivering assistance in Afghanistan is the Basic Package of Health Services (BPHS).<sup>97</sup> Established in 2003, BPHS provides a standardized package of basic services, including maternal and newborn health, child health, and public nutrition, at the four primary health care facilities within the Afghan health system: health posts at the community level, basic health centers, comprehensive health centers, and district hospitals.

BPHS has proved a remarkable success, given the state of health care 8 years ago. It has helped unify Afghanistan's health system; improved coordination among the Afghan Government, donors, and NGOs; and dramatically increased the percentage of the population with access to primary health care. National coverage rates have risen from an estimated 9 percent in 2003 to 85 percent in 2008 and under-5 mortality rates have dropped by 26 percent since

<sup>95</sup> Ibid., p. 13.

<sup>96</sup> Ibid., p. 13.

<sup>97</sup> According to USAID, the Ministry of Public Health was "the first Afghan ministry certified in 2009 to receive \$239 million in direct funding from the U.S. government to implement the BPHS in 13 provinces," including Badakhshan, Baghlan, Bamyan, Faryab, Ghazni, Hirat, Jawzjan, Kabul, Kandahar, Khost, Paktya, Paktika, and Takhar. For more information, see: U.S. Agency for International Development, "Fact Sheet: Health Service Delivery Grant - Partnership Contracts for Health (PCH)," July 2010.

2002.<sup>98</sup> Between FY 2002 and FY 2010, the United States provided roughly \$798 million in health assistance to Afghanistan.

With the right investments and leadership within the Ministry of Education, the BPHS model could be extended to the area of education. While the United States has dedicated considerable resources to support basic and higher education, teacher trainings, and textbooks for primary schools in Afghanistan, international donor efforts in the education sector are piecemeal and not coordinated for maximum effect.<sup>99</sup> According to one U.S. official:

The Afghan Government is constantly outraged by the fact that they see the Germans build a school here, the French supply schoolbooks there, and the Belgians do a teacher meeting at a third location, which means you have three separate projects that fail, rather than one project that would succeed if, indeed, you knew about them and were able to steer them to work together.<sup>100</sup>

#### CASE STUDY B: ISSUES OF SUSTAINABILITY—THE PERFORMANCE-BASED GOVERNORS FUND

*The Performance-Based Governors Fund illustrates how the design of our aid programs impacts the outcome. While it may be “necessary” in its second phase, the program in its current design may not be “achievable” or “sustainable.”*

The Performance-Based Governors Fund is a program run by the Asia Foundation that aims to empower provincial governors by providing them with operational budgets to improve their relationships with constituents and their overall management capacity. Most provincial governors receive relatively few resources from the federal government and lack capacity to execute their modest budgets.

In the first phase, the program gave each governor \$25,000 per month to spend on specified administrative expenses and a financial advisor to help identify budget priorities, make expenditures, and account for them. The goal was to teach governors how to execute budgets. Funds could be used for (1) vehicles, utilities, furniture, and equipment; (2) travel and transportation; (3) maintenance and repair of public facilities; (4) computer, information technology, and communications; (5) capacity building; and (6) community outreach.

Development experts criticized the design of the program because it had no impact on the governor’s actual performance. Every governor, even those known to be corrupt, received the funds.

To address these concerns, the second phase of the program has been expanded to include incentives to improve governance. The program now has a mechanism that can increase or reduce the monthly amount based on the governor’s performance. It also added a development component: a well-performing governor can

<sup>98</sup> “Building on Basics in Health Care,” The World Bank, Last updated June 2009, <http://web.worldbank.org>.

<sup>99</sup> Between FY2002–2010, the United States spent an estimated \$672 million on education assistance in Afghanistan.

<sup>100</sup> Center for Complex Operations official, relaying comment made by a PRT member in Afghanistan, April 2011.

receive an additional \$75,000 per month to spend on local development projects determined in consultation with provincial councils and other local groups.

Nevertheless, significant challenges remain. USAID has yet to bring the program fully on-budget in part as a result of concerns expressed by the Government of Afghanistan that it lacked the capacity to implement the program effectively at the central and provincial levels. Off-budget funding of the program renders it susceptible to the problems noted earlier. In addition, the Ministry of Finance has a budget execution rate of approximately 35 percent, which means that donor funds are replacing national government funds that are available but not reaching the provincial level. Oversight will be difficult since field audits are limited. USAID and its implementing partner may not have enough supervisory personnel to ensure that funds are properly spent and accounted for.

Absorptive capacity is another concern. In some provinces, the governors have the capacity to allocate a \$1.2 million annual budget. However, in less-developed provinces, this amount represents a tidal wave of funding that could hamper the ability of local officials to spend the money wisely. Excess funding could lead to corruption and waste. Finally, the program is not sustainable unless concrete steps are taken to build the capacity of the Afghan Government to execute the program and include it within its budget. Currently, the Independent Directorate of Local Governance does not have the capacity to run this program.

In sum, the program in its current form may not be achievable or sustainable. USAID should only go forward with the program if it can eventually be put on-budget, reduce funding in provinces where absorptive capacity is low, and ensure sufficient oversight. As donor funding declines for this program in outlying years, steps must be taken to replace these funds with domestic resources. We look forward to working with USAID as it explores options to bring the program on-budget over the next 18 months.

#### RECOMMENDATIONS

We urge the administration to focus its assistance strategy on what is *necessary, achievable, and sustainable*. Below are the three overarching steps that would help lay the foundation for more successful development outcomes in Afghanistan.

