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OFFICE OF THE SPECIAL INSPECTOR GENERAL FOR AFGHANISTAN RECONSTRUCTION

October 26, 2010

The Honorable Robert Gates
U.S. Secretary of Defense

The Honorable Hillary Rodham Clinton
U.S. Secretary of State

The Honorable Karl W. Eikenberry
U.S. Ambassador to Afghanistan

General David Petraeus
Commander, U.S. Forces-Afghanistan, and
Commander, International Security Assistance Force

Dr. Rajiv Shah
Administrator
U.S. Agency for International Development

Mr. Earl Gast
USAID Mission Director to Afghanistan

This report presents the results of the Office of the Special Inspector General for Afghanistan Reconstruction's (SIGAR) review of U.S. development funds expended in Afghanistan's Nangarhar Province. The report includes five recommendations to help ensure that the government of Afghanistan and U.S. personnel are aware of provincial-level U.S. development activities, priorities, and expenditures; the Afghanistan government develops an accurate picture of provincial-level expenditures for the external budget; U.S. development funds expended in Nangarhar are used to further cohesive, Afghan provincial development priorities; the government of Afghanistan sustains completed U.S. development projects; and, Nangarhar's provincial directorates develop the capacity to absorb additional development funds and implement projects.

A summary of this report is on page ii. This performance audit was conducted by SIGAR under the authority of Public Law No. 110-181 and the Inspector General Act of 1978, as amended. When preparing the final report, we considered comments from U.S. Forces-Afghanistan and U.S. Embassy Kabul. These comments indicated concurrence with our findings and recommendations. Copies of these comments are included, respectively, in appendices VIII and IX of this report.

A handwritten signature in black ink, appearing to read "John Brummet".

John Brummet
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Office of the Special Inspector General
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Weaknesses in Reporting and Coordination of Development Assistance and Lack of Provincial Capacity Pose Risks to U.S. Strategy in Nangarhar Province

What SIGAR Reviewed

Enhancing sub-national governance is essential to building the government of Afghanistan's capacity and linking Afghan citizens to their government. The success of the U.S. government's new funding strategy—channeling significantly more development funding through the Afghan government—will depend largely on the capacity of provincial administrations to manage development funding to achieve coherent and cohesive development objectives. This report assesses (1) the amount and type of U.S., Afghan, and donor development funding expended in Nangarhar Province; (2) the degree to which U.S. projects are aligned with Nangarhar's development priorities; and (3) the extent to which Nangarhar's provincial administration is prepared to absorb and execute additional development funds. SIGAR conducted this performance audit in Kabul and Nangarhar, Afghanistan, from May to September 2010 in accordance with generally accepted government auditing standards.

What SIGAR Found

The centralized nature of the Afghan government, the lack of donor reporting, and the scope of some development projects make identifying and assessing the total amount of development funds expended in Nangarhar problematic. Nangarhar receives both operating and development funds from various sources, including the Afghan government, international donors, and other stakeholders. Nangarhar's provincial directorates and offices expend about 85 percent (\$51.3 million) of the core operating budget on wages and salaries, and 4 percent of core budget expenditures on development. The U.S. government and other donors fund most of the development in Nangarhar, including more than \$100 million in estimated U.S. development activities identified by SIGAR during fiscal year 2009. However, donors, including the United States, do not track, report, or coordinate provincial funding with other donors.

U.S. government agencies providing development funds and assistance to Nangarhar have made some progress in aligning development projects and programs with provincial priorities. However, U.S. government development projects and programs are currently being implemented without the benefit of provincially generated, government of Afghanistan endorsed development priorities. Nangarhar Province does not have a functioning development planning process or provincial development plan. For example, Nangarhar Province's completed provincial development plan is outdated, not tied to any dedicated funding, and largely ignored by Afghanistan's national and provincial government, the U.S. government, and the international community. Moreover, according to SIGAR analysis and several senior U.S. officials responsible for multi-million dollar development projects in Nangarhar Province, many U.S.-funded development projects in Nangarhar are not being sustained by the Afghanistan government. Furthermore, the government of Afghanistan lacks visibility over and or input into many externally funded and implemented development projects, and donors in Nangarhar have not effectively coordinated their efforts.

The level of centralization and lack of procurement authority and budget input has left Nangarhar's line directorates with little capacity to absorb significantly more development funding. Any control or influence Nangarhar Province has over public resources comes through its ability to shape the national budget or its influence over budget execution. Nangarhar's line directorates play a limited role in development activities in Nangarhar. Nearly all of the Afghan government's core development activities are centralized in Kabul at the ministry level.

What SIGAR Recommends

The report includes five recommendations to help prevent waste in the implementation of U.S. development projects in Nangarhar, and to help ensure that the government of Afghanistan and U.S. personnel are aware of provincial-level U.S. development activities, priorities, and expenditures; the Afghan government can develop an accurate picture of provincial-level expenditures for the external budget; U.S. development funds expended in Nangarhar are used to further Afghan provincial development priorities; the Afghan government is able to sustain completed U.S. development projects; and Nangarhar's provincial directorates are able to develop the capacity to absorb additional development funds and implement projects.

In response to a draft of the report, U.S. Forces-Afghanistan and U.S. Embassy Kabul indicated general concurrence with the recommendations. U.S. Forces-Afghanistan outlined steps it would take to address the recommendation to help ensure that CERP projects are sustained by the Afghan government. While U.S. Embassy Kabul generally agreed with the findings and recommendations, it did not indicate how it would address the recommendations.

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TABLE OF CONTENTS

Background	1
Development Funding in Nangarhar is Not Well Reported or Coordinated.....	3
U.S. Development Projects and Programs in Nangarhar Are Not Tied to Cohesive Provincial Development Priorities and are Implemented without Government of Afghanistan Input	8
Nangarhar’s Line Directorates Lack the Capacity Necessary to Absorb Significantly More Development Funding	12
Conclusion.....	16
Recommendations	16
Comments.....	17
Appendix I: Scope and Methodology	19
Appendix II: Government of Afghanistan Core Budget Information	21
Appendix III: Nangarhar Province Core Budget Information	26
Appendix IV: CERP Budget Information in Nangarhar Province	29
Appendix V: USAID Budget Information in Nangarhar Province	30
Appendix VI: State Department Budget Information in Nangarhar Province	34
Appendix VII: Un-Habitat Activities in Nangarhar Province.....	35
Appendix VIII: Comments from U.S. Forces – Afghanistan	36
Appendix IX: Comments from the U.S. Embassy Kabul	37

TABLES

Table 1: Nangarhar’s SY 1388 and SY 1389 (Partial Year) Core Development Budget Execution.....	6
Table 2: UN Agencies with Projects in Nangarhar Province, FY 2009.....	7
Table 3: Core Development Budget Funds Executed by Line Directorates in Nangarhar Province, SY 1389 (March – June 2010)	15
Table I: Government of Afghanistan Total Operating and Development Budget, SY 1388	23
Table II: Government of Afghanistan Operating Budget by Code, SY 1388.....	24
Table III: Government of Afghanistan Operating Budget by Economic Category, SY 1388	24
Table IV: Government of Afghanistan Core Development Budget by Sector, SY 1388	25
Table V: Nangarhar Province Operating Budget by Budget Code, SY 1388.....	26
Table VI: Allocation of Nangarhar Province Operating Budget by Government Department, SY 1388.....	27
Table VII: Nangarhar Province Consolidated Operating (by Budget Code) and Development Budget (by Ministry), SY 1388	28
Table VIII: Total Obligations by CERP in Nangarhar Province by Project Category, October 1, 2008 to March 31, 2010	29
Table IX: Estimated USAID Disbursements and Percentages in Nangarhar Province by Primary Sector, FY 2009.....	30
Table X: USAID Implementing Partners in Nangarhar Province by Number of Projects and Sector, Fiscal Years 2009 and 2010 (Partial Year)	31

Table XI: State Department Grants for Nangarhar Province, Fiscal Years 2009 and 2010 (Partial Year).....	34
Table XII: Budget and Expenditures for Performance Based Governor's Fund SY 1389 (Partial Year) for Nangarhar Province.....	34
Table XIII: Projects Conducted by UN-Habitat (United Nations Human Settlements Programme) in Nangarhar Province, FY 2009.....	35

FIGURES AND PHOTOS

Figure 1: Map of Afghanistan Highlighting Nangarhar Province.	3
Figure 2: Nangarhar's SY 1388 Recurrent Operating Budget, by Budget Code	4
Figure 3: Nangarhar's SY 1388 Recurring Operating Budget, by Ministry	4
Figure I: Government of Afghanistan's SY 1388 Budget, by Budget Code	21
Figure II: Government of Afghanistan's SY 1388 Recurring Operating Budget, by Economic Categories	22
Figure III: Estimated USAID Disbursements Percentages in Nangarhar Province by Primary Sector, FY 2009.....	30

ACRONYMS

ADT	Agribusiness Development Team
ARTF	Afghanistan Reconstruction Trust Fund
CERP	Commander's Emergency Response Program
MAAWS-A	Money as a Weapon System – Afghanistan
MoF	Ministry of Finance
NGO	Non-governmental organization
O&M	Operations and maintenance
PDC	Provincial Development Committee
PDP	Provincial Development Plan
PRT	Provincial Reconstruction Team
SNGP	Sub-national Governance Policy
TF	Task Force
TWG	Technical Working Group
UN	United Nations
UNAMA	United Nations Assistance Mission in Afghanistan
USAID	U.S. Agency for International Development
USFOR-A	U.S. Forces-Afghanistan



Weaknesses in Reporting and Coordination of Development Assistance and Lack of Provincial Capacity Pose Risks to U.S. Strategy in Nangarhar Province

Since 2002, the majority of U.S. development assistance to Afghanistan has been managed by U.S. agencies, bypassing the Afghan government. In January 2010, however, the United States and other members of the international donor community committed to increasing the percentage of assistance delivered through the Afghan government to 50 percent over the next two years. At the Kabul Conference in July 2010, the international community reaffirmed this commitment. For the U.S. government and international community to fulfill their commitment, the government of Afghanistan must reduce corruption, improve financial management and budget execution, and increase the capacity of the central and provincial government agencies to deliver public services.

The international community has ongoing initiatives to strengthen sub-national governance, which is essential to building the government of Afghanistan's capacity and linking Afghan citizens to their government. The success of the international community's new funding strategy also depends on the capacity of provincial administrations to absorb and execute development funding to achieve coherent and cohesive development objectives. As the government of Afghanistan moves to devolve additional development authorities and channel more funds to the sub-national level, the capacity of these institutions to absorb and execute development funding will be critical to the strategy's success.

This report assesses (1) the amount and type of Afghan, U.S., and other donors' development funding expended in Nangarhar Province, (2) the degree to which U.S. projects are aligned with Nangarhar's development priorities, and (3) the extent to which Nangarhar's provincial administration is prepared to absorb and execute additional development funds. To accomplish these objectives, we reviewed relevant U.S., Afghan, and international laws, policies, conventions, standards, and development strategies. We interviewed officials from the Departments of Defense, State, Agriculture, and the Treasury; the U.S. Agency for International Development (USAID); international organizations such as the United Nations Assistance Mission in Afghanistan (UNAMA); Afghan government institutions in Kabul and Nangarhar; and USAID implementing partners. We conducted our work in Kabul and Nangarhar, Afghanistan, from May to September 2010 in accordance with generally accepted government auditing standards. A discussion of our scope and methodology is included in appendix I.