- 1) *Consider authorizing a multiyear civilian assistance strategy for Afghanistan.* The administration and Congress should consider working together on a multiyear authorization that includes: (a) a clearly defined assistance strategy; (b) the tools, instruments, and authorities required for a successful development approach; (c) a plan as to how U.S. funding will leverage and partner with Afghan domestic policies, with multilateral efforts—including the World Bank, Asian Development Bank, and Islamic Development Bank—and with private sector financing; (d) the civilian resources needed for a successful military draw down and transition; (e) the steps needed to ensure accountability, oversight, and effectiveness; and (f) metrics that measure performance and capture outcomes. The strategy should also establish benchmarks for the Afghan Government

to fulfill its international commitments, outline goals for improving donor coordination, and include specific annual funding levels. This process would clarify the U.S. assistance strategy, offer greater predictability on future funding levels, and provide Congress with robust tools for oversight.

- 2) *Reevaluate the performance of stabilization programs in conflict zones.* We must challenge the assumption that our stabilization programs in their current form necessarily contribute to stability. The administration should continue to assess the impact of our stabilization programs in Afghanistan and reallocate funds, as necessary.
- 3) *Focus on sustainability.* We should follow a simple rule: *Donors should not implement projects if Afghans cannot sustain them.* Development in Afghanistan will only succeed if Afghans are legitimate partners and there is a path toward sustainability. The Afghan Government must have sufficient technical capability and funding to cover operation and maintenance costs after a project is completed. A sustainability strategy would consolidate our programs, increase on-budget aid, streamline our rules and controls, and pursue a limited number of high-impact programs that do not require complex procurement or infrastructure. We should also focus on raising domestic revenue, reducing aid dependency, and developing partnerships with the private sector to create jobs. Success should not be measured by outputs or the amount of money spent, but by the ability of Afghan institutions to deliver services, the Afghan private sector to generate jobs and grow the economy, and Afghan civil society and public institutions to provide avenues for citizens to hold their government accountable and participate in political and civic life. More thought should be given to the type of projects we fund. Our aid should be visible among Afghans, and we should have a robust communications strategy in place so Afghans know what U.S. civilian aid in Afghanistan is accomplishing.

## Annex—Academic Literature Review: Development and Counterinsurgency

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There is a burgeoning literature on development and counterinsurgency (COIN). Recent work on the development-COIN nexus has modeled insurgencies as competitive governance systems that seek to capture the support of the local population. In a competitive governance environment, civilians will condition their support for the government on sustainable and transparent service provision. To that end, various scholars have recommended building Afghan Government capacity to provide services at the local and provincial levels through small, community-based projects that are informed by local needs. Development resources can be violence-reducing and prompt defection within the insurgent's ranks,<sup>101</sup> but only under certain conditions:

- *Knowledge of community needs:* Counterinsurgent forces should be dispersed, less mechanized,<sup>102</sup> and should interact closely with local political leaders to gain information about community needs. Knowledge of local needs, as opposed to the size of one's forces, can enhance the effectiveness and legitimacy of service provision. For instance, Berman, Shapiro, and Felter find that small-scale reconstruction spending allocated through CERP reduced violence in post-surge Iraq when operational changes in U.S. strategy encouraged greater contact and engagement with the local community.<sup>103</sup>
- *Small projects in secure areas:* Small grants implemented through community-based mechanisms in secure areas stand a greater chance of success than large, big-ticket infrastructure projects. One working study, which uses a randomized field experiment spanning 500 villages across 10 Afghan districts, finds that NSP has led to "a significant improvement in villagers' perception of their economic well-being as well as in their attitudes toward all levels of government."<sup>104</sup>
- *Employment and Counterinsurgency:* Providing legitimate employment opportunities may increase popular support for the

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<sup>101</sup>On the vulnerability of certain violence-producing groups to government service provision, see: Eli Berman, *Radical, Religious, and Violent: The New Economics of Terrorism*. Cambridge: MIT Press, 2009.

<sup>102</sup>Jason Lyall and Isaiah Wilson III, "Rage against the Machines: Explaining Outcomes in Counterinsurgency Wars," *International Organization* 63 (2009): 67–106.

<sup>103</sup>Eli Berman, Jacob N. Shapiro and Joseph H. Felter, "Can Hearts and Minds Be Bought? The Economics of Counterinsurgency in Iraq," NBER WP #14606, March 2009, Last revised: April 2011, <http://igcc.ucsd.edu/DACOR>.

<sup>104</sup>The authors "find some evidence that the program [NSP] improved perceptions of the security situation, but do not find any effects on the actual occurrence of security incidents in and around villages." Andrew Beath, Fontini Christia, and Ruben Enikolopov, "Winning Hearts and Minds?" Evidence from a Field Experiment in Afghanistan," Massachusetts Institute of Technology, Working Paper, Last revised: April 11, 2011, <http://www.nsp-ie.org/papers/hearts.pdf>.

government, but only under certain conditions. Collier and Hoeffler argue that improved economic opportunities can increase the cost of insurgent recruitment and diminish potential rebel supply.<sup>105</sup> Berman, Callen, Felter, and Shapiro, however, find a negative correlation between unemployment and insurgent violence in Iraq, the Philippines, and Afghanistan.<sup>106</sup> They posit that higher unemployment rates lower the price of obtaining information from the population about the insurgent's whereabouts and result from certain COIN tactics such as establishing security checkpoints that disrupt legitimate commerce. While the literature remains inconclusive, it suggests that we should pay careful attention to the conditions of each sector, resource endowments, local perceptions, and levels of income inequality at both the national and subnational levels when designing programs to improve labor market opportunities for communities in conflict areas.

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<sup>105</sup> Paul Collier and Anke Hoeffler, "Greed and Grievance in Civil Wars." *Oxford Economic Papers* 56 (2004): 563–95.

<sup>106</sup> Eli Berman, Michael Callen, Joseph H. Felter, and Jacob N. Shapiro, "Do Working Men Rebel? Insurgency and Unemployment in Afghanistan, Iraq, and the Philippines," *Journal of Conflict Resolution*, published online March 22, 2011, <http://jcr.sagepub.com/content/early/2011/03/16/0022002710393920.full.pdf+html>.