BACKGROUND

Afghanistan is a centralized state with limited authority to govern at the provincial and sub-provincial levels. The Afghan constitution defines provinces as administrative units of the central government; municipalities are the only recognized type of local government. The provincial tier includes the provincial directorates of central ministries, the governor's offices, and the provincial council—an elected body with oversight but no legislative authority. The provincial governors lead planning, budgeting, and coordination. They oversee and monitor the activities of provincial line directorates to

ensure that the directorates implement programs in accordance with provincial plans. The directors of provincial departments are appointed and report to their respective central line ministries, although this line of accountability is blurred by their relationship to provincial governors, who are also appointed officials.

Chaired by governors (or the governor's representative), Provincial Development Committees (PDC) were established to coordinate the activities of the line ministries, prepare Provincial Development Plans (PDP), improve donor coordination, monitor the implementation of development projects, and enhance the capacity of the provincial administration for public administration and public service delivery. PDC roles, functions, and membership vary by province, and the oversight and monitoring activities of the PDCs and provincial councils overlap. In some provinces, including Nangarhar Province, Technical Working Groups (TWG) serve as functional subcommittees for the PDC. Directors of provincial line directorates—and perhaps other stakeholders—hold monthly meetings to discuss sectoral and economic development, security, and education. TWGs often present development projects and recommendations to the PDC.

Budgetary authority within the government of Afghanistan is centralized in Kabul, with budgets allocated to central line ministries and other central government entities (appendix II contains more information on the government of Afghanistan's core budget). Governors and ministry directorates in the provinces are not budgetary units. Despite efforts in recent years to involve provincial entities in the budget process, they continue to have little or no say in budget formulation. The government of Afghanistan's budget provides funding for the central-level agencies, which in turn determine provincial needs and allocations. As a result, the "provincial budget" is the sum of all ministerial funds allocated to and expended by the provincial directorates of the central government.

Strategically situated along a primary gateway for trade with Pakistan, Nangarhar is the second highest revenue-generating province in Afghanistan (see Figure 1 for map of Afghanistan identifying the location of Nangarhar Province). Highway 1A is the most important trade route in the Eastern region, connecting Kabul to Pakistan, with Torkham Gate serving as the border crossing at the Kyber Pass. Nangarhar's capital city Jalalabad serves as the cultural, political, and economic center of the eastern region. Nangarhar is the most densely populated province in Afghanistan, with an estimated population of 1.85 million people, most of whom are ethnic Pashtuns. Nangarhar is considered the most stable province in the eastern region, though the security situation has deteriorated significantly over the last year.

Figure 1: Map of Afghanistan Highlighting Nangarhar Province.



Source:<http://afghanistan.usaid.gov/en/province.22.aspx>.

DEVELOPMENT FUNDING IN NANGARHAR IS NOT WELL REPORTED OR COORDINATED

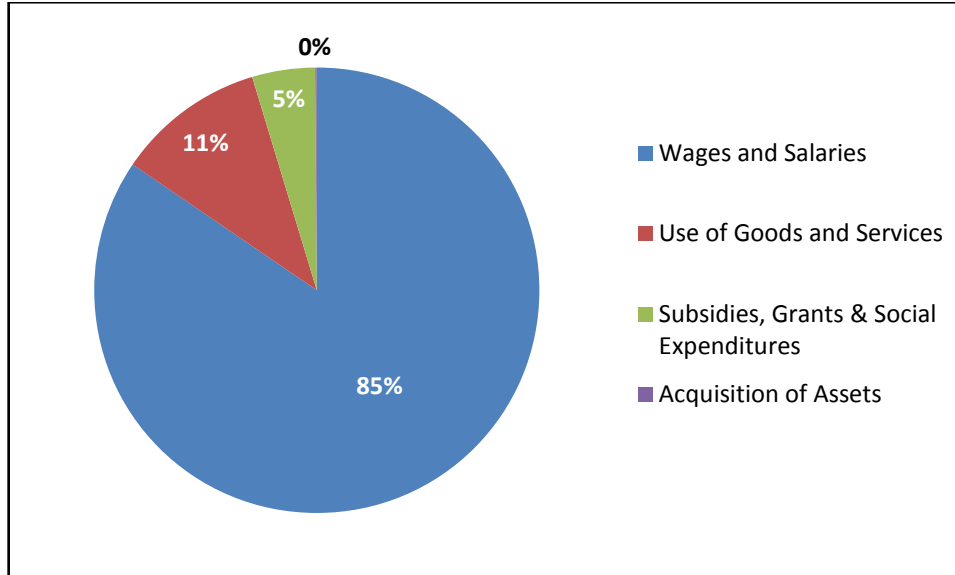
The centralized nature of the Afghan government, the lack of donor reporting, and development projects that span multiple provinces make identifying and assessing the total amount of development funds expended in Nangarhar problematic. Nangarhar receives both operating and development funds from various sources, including the Afghan government, international donors, and other stakeholders. Nangarhar Province expends about 85 percent of its core operating budget on wages and salaries and 4 percent of core budget expenditures on development. The U.S. government and other donors fund most of the development in Nangarhar but do not track funds or coordinate provincial funding with other donors.

Nangarhar Province Expends 85 Percent of Its Core Operating Budget on Wages and Salaries

Nangarhar's total core operating expenditures for solar year (SY) 1388, the most recent solar year for which complete data are available, was \$60,701,884.¹ Eighty-five percent of operating expenditures, or \$51.3 million, was used for salaries and wages (see figure 2 for a breakdown of Nangarhar Province's operating budget by budget code). The Afghan government's 1388 budget notes that the high percentage of the budget dedicated to wages and salaries is of serious concern because low spending on goods and services can adversely affect service delivery.

¹ The 1388 solar year is the Afghanistan government's fiscal year, from approximately March 22, 2009 to March 21, 2010.

Figure 2: Nangarhar’s SY 1388 Recurrent Operating Budget, by Budget Code

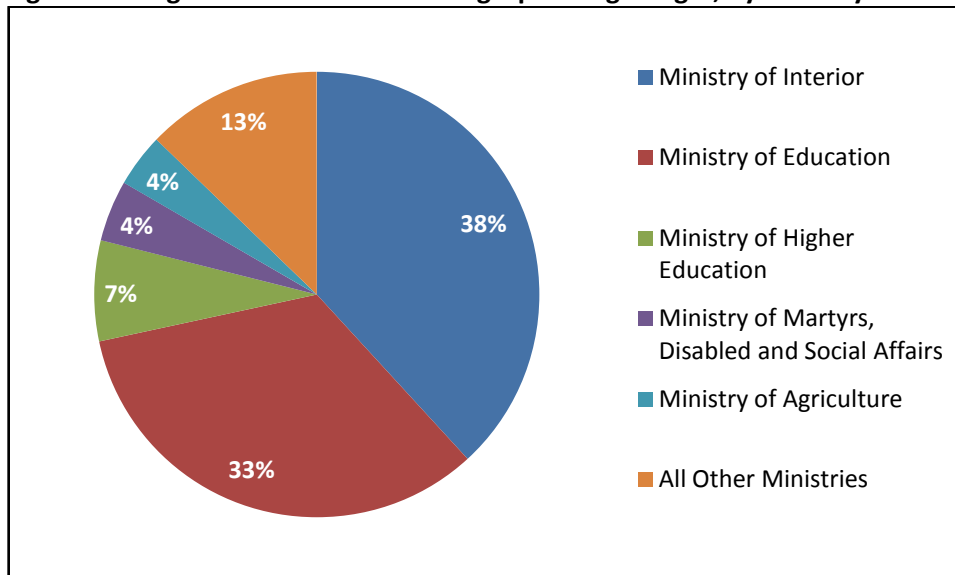


Source: SIGAR analysis of Ministry of Finance data.

Note: Total does not equal 100 percent due to rounding.

Two provincial directorates—those of the Ministry of Interior and Education—received 72 percent of Nangarhar’s operating budget in SY 1388. These two directorates primarily used their funding to pay for the wages and salaries of police and teachers. As seen in figure 3, the remaining directorates received 28 percent of the total operating budget for the province (see appendix III for more detailed information on Nangarhar’s core operating budget).

Figure 3: Nangarhar’s SY 1388 Recurring Operating Budget, by Ministry



Source: SIGAR analysis of Ministry of Finance data.

Note: Total does not equal 100 percent due to rounding.

Government of Afghanistan Reporting Gaps Result in an Unclear Picture of the Development Funds Provided in Nangarhar

The centralized nature of the Afghan budget and execution process, and development projects that affect multiple provinces, make obtaining complete data on development funds in Nangarhar problematic.² The government of Afghanistan does not collect data on core development funding execution on a provincial basis. The central ministries in Kabul perform nearly all of the development budget activities—including project approval, bidding, contractor selection, payment authorizations, and payment disbursement—and provincial line directorates are generally uninvolved in these activities. Although a development project may benefit a particular province, core development funds are rarely allocated to or expended by provincial line directorates, and no centrally administered system exists to capture data on projects by province. Although one ministry recently made attempts to capture and report such costs on a by-province basis to the Ministry of Finance (MoF), doing so proved too difficult because many projects affect multiple provinces and determining the extent to which a project benefited one province versus another was too complicated. As a result, the government of Afghanistan does not have a consolidated view of core provincial development fund executions.

The government of Afghanistan is, however, able to track core development funds that are expended by Nangarhar's provincial directorates. These funds are transferred from central ministries to provincial directorates and expended. However, according to MoF data, total core development expenditures by Nangarhar's provincial institutions amounted to \$2,366,074—4 percent of total core budget expenditures—in solar year 1388. As seen in table I, the Ministry of Education executed most of this funding (see appendix III for more detailed information on Nangarhar's core development budget).³

² While it may be possible for the Afghan Financial Management Information System to determine the amount of money allocated to, and executed by, Nangarhar's line directorates, this information would not capture Nangarhar-based, centrally managed development projects.

³ According to its director, Nangarhar's Education Directorate makes development budget decisions based on needs identified by local shuras—typically comprised of tribal leaders, head masters, elders, and teachers—who make decisions about the use of allocated development funds on a school-by-school basis. Development funds are allocated to shuras by formula based on the amount in the development budget and the number of students. Typically, the shuras use these funds to purchase educational goods and equipment and make school repairs.

Table 1: Nangarhar’s SY 1388 and SY 1389 (Partial Year) Core Development Budget Execution

Line Directorate	1388	1389 ^a
Finance	\$146,791	N/A
Education	\$2,265,342	\$64,815
Public Health	\$78,775	N/A
Justice	\$9,931	\$9,931
National Olympic Committee	\$95,120	N/A
Total^b	\$2,595,959	\$74,746
Amount Remitted to Central Treasury ^c	\$229,885	N/A
Total Development Budget Executed by Line Directorates	\$2,366,074	\$74,746

Source: SIGAR analysis of data provided by the MoF.

Notes:

^a March 22 through June 13, 2010.

^b Figures may not equal the total due to currency conversions and rounding.

^c According to the MoF, funds may be remitted to the central treasury because project amounts are cut, projects come in under budget, or donor pledges are not kept.

The United States and Other Donors Fund Most of Nangarhar Province’s Development Activities but Do Not Report Externally Funded Development Expenditures by Province

The United States and other donors funded most of Nangarhar’s development activities during this period, with the United States funding more than any other donor.⁴ U.S. development activities in Nangarhar during fiscal year 2009 have an estimated value of more than \$100 million and include the following:⁵

- The Commander’s Emergency Response Program (CERP) made \$58,729,443 available for 202 projects in Nangarhar. More than half of the funding was dedicated to transportation, with an additional 37 percent going for agriculture, rule of law and governance, and education (see appendix IV for more detailed information on CERP expenditures).
- USAID estimated that implementing partners made more than \$42 million in development funding available for projects in Nangarhar, carried out through 37 program activities and 26

⁴ Afghanistan’s development budget is divided into the core development budget, which is executed through the government’s budget system, and the external development budget, which consists of expenditures by international donor organizations that are not routed through the government’s budget or treasury system.