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## **APPENDIXES**

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**APPENDIX I: Total U.S. Assistance to Afghanistan by Fiscal Year  
(appropriations/allocations in \$ millions)**

Fiscal Year	2002	2003	2004	2005	2006	2007	2008	2009	2010	2002-2010 Total
Economic Support Fund (ESF)	117.5	239.3	894.8	1,280.3	473.4	1,210.7	1,399.5	2,048.0	3,346.0	11,009.5
Development Assistance (DA)	18.3	42.5	153.1	169.6	187.0	166.8	149.4	0.4	0.0	887.1
Global Health/Child Survival (GHCS)	7.5	49.7	33.4	38.0	41.5	100.8	63.1	58.2	94.3	486.5
Refugee Accounts: MRA/ERMA <sup>a</sup>	160.5	61.5	63.3	47.1	36.0	53.8	44.3	86.8	50.0	553.3
Food Aid <sup>b</sup>	206	74.5	99.0	96.7	108.3	69.5	219.7	77.5	27.4	978.6
Int'l Disaster Asst (IDA)	197.1	86.7	11.2	4.3	0.0	0.0	17	27.3	2.8	346.4
INCLE (Int'l Narcotics & Law Enforcement)	60.0	0.0	220.0	709.3	232.7	251.7	307.6	484.0	589.0	2,854.3
NADR (Nonprolif. Anti-Terror; De-mining)	44.0	34.7	66.9	38.2	18.2	36.6	26.6	48.6	57.8	371.6
Int'l Mil Ed & Training (IMET)	0.2	0.3	0.6	0.8	0.8	1.1	1.6	1.4	1.5	8.3
Foreign Military Financing (FMF)	57.0	191.0	413.7	396.8	0.0	0.0	0.0	0.0	0.0	1,058.5
Other <sup>c</sup>	39.8	24.6	41.3	17.8	0.3	1.2	36.0	16.3	3.4	180.7
<b>Total 150 Budget Function</b>	<b>907.9</b>	<b>804.8</b>	<b>1,997.3</b>	<b>2,798.9</b>	<b>1,098.2</b>	<b>1,892.2</b>	<b>2,264.8</b>	<b>2,848.5</b>	<b>4,172.2</b>	<b>18,784.8</b>
DOD - Afghan Security Forces Fund (ASFF)	0.0	0.0	0.0	995.0	1,908.1	7,406.4	2,750.0	5,606.9	9,162.8	27,829.2
DOD - CERP	0.0	0.0	40.0	136.0	215.0	209.0	488.3	550.7	1,000.0	2,639.0
DOD - Counternarcotics	0.0	0.0	71.8	224.5	108.1	291.0	189.6	230.1	310.2	1,435.3
DOD - Other	7.5	165.0	285.0	540.0	0.0	0.0	0.0	0.0	0.0	997.5
<b>Total OSD Budget Function</b>	<b>7.5</b>	<b>165.0</b>	<b>396.8</b>	<b>1,895.5</b>	<b>2,231.2</b>	<b>7,906.4</b>	<b>3,427.9</b>	<b>6,387.7</b>	<b>10,473.0</b>	<b>32,891.0</b>
DEA Counternarcotics	0.6	2.9	3.7	16.8	23.7	20.4	40.6	18.8	0.0	127.5
<b>Total U.S. Assistance</b>	<b>916.0</b>	<b>972.7</b>	<b>2,397.8</b>	<b>4,711.2</b>	<b>3,353.1</b>	<b>9,819.0</b>	<b>5,733.3</b>	<b>9,255.0</b>	<b>14,645.2</b>	<b>51,803.3</b>

**Sources:** SIGAR Report to Congress, July 30, 2010; Department of State annual budget presentation documents; and CRS calculations.

**Notes:** The 150 budget function encompasses International Affairs spending and is mostly appropriated in the State/Foreign Operations bill; food aid is appropriated in the Agriculture appropriations. The OSD budget function is Defense appropriations. Funding does not include Inspector General oversight or State/USAID operations which are calculated by the SIGAR at roughly \$1.3 billion since 2002.

- a. Includes Migration and Refugee Assistance and U.S. Emergency Refugee and Migration Assistance Fund
- b. Includes P.L.480 Title II, Food for Education, Food for Progress, 416b Food Aid, Emerson Trust, and USAID CCC.
- c. Other 150 account includes USAID Other, Office of Transition Initiatives, Treasury Technical Assistance, and Peacekeeping accounts.

Source: Curt Tamoff, "Afghanistan: U.S. Foreign Assistance," Congressional Research Service, R40699, August 12, 2010, p. 12, <http://www.crs.gov/Products/r/pdf/R40699.pdf>.



## APPENDIX II: USAID Funding by Province in Afghanistan, FY 2009-2010

FY 2009-10* Funding Projections based on Afghan Info Reporting			
	FY 2009	FY 2010	FY 2009-10
	Est. FY 2009 Disbursements	Est. Total FY 2010 Disbursements	Est. Total FY 2009-10 Disbursements
<b>RC-E</b>	<b>480,729,702</b>	<b>758,467,495</b>	<b>1,239,188,197</b>
Bamyan	10,389,015	22,308,780	32,697,795
Ghazni	17,991,852	35,118,200	53,110,052
Kabul	272,405,860	410,186,791	682,592,651
Kapisa	1,505,436	9,047,093	10,552,529
Khost	32,134,481	42,036,207	74,170,688
Kunar	13,379,633	16,590,830	29,970,463
Laghman	12,860,013	10,685,955	23,545,968
Logar	5,126,924	11,133,390	16,260,314
Maydan Wardak	3,788,210	10,520,799	14,309,009
Nangarhar	42,227,543	50,431,694	92,659,237
Nuristan	4,494,306	3,062,241	7,556,547
Paktika	20,261,369	19,900,831	40,162,200
Paktya	39,590,071	66,270,711	105,860,782
Panjsher	1,899,901	7,645,293	9,545,194
Parwan	2,666,088	43,528,680	46,194,768
<b>RC-N</b>	<b>110,748,707</b>	<b>234,375,583</b>	<b>345,124,290</b>
Badakhshan	39,585,325	44,481,111	84,066,436
Baghlan	8,730,252	34,011,704	42,741,956
Balkh	22,318,044	42,257,332	64,575,376
Faryab	6,218,225	12,865,349	19,083,574
Jawzjan	10,272,682	12,176,068	22,448,750
Kunduz	9,333,491	54,631,492	63,964,983
Samangan	4,107,738	4,398,427	8,506,165
Sari Pul	3,716,315	11,775,688	15,492,003
Takhar	6,466,635	17,778,412	24,245,047
<b>RC-S</b>	<b>56,289,588</b>	<b>163,930,014</b>	<b>220,219,602</b>
Daykundi	11,039,569	13,765,982	24,805,551
Kandahar	23,998,822	119,865,352	143,864,174
Uruzgan	12,847,026	17,223,968	30,070,994
Zabul	8,404,171	13,074,712	21,478,883
<b>RC-SW</b>	<b>35,527,942</b>	<b>154,517,129</b>	<b>190,045,071</b>
Helmand	35,111,906	148,450,967	183,562,873
Nimroz	416,036	6,066,162	6,482,198
<b>RC-W</b>	<b>43,153,367</b>	<b>91,143,516</b>	<b>134,296,883</b>
Badghis	3,762,325	6,397,608	10,159,933
Farah	10,194,750	15,344,975	25,539,725
Ghor	5,532,183	14,838,178	20,370,361
Herat	23,664,109	54,562,755	78,226,864
<b>Grand Total</b>	<b>\$ 726,440,306</b>	<b>\$ 1,402,433,737</b>	<b>\$ 2,128,874,043</b>

\*Estimates do not include funds provided to national level mechanisms such as the Afghanistan Reconstruction Trust Fund, projects that provide direct services to USAID (e.g. Audit Firms, Construction Designs, etc.), or program funds attributed to supporting USAID (e.g. PASA, PSCs, FSLs, Embassy Air, etc.). These numbers only reflect USAID resources and not other agencies such as the Dept. of State and USDA.

*Source:* Response to Questions for the Record submitted to Secretary of State Hillary Rodham Clinton by Chairman John Kerry, March 2, 2011, No. 21.