⁵ Additionally, beginning in SY 1389, Nangarhar is entitled to receive up to \$300,000 annually from the Performance Based Governor’s Fund. The Independent Directorate for Local Governance, an Afghan government agency, coordinates the program, which is funded by multilateral donors and managed by The Asia Foundation (see appendix VI for more information on the Performance Based Governor’s Fund). The total program cost is \$16.4 million, funded by the United States (83.9 percent), the United Kingdom (11.6 percent), and Belgium (4.5 percent).

implementing partners. Of this amount, 37 percent went for governance, 27 percent for roads and transportation, and 14 percent for economic growth (see appendix V for more detailed information on USAID expenditures).

- The Department of State estimated that it made more than \$2.5 million in development grants available for projects in Nangarhar throughout fiscal year 2009 and, to date, in fiscal year 2010. Refugees and migration programs absorbed virtually all of the funding (see appendix VI for more detailed information on State Department expenditures).
- In 2008, the State Department’s Bureau of International Narcotics and Law Enforcement Affairs made \$10,000,000 available to Nangarhar under its Good Performers Initiative for effectively decreasing poppy production to zero status. As of July 2010, \$2,342,570 was expended through the core development budget for 41 micro-hydroelectric projects in 10 districts.⁶ The Bureau of International Narcotics and Law Enforcement Affairs also awarded the governor’s office with \$16,200—between fiscal years 2008 and 2010—under the Governor-Led Eradication Program.

UN agencies and other donors were also active in Nangarhar in fiscal year 2009. For example, UNAMA reported that 6 UN agencies conducted 852 projects, as shown in table 2 (see appendix VII for information on UN-Habitat activities in Nangarhar throughout fiscal year 2009).⁷

Table 2: UN Agencies with Projects in Nangarhar Province, FY 2009

UN Agencies	Projects in Nangarhar Province
United Nations Human Settlements Program	689
United Nations World Food Program	54
United Nations Children's Fund	40
Food and Agriculture Organization of the United Nations	38
Office of the United Nations High Commissioner for Refugees	16
UN Office on Drugs and Crime	15
Total	852

Source: SIGAR analysis of UNAMA data.

Major donors—including USAID and the UN—do not routinely collect or disseminate detailed provincial-level data on development assistance execution for externally funded projects and programs. Almost all of USAID’s 37 development projects and programs operating in Nangarhar are active in more than one province, or throughout Afghanistan. USAID does not routinely require the 26 implementing partners responsible for these projects and programs to report provincial-level expenditure data (see appendix V for USAID projects and their implementing partners operating in Nangarhar).⁸ Determining the amount of USAID development funds expended in Nangarhar would require detailed data calls from each of

⁶ Twenty-eight of these projects have been completed; the remainder are near completion. The remaining monies have gone unspent because Nangarhar’s provincial government, the Ministry for Counter-Narcotics, and the State Department have been unable to agree on appropriate projects to fund.

⁷ UNAMA did not report the total amount of funds associated with these projects.

⁸ Although USAID requires implementing partners to record estimated disbursements in USAID’s Afghan Info database, these figures only represent an implementing partner’s “best guess” at actual expenditures. Only summary data are provided to the government of Afghanistan. In addition, USAID’s financial management system does not track implementing partner expenditure either by sub-contract or location.

USAID’s implementing partners; even then, province-specific data may not be available. As a result, U.S. officials working at the sub-national level do not have the information necessary to effectively monitor and evaluate USAID programs.

Although UNAMA is responsible for promoting coherence and coordination of UN and international aid and facilitating the alignment of donor activities to Afghan priorities, UNAMA officials in Nangarhar and Kabul indicated that they are not able to obtain or report on donor funding or expenditure levels in Nangarhar. For example, while UNAMA is aware of the project and program activities of various UN organizations operating in Nangarhar, UNAMA is not routinely able to collect budget or expenditure information pertaining to these organizations by province. UNAMA officials stated that UN organizations do not divulge funding information to UNAMA or others because doing so could put them at a competitive disadvantage with other aid organizations.

U.S. DEVELOPMENT PROJECTS AND PROGRAMS IN NANGARHAR ARE NOT TIED TO COHESIVE PROVINCIAL DEVELOPMENT PRIORITIES AND ARE IMPLEMENTED WITHOUT GOVERNMENT OF AFGHANISTAN INPUT

While U.S. government agencies have made some progress in aligning development projects and programs with Nangarhar’s provincial priorities, U.S. projects and programs are currently implemented without the benefit of provincially generated, government of Afghanistan-endorsed development priorities. Moreover, according to SIGAR analysis and several senior U.S. officials responsible for multi-million dollar development projects in Nangarhar, many U.S.-funded development projects in the province are not being sustained by the Afghanistan government. Further complicating the national and the Nangarhar provincial government’s ability to plan for and sustain development projects is the inability of donors in Nangarhar to effectively coordinate their efforts.

Nangarhar Province Does Not Have a Functioning Development Planning Process or Provincial Development Plan

According to USAID implementing partners, UNAMA, and senior U.S. officials in Nangarhar, the Provincial Development Committee (PDC) and technical working group (TWG) process is not functioning as intended. In July 2009, Nangarhar’s U.S. Provincial Reconstruction Team (PRT) began providing each TWG with a quarterly CERP budget.⁹ The provision of a budget, combined with intense mentorship and tutelage of Nangarhar’s line directors, resulted in a substantial improvement in Nangarhar’s PDC and TWGs.¹⁰ Nevertheless, a primary role of TWGs—as determined by the Afghanistan government—is to prepare, budget for, and monitor sectoral development plans. However, according to some UNAMA and U.S. government officials, the PRT’s efforts resulted in line directors paying a disproportionate amount of attention to other functions such as soliciting and selecting development projects. This turned the TWGs into voting forums that simply approved the uncoordinated development projects proposed by TWG members.