### APPENDIX III: USAID Funding by Province in Afghanistan, FY 2011

FY2011 Funding* Projections based on Afghan Info Reporting					
Row Labels	Est FY11 1st Qtr	FY11 Q2 Projection	FY11 Q3 Projection	FY11 Q4 Projection	FY11 Total Projections
<b>RC-E</b>	<b>\$ 169,161,101</b>	<b>\$ 159,160,153</b>	<b>\$ 171,559,046</b>	<b>\$ 143,848,735</b>	<b>\$ 643,729,035</b>
Bamyan	\$ 3,190,022	\$ 3,697,680	\$ 4,284,947	\$ 2,704,553	\$ 13,877,202
Ghazni	\$ 6,994,198	\$ 8,411,036	\$ 10,322,968	\$ 10,162,788	\$ 35,890,990
Kabul	\$ 107,539,311	\$ 75,687,929	\$ 73,240,288	\$ 61,549,011	\$ 318,016,539
Kapisa	\$ 3,038,154	\$ 2,068,672	\$ 2,330,986	\$ 1,305,084	\$ 8,742,896
Khost	\$ 6,509,783	\$ 10,595,332	\$ 12,888,876	\$ 13,209,194	\$ 43,203,184
Kunar	\$ 4,657,614	\$ 5,948,707	\$ 6,404,967	\$ 4,168,954	\$ 21,180,242
Laghman	\$ 2,306,286	\$ 3,176,344	\$ 3,568,995	\$ 1,894,113	\$ 10,945,738
Logar	\$ 2,790,611	\$ 3,593,178	\$ 4,249,281	\$ 3,402,269	\$ 14,035,339
Maydan Wardak	\$ 3,962,344	\$ 3,391,599	\$ 4,042,606	\$ 3,342,053	\$ 14,738,602
Nangarhar	\$ 9,494,646	\$ 16,567,111	\$ 19,035,733	\$ 14,976,121	\$ 60,073,611
Nuristan	\$ 187,736	\$ 1,146,650	\$ 1,259,426	\$ 432,283	\$ 3,026,094
Paktika	\$ 3,063,623	\$ 5,217,690	\$ 6,135,825	\$ 5,632,174	\$ 20,049,313
Paktya	\$ 12,080,475	\$ 15,470,193	\$ 18,763,722	\$ 17,678,746	\$ 63,993,137
Panjshir	\$ 1,145,777	\$ 1,464,078	\$ 1,809,874	\$ 1,181,374	\$ 5,601,102
Parwan	\$ 2,200,521	\$ 2,723,953	\$ 3,220,553	\$ 2,210,020	\$ 10,355,046
<b>RC-N</b>	<b>\$ 40,028,720</b>	<b>\$ 46,275,040</b>	<b>\$ 37,551,775</b>	<b>\$ 20,543,870</b>	<b>\$ 144,399,405</b>
Badakhshan	\$ 12,002,609	\$ 15,383,422	\$ 2,938,258	\$ 1,973,556	\$ 32,297,846
Baghlan	\$ 7,569,708	\$ 6,842,537	\$ 8,282,705	\$ 4,077,008	\$ 26,771,958
Balkh	\$ 9,119,864	\$ 6,752,133	\$ 7,251,711	\$ 4,493,550	\$ 27,617,258
Faryab	\$ 2,544,680	\$ 3,429,384	\$ 3,804,861	\$ 2,522,660	\$ 12,301,585
Jawzjan	\$ 1,960,392	\$ 2,735,442	\$ 2,725,022	\$ 2,013,122	\$ 9,433,978
Kunduz	\$ 2,361,631	\$ 4,530,822	\$ 5,086,327	\$ 1,323,724	\$ 13,302,504
Samangan	\$ 715,529	\$ 1,192,664	\$ 1,374,854	\$ 606,823	\$ 3,889,870
Sari Pul	\$ 957,180	\$ 1,697,969	\$ 2,102,411	\$ 984,243	\$ 5,741,803
Takhar	\$ 2,797,127	\$ 3,710,668	\$ 3,985,626	\$ 2,549,184	\$ 13,042,605
<b>RC-S</b>	<b>\$ 33,651,538</b>	<b>\$ 33,917,304</b>	<b>\$ 38,992,729</b>	<b>\$ 25,306,496</b>	<b>\$ 131,868,068</b>
Daykundi	\$ 3,296,081	\$ 3,639,349	\$ 4,482,404	\$ 4,650,031	\$ 16,067,865
Kandahar	\$ 22,834,075	\$ 19,497,375	\$ 22,123,172	\$ 9,216,123	\$ 73,670,744
Uruzgan	\$ 3,794,363	\$ 5,387,245	\$ 5,738,633	\$ 4,736,814	\$ 19,657,056
Zabul	\$ 3,727,019	\$ 5,393,336	\$ 6,648,520	\$ 6,703,528	\$ 22,472,403
<b>RC-SW</b>	<b>\$ 13,570,487</b>	<b>\$ 35,028,399</b>	<b>\$ 40,586,542</b>	<b>\$ 8,241,612</b>	<b>\$ 97,427,039</b>
Hilmand	\$ 12,608,860	\$ 32,514,301	\$ 37,528,041	\$ 5,285,753	\$ 87,936,954
Nimroz	\$ 961,627	\$ 2,514,098	\$ 3,058,501	\$ 2,955,859	\$ 9,490,085
<b>RC-W</b>	<b>\$ 10,570,177</b>	<b>\$ 18,866,422</b>	<b>\$ 17,824,982</b>	<b>\$ 10,816,086</b>	<b>\$ 58,077,667</b>
Badghis	\$ 1,532,308	\$ 1,765,134	\$ 1,892,384	\$ 382,618	\$ 5,572,444
Farah	\$ 2,213,202	\$ 6,652,626	\$ 4,579,123	\$ 3,779,875	\$ 17,224,826
Ghor	\$ 1,238,435	\$ 3,194,582	\$ 3,932,771	\$ 1,571,129	\$ 9,936,917
Hirat	\$ 5,586,232	\$ 7,254,080	\$ 7,420,704	\$ 5,082,464	\$ 25,343,480
<b>Grand Total</b>	<b>\$ 266,982,023</b>	<b>\$ 293,247,318</b>	<b>\$ 306,515,075</b>	<b>\$ 208,756,800</b>	<b>\$ 1,075,501,215</b>

\*Estimates do not include funds provided to national level mechanisms such as the Afghanistan Reconstruction Trust Fund (est. FY disbursement \$600 million), projects that provide direct services to USAID (e.g. Audit Firms, Construction Designs, etc.), or program funds attributed to supporting USAID (e.g. PASA, PSCs, FSLs, Embassy Air, etc.). These numbers only reflect USAID resources and not other agencies such as the Dept. of State and USDA.

*Source:* Response to Questions for the Record submitted to Secretary of State Hillary Rodham Clinton by Chairman John Kerry, March 2, 2011, No. 22.

# **APPENDIX IV: USAID/Afghanistan: Capacity Development Programs with GIROA**

#	Program	Start Date	End Date	Total Est. Cost (\$)
1	Civilian Technical Assistance Program (CTAP)	9/30/2009	9/30/2011	30,000,000
2	Ministry of Women's Affairs Initiative to Strengthen Policy and Advocacy (MISPA)	1/1/2006	1/31/2011	7,161,650
3	Tech-Serve	7/1/2006	6/30/2010	83,548,457
4	The Building Education Support Systems for Teachers (BESST)	1/27/2006	1/26/2011	93,828,299
5	Basic Support for Institutionalizing Child Survival (BASICS) - III	9/30/2008	10/1/2011	3,957,201
6	Afghan eQuality Alliances (AeQA)	7/8/2006	6/15/2011	12,000,000
7	Higher Education Project (HEP)	1/23/2006	1/30/2011	49,917,975
8	Enhancing Legal and Electoral Capacity for Tomorrow (ELECT)	5/28/2009	12/31/2010	58,500,000
9	Afghan Civil Service Support Program (ACSS)	2/1/2007	3/31/2011	218,578,488
10	Afghanistan Parliamentary Assistance Program (APAP)	9/29/2004	10/31/2010	40,556,170
11	Consortium for Elections and Political Process Strengthening (CEPPS)	9/3/2008	9/3/2011	74,788,163
12	Regional Afghan Municipalities Program for Urban Populations (RAMP UP) (East & South)	7/2/2009	11/1/2011	102,745,096
13	Performance-Based Governors' Fund (PBGf)	11/1/2009	10/31/2010	13,399,768
14	Support to the Electoral Process (STEP)	7/1/2008	7/1/2011	79,300,000
15	Afghanistan Social Outreach Program (ASOP)	7/5/2009	6/4/2011	34,458,220
16	Rule of Law Program (Formal)	5/19/2010	6/18/2011	18,132,732
17	The Economic Growth and Governance Initiative (EGGI)	8/15/2009	8/15/2011	92,452,859
18	Trade and Accession Facilitation for Afghanistan (TAFA)	11/19/2009	11/18/2011	63,900,000
19	Human and Institutional Capacity Building for Afghanistan Energy and Natural Resources Sector (AECB)	7/3/2008	7/2/2011	17,202,129
20	Technical Assistance to the Technical Secretariat of Supreme Council on Water Affairs and to the Ministry of Energy and Water through the Human Resources and Logistic Support - HRLS Program of USAID/IRD	3/1/2006	2/28/2011	Cost imbedded in HRLS project budget.
21	Commercialization of Afghanistan Water and Sanitation Activity (CAWSA)	11/12/2008	11/11/2011	8,508,717
22	Road Operation and Maintenance (O&M) and Capacity Building Program (TO#14)	Nov, 2007	Oct, 2010, ext to Dec, 2011, pending	Cost imbedded in TO#14 of IRP project budget.

*Source:* Response from State Department to SFRC majority staff, February 9, 2011.

## **APPENDIX V: Capacity Building Programs in Afghanistan—INCLE**

The State Department's Bureau of International Narcotics and Law Enforcement Affairs (INL), through the International Narcotics Control and Law Enforcement (INCLE) account, provides capacity building to Afghanistan ministries focused on the provision of internal security, rule of law, and enforcement of Afghanistan's illicit narcotics laws. INL's capacity building programs in Afghanistan help build the organizational and human capacity of Afghan Government Ministries to effectively and independently fulfill their core functions.

INCLE funds the following capacity building programs:

- *Justice Sector Support Program (\$64 million for current task order year May 2010–May 2011)*: Launched in 2005, the Justice Sector Support Program (JSSP) is the primary capacity building vehicle of INL's criminal justice assistance through training, mentoring, and technical support. JSSP supports capacity building efforts within the following Ministries: the Ministry of Justice (MOJ) and Attorney General's Office (AGO) and, to a lesser degree, the Ministry of Interior (MOI), the Ministry of Women's Affairs, and the Supreme Court. Through the creation of close partnerships between JSSP advisors and Afghan Government officials, the program's main goal is to help create sustainable improvements in the Afghan Government's delivery of justice to the Afghan people. In terms of nationwide reach, JSSP is the largest justice assistance program in Afghanistan today, with 93 Afghan legal experts, 65 American advisors, and over 100 Afghan support staff.
- *Corrections System Support Program (\$63 million for current task order year May 2010–May 2011)*: Launched in 2006, INL's Corrections System Support Program (CSSP) partners with the Afghan Ministry of Justice's (MOJ) Central Prison Directorate (CPD) to build a safe, secure, and humane prison system that meets international standards and Afghan cultural requirements. CSSP focuses on CPD headquarters capacity building, basic and advanced nationwide training, infrastructure program management, advising provincial prison leadership on secure and humane corrections practices, and providing mentoring and support at the Counter-Narcotics Justice Center. CSSP currently has 71 American corrections advisors and over 200 Afghan staff. CSSP is based in Kabul and has seven regional teams located at the RTCs in Balkh, Herat, Nangarhar, Kunduz, Bamiyan, and Paktia and the Provincial Reconstruction Team (PRT) in Kandahar.
- *Ministry of Counternarcotics Advisors (\$800,000 for first program year; \$25 million planned)*: INL has provided the Ministry of Counter Narcotics (MCN) with two advisors, an Executive Advisor and a Capacity Building Advisor. These advisors provide advice and support on MCN policies and programs and assess capacity building requirements. To further advance the goal of building MCN capacity, INL proposes a new, multi-year, \$25 million program to develop the MCN's human and bureaucratic capacity in order to promote its independence and effectiveness. The MCN capacity building program will provide expatriate and Afghan advisors for the MCN's Kabul headquarters and provincial offices as well as support for the Ministry's human resources, information technology, commodities, logistics, and engineering.
- *Ministry of Interior—Counternarcotics (\$2.4 million for current task order year)*: As part of its larger contract supporting operations and facilities maintenance for the Counternarcotics Police of Afghanistan's vetted units, which are mentored by DEA, INL provides six additional advisors/mentors to the National Interdiction Unit and the Sensitive Investigative Unit. These individuals work to assist DEA in building the capacity of the vetted units not just operationally, but also in the areas of administration, logistics, and management.

*Source:* Response from State Department to SFRC majority staff, February 9, 2011.

**APPENDIX VI: Letter From Deputy Secretary of State  
Thomas R. Nides to Chairman John F. Kerry on June 6, 2011**

THE DEPUTY SECRETARY OF STATE  
WASHINGTON

Dear Mr. Chairman:

Thank you for the opportunity to review the Senate Foreign Relations Committee (SFRC) Majority Staff's draft "Evaluating U.S. Foreign Assistance to Afghanistan" report. We look forward to further discussion of the report's conclusions and we appreciate the report's recognition that, despite the many operational challenges that we face, we are seeing progress in achieving our civilian goals in Afghanistan. Enclosed is a letter from Dr. Rajiv Shah, which includes a comprehensive response to the assistance-related elements of the report.

As the report recognizes, while we still have work to do to overcome the operational challenges we face in Afghanistan, we have already made progress in improving our ability to safeguard U.S. government funds. For example, we have developed a Vetting Support Unit in Kabul that will be responsible for vetting all non-U.S. government contractors. This effort feeds into the broader Accountable Assistance for Afghanistan initiative, which focuses on increasing oversight and accountability through two pre-award processes and two post-award processes. We are also committed to working with the Afghan government to improve the transparency and accountability of its ministries, both at the national and sub-national levels. We are encouraged by the steps that President Karzai and his government have taken to follow through on anti-corruption commitments, but also recognize that other key steps, such as the need to pass a firm anti-corruption law to support the Major Crimes Task Force, are slow to develop.