Moreover, UNAMA officials have expressed dissatisfaction with the direction and level of involvement of U.S. officials in Nangarhar. According to these UNAMA officials, the heavy and unnecessary involvement

⁹ The PRT provided each TWG with a budget, by allowing them to suggest projects up to a certain amount for which the PRT would provide CERP funds, if all the conditions required for CERP funding were met. All contracting and funding functions remained with the PRT, and no funds were allocated or contracting decisions delegated to provincial officials.

¹⁰ In June 2009, the Nangarhar provincial government did not have a functional PDC. The PDC and the six TWGs responsible for supporting it did not hold regular meetings attended by members. However, as a result of the PRT’s efforts, members began attending meetings and coordination improved.

of some U.S. officials in Nangarhar has negatively affected the workings of the TWGs and widened the gap between the international community and Afghans. In contrast, senior U.S. officials in Nangarhar maintain that the TWG and PDC members are far from ready to manage any of the development process without substantial, ongoing mentorship, and that without substantial mentorship, the process would disintegrate.

As the TWGs became project development and voting bodies, the task force (TF) and the PRT found that the TWGs were primarily focused on developing and implementing projects in the provincial capital of Jalalabad, rather than in more rural districts.¹¹ For example, the TWGs and the PDC were spending a disproportionate amount of dedicated CERP funding to build government infrastructure in Jalalabad, which resulted in the TF verbally requiring TWGs to allocate 75 percent of their CERP budgets to areas outside of Jalalabad.¹² However, this guidance was never formally issued, and it is still unclear how this directive is to be implemented. For example, during our visit to the Nangarhar PRT in June 2010, the PRT did not know if the 75/25 split referred to cost or number of projects.

Nangarhar Province has a PDP; however, it is outdated, unused, and not implemented. In 2007, Nangarhar held sub-national consultations to develop Nangarhar's PDP and finalized it in March 2008. PDPs were intended to be prioritized and fiscally sustainable development plans. However, the central ministries viewed PDPs as not fiscally constrained, prioritized, or reflective of the will of the populace. Moreover, the PDPs were not tied to any dedicated funding and were largely ignored by the national and provincial governments, the U.S. government, and the international community. Most of the projects in Nangarhar's PDP were not implemented, and the PDP has never been updated. For example, our analysis of the files associated with CERP projects in Nangarhar showed that none of the project files we reviewed was for a project explicitly included in the PDP (even though project files for 14 of 26 projects indicated that the CERP project was included in Nangarhar's PDP).

The Government of Afghanistan Does Not Have Visibility or Input into Many Externally Funded and Implemented Development Projects and Programs

To construct the external development budget for Nangarhar, the MoF depends on reporting by donor agencies that fund external projects, but the extent to which funding data are provided to the national government or associated line directorates is varied and project dependent. The national and provincial governments attempt to construct the external budget by piecing together estimated costs of projects that they are made aware of by external donors. This process does not capture all projects or actual costs, and the national and provincial governments must estimate—to the extent they can—the amount of Nangarhar's external budget. For example, the U.S. government, the largest development donor in Nangarhar through the PRT and USAID, does not share financial information on externally financed development projects with the national government or the provincial administration, according to Nangarhar's provincial arm of the Independent Directorate for Local Governance and Nangarhar's Governor's Office. Moreover, neither U.S. Forces-Afghanistan (USFOR-A) Headquarters nor Task Force (TF) level personnel responsible for CERP management are aware of any formal CERP expenditure reporting to national or provincial authorities. The national or provincial governments may be aware of

¹¹ In much of Afghanistan, the North Atlantic Treaty Organization (NATO) manages reconstruction efforts through combined military/civilian command posts. In Nangarhar, NATO operates three reconstruction and stabilization teams—Provincial Reconstruction Team (PRT), Agribusiness Development Team (ADT), and Special Troop Battalions (STB)—out of Camp Finley Shields in Jalalabad. Task Force Bastogne, also based in Nangarhar, oversees PRTs, ADTs, and Special Troop Battalions in Nangarhar, Laghman, Kunar, and Nuristan Provinces.

¹² TF and PRT officials acknowledged that while it was necessary to build infrastructure in Jalalabad, the extent to which TWG and PDC members focused on Jalalabad concerned them and led to the directive.

a given project, but the extent to which final project costs are divulged to either the national government or associated line directorates varies on a project-by-project basis.¹³

Nangarhar provincial officials attempt to obtain externally financed, development project information from the PRT and USAID, or their contractors, for tax purposes, according to the Nangarhar's Governor's Office and the provincial arm of the Independent Directorate for Local Governance. Afghan officials further stated—and our work confirms—that the PRT and USAID do not provide this information. Contractors often tell administration officials that USAID or the PRT prohibits them from disclosing contract award amounts, but U.S. officials stated that the contractors purposefully evade government contract information requests to avoid paying taxes. Without insight into contract costs, the provincial government—on behalf of the Afghan government—is unable to levy taxes commensurate with contractor revenues, thus denying the government legitimate revenue. Senior MoF officials in Nangarhar would like the PRT and USAID to provide the Nangarhar mustofiats—the MoF's provincial directorates—copies of contracts to help mitigate fraud and tax evasion and help with tax revenue collection. The PDC chair—the governor of Nangarhar—has officially requested this contract information from the PRT and USAID. U.S. non-reporting of external development projects in Nangarhar has resulted in the Afghan government having virtually no insight into U.S. government spending in Nangarhar. For example, MoF data on U.S. external development spending in Nangarhar throughout 2009 only captures 2 projects, worth a total of \$3.2 million, nearly \$101 million less than the amount identified by SIGAR over roughly that same period.¹⁴

Additionally, USAID-funded projects do not go through the TWG/PDC process and are often implemented without the knowledge or involvement of the national or provincial governments. According to senior USAID and Department of State officials, while some USAID implementing partners occasionally attend TWG meetings, no implementing partner has yet undertaken a project that has gone through the full PDC process. Similarly, our analysis of the files associated with CERP projects executed in Nangarhar revealed that, while 24 of 26 project files indicated that projects were coordinated with the national government, only 4 showed any evidence that they were coordinated.¹⁵ According to U.S. officials in Nangarhar, previous U.S. development teams in Nangarhar—the PRT and Agribusiness Development Team (ADT)—did not have a well thought out project selection strategy and often conducted projects without consulting local officials.¹⁶ These conditions culminate in an unclear picture of the development funds expended in or benefiting Nangarhar and leave the government of Afghanistan with little or no visibility into the amount of U.S. external development spending in Nangarhar Province.

¹³ Previous studies have found that support provided by the major donor agencies and international financial institutions is largely captured by the government of Afghanistan's external development budget (see *Intergovernmental Fiscal Relations and Sub-national Expenditures in Afghanistan*, World Bank, August 2008). However, we saw little evidence that the national government or provincial administration know how much funding the United States is externally spending in Nangarhar.

¹⁴ MoF data on U.S. external development spending in Nangarhar included funding executed by the U.S. government for the Capacity Development Program and the Food Insecurity Response for Urban Populations. Moreover, the \$3.2 million captured funds executed in 5 provinces, so the amount executed in Nangarhar is likely considerably less than the \$3.2 million identified.

¹⁵ CERP project files indicating that they were coordinated with the government of Afghanistan included a "checked box" on one of the required documents. CERP project files that showed evidence of coordination included documented evidence of coordination, such as sustainment agreements.

¹⁶ In July 2009, PRT officials committed to vetting most CERP projects in Nangarhar through the PDC process; however, the first PDC vote did not occur until January 2010. During that time, PRT officials focused on completing previously initiated projects.

The ineffective coordination amongst the various donors operating in Nangarhar adds to the government of Afghanistan's lack of visibility into externally executed development projects. According to PRT and TF officials, Nangarhar's various donors, line directorates, and NGOs have their own objectives and priorities, and coordination between the PRT and most of the NGOs operating in Nangarhar is minimal. This lack of coordination has resulted in an environment in which donors, NGOs, and provincial directorates may duplicate one another's work. For example, one senior Afghan official stated that while his directorate has a good relationship with the PRT and USAID, the number of donors involved in the provision of public services results in the completion of projects that are uncoordinated and unnecessary. TF officials stated that they began holding twice weekly meetings with the provincial representative of UNAMA in spring 2010, in an effort to coordinate the efforts of the donors in the region. However, these officials stated that getting donors and NGOs to attend such meetings has been difficult because donors and NGOs have different objectives.

The Government of Afghanistan Is Not Sustaining Completed U.S. Development Projects in Nangarhar Province

Afghans are severely limited in their ability to operate and maintain U.S.-completed development projects in Nangarhar Province. Because no comprehensive inventory of provincial assets exists, Nangarhar's line directors are unable to provide anticipated operations and maintenance (O&M) budget requirements to central ministries in Kabul. Further, the national and provincial directorates are unable to identify the ordinary (recurrent) requirements of the budget because U.S. and donor-funded projects may be completed without their knowledge. In some cases, even if a government official agrees to sustain a CERP project upon completion, the official has not conducted the planning necessary to ensure that funds will be available for sustainment.

According to senior TF officials, the government of Afghanistan did not operate or maintain many previously completed CERP projects in Nangarhar, and many of these projects have become dilapidated and are in disrepair. For example, the Nangarhar ADT has had to retrofit or repair many previously completed and unmaintained CERP projects. Nevertheless, the United States does not prepare O&M cost estimates for CERP projects and does not expect that the government of Afghanistan will sustain most projects, according to TF, PRT, and ADT officials. In fact, senior PRT officials noted that they do little more than "check the box" in CERP project files to indicate that the government of Afghanistan agreed to fund sustainment. They do not generally document the Afghan government's acceptance of O&M in CERP project packages. Our analysis of Nangarhar's CERP project files showed that 24 of 26 CERP files—of CERP projects completed by the PRT or ADT during fiscal years 2009 and 2010—did not contain a U.S. and Afghan sustainment agreement or the signature of a government official accepting responsibility for O&M, as CERP requires.¹⁷

According to TF officials, beginning October 1, 2010, the TF, PRT, and ADT will no longer provide TWGs with a quarterly budget. They will instead provide every provincial line director in the TF's area of responsibility—Nangarhar, Nuristan, Kunar, and Laghman—with a budget of \$100,000 per quarter.¹⁸ To

¹⁷ *Money as a Weapon System – Afghanistan*, U.S. Forces, Afghanistan Publication 1-06, updated December 2009, requires Commanders to include a Memorandum of Agreement for sustainment between USFOR-A and the government of Afghanistan in CERP project files for projects greater than \$50,000. Our sample contained 15 projects valued at over \$50,000, with six valued at between \$30,000 and \$49,999.