As the report points out, sustainability is an important consideration as we begin the transition process. We are currently working with the Afghan government to streamline and enhance national-level programs, following some of the successful models mentioned in the report, such as the nation-wide Basic Package of Health Services. In cooperation with other donors, we are building Afghan institutional capacity and sustainability of our programming by

The Honorable  
John F. Kerry, Chairman,  
Committee on Foreign Relations,  
United States Senate.

increasingly channeling our resources through on-budget Afghan government mechanisms. Such mechanisms include proven Afghan programs such as the National Solidarity Program, which is highlighted as a success in your report. To reinforce this effort and building Afghan capacity over the long-term, we also provide support to the Afghan Civil Service Commission to help professionalize the Afghan civil service and enable Afghans to assume greater responsibility for their country's economic development.

One of the recommendations in your report is to develop a multi-year civilian assistance strategy for Afghanistan that compliments the now underway security transition process. This issue is playing an important role in our Strategic Partnership Declaration negotiations with the Afghan government, which will cement our cooperation in a number of critical areas such as security, governance, and development. Parallel to this, the U.S. government is also implementing a number of initiatives to foster private sector development, which will also contribute to the sustainability of our efforts. As we move toward the 2014 transition deadline and beyond, the private sector will be increasingly important as military and international spending gradually decrease.

Please do not hesitate to contact us again if we can be of further assistance.

Sincerely yours,

A handwritten signature in black ink, appearing to read 'Tom Nides', with a stylized flourish at the end.

Thomas R. Nides

Enclosure:

As stated.



**APPENDIX VII: Letter From USAID Administrator Rajiv Shah to Chairman John F. Kerry on June 1, 2011**



*The Administrator*

June 1, 2011

The Honorable John F. Kerry  
Chairman  
Committee on Foreign Relations  
United States Senate  
Washington, DC 20510

Dear Mr. Chairman:

Thank you for the opportunity to review your Majority Staff report Evaluating U.S. Foreign Assistance to Afghanistan. Though we do not endorse all the conclusions in this report, we appreciate the report's recognition that USAID has performed admirably in a very complex and insecure environment. We also acknowledge that we can always do more to more effectively spend our aid money. We hope to move forward in a spirit of partnership with your Committee and look forward to continued cooperation in the future.

USAID is an essential component of our critical national security strategy in Afghanistan. Over the last 18 months USAID has tripled its staff in Afghanistan; aligned our efforts with our military and civilian partners; and demanded far greater accountability of ourselves, our contractors, and the Afghan government and local Afghan institutions. The results we are achieving attest to this progress. Even as the conflict there continues; the economy, food security, literacy, employment, and life expectancies all continue to rise, the government is more capable, and the democratic system more resilient. Afghan women's access to education, health care, economic opportunity, and political representation continue to rise. Once shuttered bazaars in Kandahar and Helmand are now thriving, and former opium fields are planted with high-yield seed. Millions of Afghans are seeing the possibility of a better, stable future. As the largest donor, by far, to these efforts, the generosity of the American people and USAID's careful stewardship of taxpayer resources stands behind all these gains. The sustainability of these gains is critical to our strategy.

There are some very important recent developments in how USAID does business that are not adequately captured in the report. Over the past 18 months, we have undertaken significant

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analysis and review of our programs in Afghanistan; and we have changed, in some cases, very fundamentally, the way which we spend U.S. taxpayer money in order to increase the impact of our development engagement. Below are a few key areas that highlight these changes.

*Impact, Afghan capacity and on-budget assistance:* USAID is committed to building the capacity of the Afghan government, and spending a substantial portion of our development assistance through the Afghan budget, while ensuring the accountability, integrity, and transparency of those funds. We have had great success by focusing on a few important Afghan institutions – such as the Ministries of Finance, Public Health, Agriculture, Education, and Rural Rehabilitation and Development – so that Afghans can increasingly fund and deliver critical services on their own. Indeed, the enormously successful National Solidarity Program, which has reached over 22,000 Afghan villages, is funded through the government.

Overall, we currently spend approximately 38 percent of our funds on-budget. We plan to increase direct funding, but only when ministries are able to execute the development funds that they do receive, and do so accountably. An important innovation deserves mention, the Civilian Technical Assistance Program. USAID, in concert with other donors has provided the Ministry of Finance with funds to hire qualified Afghan advisors to provide capacity building to government ministries throughout the government. Salaries are consistent, resources are on budget, and we are building capacity in the Afghan government ministries while they are managing and spending our funds accountably and effectively.

*Contracting:* Where the Afghan government or civil society does not have adequate capacity to achieve results and account for money, we often contract out services to national and international firms and NGOs. We design and conduct these efforts in a manner intended to strengthen Afghan institutions and prevent corruption. Indeed a mixture of off-budget and on-budget investments is necessary to achieve the most effective results. Even the Ministry of Health's Basic Package of Health Services and the MRRD's National Solidarity Program, cited as successes in the report, involve contracting out for services, while at the same time building the capacity of the Ministry to lead and manage its programs.

Moreover, USAID has developed robust systems to improve contractor accountability. In a speech I gave at the Center for Global Development this past January, I highlighted our intention to increase scrutiny of contractors both for financial and impact accountability. The Agency has created a new Division within the Office of Acquisition and Assistance called Compliance and



Oversight of Partner Performance (COPP). The Division was formally inaugurated in February 2011 and has already completed more than 40 suspension and debarment actions, based largely on referrals from the Office of the Inspector General. The Academy for Educational Development (AED) is perhaps one of the most publicized examples of our use of the full range of tools increasing accountability of contractors.

*Corruption and A<sup>3</sup>*: Corruption is of course a real concern for both on budget and off budget assistance. I launched the Accountable Assistance for Afghanistan (A<sup>3</sup>) initiative in the fall of 2010 to help ensure that the Agency is taking the necessary steps to limit the likelihood of assistance directly or inadvertently supporting malign groups or being diverted from their development purpose by extortion or corruption. As a result, USAID is implementing safeguards in four areas, two of which strengthen our pre-award processes and two that strengthen our post-award implementation.

A number of changes have been made that significantly improve contractor oversight. First, USAID/Afghanistan now includes a subcontractor clause in new awards that permits USAID to restrict the number of subcontract tiers, requires the prime contractor to perform a certain percentage of the work, and prohibits subcontract “brokering” or “flipping”, which is when a subcontractor passes the work to someone else and increases the risk for corruption.

Second, we are increasing our financial controls through a joint program with the USAID Inspector General to audit all locally incurred costs of program-funded implementing partners. Audits will be performed by internationally-accredited regionally based audit firms and checked by the Inspector General. Third, USAID/Afghanistan is also increasing its Project Oversight through the establishment of On-Site Monitors (OSMs) in USAID field offices for project monitoring. Each USAID project will be assigned an OSM that will provide real time data to contract staff in Kabul on project performance and accountability.

*Kabul Bank*: USAID takes oversight of its awards seriously – at all levels. With regard to the well-documented crisis at Kabul Bank, USAID has terminated this part of the Deloitte contract in Afghanistan to ensure that our technical assistance is as effective as possible in light of changed and difficult conditions. Nevertheless, we do not believe that Deloitte, or USAID could have stopped the massive fraud that occurred at Kabul Bank. Deloitte, with USAID funds supported the Afghan Central Bank by providing trainers and experts to build the capacity of its Bank Supervision Unit. Oversight of the Afghan financial sector is conducted by Afghan

authorities, and actual bank supervision is a sovereign function of the Afghan government. The fraud committed by Kabul Bank officers was a criminal act, deliberately concealed by major shareholders and senior bank management. While there was private speculation about possible financial difficulties at Kabul Bank based in part on the crash of the Dubai real estate market, all donors were essentially caught by surprise at the Kabul Bank collapse. Kabul Bank's shareholder/officers alleged frauds and self-dealing caused these massive losses and hid them from Central Bank examiners through fake documentation and obfuscating accounting techniques to hide this from the Central Bank and other authorities. The initial outline of this fraud and revelation of the unprecedented level of loss did not occur until the Chairman of the Board of Kabul Bank began talking with Central Bank Authorities in the summer of 2010.

*Transition and Development planning:* USAID and State Department are very engaged in anticipating both the impact of the U.S. troop withdrawal on the Afghan economy, and on U.S. civilian resources. We are working on a longer term economic strategy, which looks to transition at the end of 2014 and beyond. We are aligning resources against critical "foundational investments" in economic growth, infrastructure, and human capital that will enable transition, and make it durable. These 'foundational investments' require significant up-front financial and policy engagement in the start phase, with financial costs and policy engagement tapering off once systems or infrastructure are in place or private sector takes over. These investments, for example, in extractive industries or in promotion of mobile phone money transfers, will best leverage the higher levels of financial resources that we currently have to ensure sustainability of our other investments as well as the security transition in the future. The report also notes that State has undertaken a massive uplift in civilians. USAID has been an important part of that civilian uplift and we are working hard both to ensure we have adequate staff on the ground now, and to plan for the future decrease in numbers as the security transition occurs.

*Performance-Based Governors Fund:* The Performance-Based Governors Fund is a relatively young, but important new program that is explicitly designed to move toward sustainability. USAID explored options of bringing PBGF fully "on budget" this year, but was informed by the Government of the Islamic Republic of Afghanistan (GIROA) that the capacities to effectively implement this program do not yet exist at either the central or provincial levels. Building GIROA capacities to be able to take on these functions are an explicit element of PBGF

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expansion. The expanded program is designed to develop the capacity of GIRA to oversee these funds, and include benchmarks to bring this program on-budget over 18 months.

*Stabilization and COIN:* USAID has been engaged in intensive review and analysis of its engagement in support of stabilization. While the body of the report highlights this, the summary and recommendation fails to acknowledge that we have been reviewing the impact of our stabilization programs and altering the manner in which we work in challenging areas to ensure that we maximize sustainable impact. The report notes that 80 percent of our resources are supporting COIN in the south, south-west, and east. According to our figures, and in close consultation with our military partners, roughly 65-70 percent of all of our resources are being spent in those areas. Some of these funds are being used for short-term traditional "stabilization" activities with short and long term impacts, while other funds are for longer-term activities that may be considered "developmental", but which we consider to have a strong stabilizing effect as well. As the report acknowledges, we are working hard to identify appropriate programs for specific contexts and not dictate that a certain area receive a certain type of stabilization programming.

As we strive to improve our engagement in Afghanistan, it is important to acknowledge the enormous progress the Afghan people have made in rebuilding their government, economy, and society since 2001 with our support. At the time of the fall of the Taliban regime, there was no functioning government or civil service, no provision of basic services, no education for girls or public role for women in society, no proper financial system, and no rule of law. The development effort undertaken by the Afghan people in partnership with the international community, foremost the United States, has accomplished some astonishing things in terms of health, education, a functioning currency, a growing economy, and the foundations for an accountable, responsive government and society. Numerous challenges remain, as would be expected in a country amongst the poorest in the world, and still at war after decades of conflict.

I appreciate you offering us the chance to comment on this report.

Sincerely,



Rajiv Shah