¹⁸ Beginning October 1, 2010, the TF/PRT/ADT/CERP will begin providing each District Development Assembly in the TF's area of responsibility with a budget of \$75,000 per quarter. This money will not be cumulative and cannot be used for any structures or projects that require quality control/quality assurance from engineers. Projects requiring this must go through the provincial line directors, which helps ensure that efforts are coordinated throughout the province and mitigates the effect of the Afghan and U.S. governments' limited capacity for quality assurance/quality control at the district-level. In cases where the PRT or TF provides Afghan entities with a

help the line directors establish development priorities and determine needs, they will be required to inventory all the structures and facilities they are responsible for maintaining. Although the TF acknowledges that the inventories developed by the directors will likely be quite poor, the TF believes this exercise will provide a starting point for developing budget priorities. Under this new guidance, directors will be required to consider and forecast O&M costs and compose a business plan outlining the project and its sustainment needs when preparing projects for PRT consideration using CERP funds.¹⁹ While the TF's proposed direction may help develop the capacity of individual directors, additional guidance and requirements could significantly delay already delayed project implementation. It is unclear how this shift may affect the TWG/PDC process. Moreover, as of the date of this report, the TF has not issued formal guidance regarding these directives.

NANGARHAR'S LINE DIRECTORATES LACK THE CAPACITY NECESSARY TO ABSORB SIGNIFICANTLY MORE DEVELOPMENT FUNDING

Any control or influence Nangarhar has over public resources comes through its ability to shape the national budget or through its influence over budget execution, to the extent that resources flow to the provincial level. Nangarhar's line directorates play a very limited role in development activities in Nangarhar, and nearly all of the Afghan government's core development activities are centralized in Kabul at the ministry level. The level of centralization has left Nangarhar's line directorates with little capacity to absorb significantly more development funding.

Provincial Directorates Have a Limited Role in Formulating Budgets and Implementing Development Projects

Although the government of Afghanistan's *Provincial Budget Handbook* indicates that PDCs and provincial directorates play a significant role in budget formulation, both the Department of the Treasury and SIGAR have observed that provincial directorates are not involved in the budget process and their input is not solicited.²⁰ Due to the centralization of development functions in Afghanistan, the provincial line directorates are remitted only 17 percent of public funds even though they can be considered the beneficiary of 61 percent of public expenditures. Nangarhar's provincial directorates have very little or no input into central ministries' decisions regarding core budget allocations or tashkil authorizations and have little control over the planning of provincially delivered services. In addition, line directors' operational budgets do not include sufficient funding for the goods and services required to carry out their mission or to operate and maintain completed infrastructure projects.

Virtually all procurement functions are centralized at the ministerial level, and according to senior Afghan government officials, Afghanistan's procurement laws—and the concentration of procurement skills in Kabul—ensure that most major procurement activities occur in the central government, not at the provincial level. The government of Afghanistan's procurement law provides that a minister is the sole award authority for virtually all contracts, and that it is the minister's discretion to delegate award authority to deputy ministers or provincial line directors.²¹ At present, none of the Nangarhar line directors has any real procurement authority, and the central ministries enter into all procurement contracts. The central ministries select contractors, submit contracts for bids, make contract awards,

“budget,” no funds are transferred and no contracting authorities are given to Afghan government entities; the TF or PRT retains control over these functions.

¹⁹ Any project proposed by a district development assembly for CERP funding must also include a memorandum from the associated provincial line director asserting the directorate's ability and willingness to sustain the project.

²⁰ *A Handbook for Provincial Budgeting in Afghanistan*, Islamic Republic of Afghanistan, 2008.

²¹ The Government of Afghanistan's Public Procurement Law, 1384, as amended.

and pay contractors from central funds. Engineers from the line directorates may assist in construction oversight—usually with assistance from the Directorate for Urban Development—and pre-authorize contract award payments; however, funding and award approvals are made at the ministry level. The absence of procurement authority within Nangarhar’s provincial directorates means that central officials manage procurements without adequate information and provincial officials are effectively disenfranchised.

Limited Provincial Capacity and Centralization Challenge Efforts to Devolve Greater Development Authorities

The international community and the government of Afghanistan agree that decentralization of authority to the sub-national level is an appropriate way to improve governance.²² For example, the government of Afghanistan’s recently endorsed Sub-National Governance Policy (SNGP) calls for the implementation of provincial plans to be delegated to the provincial directorates of the ministries.²³ To realize this goal, the SNGP requires expenditure responsibilities related to provincial plans to be delegated to provincial line directorates, with the provincial directorates accountable for the use of funds to the parent ministries, the provincial governors, and the provincial councils. Although the communiqué from the Kabul Conference called for the SNGP to be implemented within a year, the capacity for managing this new process in Nangarhar does not exist. We have seen no evidence that Nangarhar’s provincial directorates are ready or capable of taking on additional development responsibilities. For example, one provincial line director stated that, even if the ministry provided the directorate with development funding, he would not know what to do with the funds because his office currently does not have the capacity to implement and manage projects. Nangarhar’s line directorates have never had such a role and lack the capacity to fulfill SNGP’s mandate in the prescribed timeframe. According to senior UNAMA officials, the timelines for SNGP implementation—and decentralization—are irrelevant, and the government is not likely to meet these self-imposed dates. The SNGP notes that many of its goals are “aspirational.”

In recent years, the government of Afghanistan has implemented provincial budgeting pilots in many provinces and ministries—including several directorates with whom SIGAR spoke in Nangarhar—in an effort to involve provincial directorates in the budgeting process.²⁴ Despite these ongoing efforts, and recent commitments to provincial inclusion in the budget process, provincial directorates in Nangarhar stated that they were removed from the budget process and the pilot efforts have not resolved the central ministries’ inequitable allocation of resources across provinces.²⁵

Central ministries have difficulty arriving at a rational provincial allocation of resources, and there is evidence that central allocation processes do not connect with provincial needs. For example, the government of Afghanistan’s solar year 1389 budget allocated \$349 million to five provinces—Balkh, Kandahar, Kunduz, Badakhshan, and Kabul—while the remaining 29 provinces—including Nangarhar—were allocated \$369 million. The inability of the central government to allocate resources equitably across provinces limits the government’s ability to deliver adequate public services. Provincial officials

²² Historically, in Afghanistan, both the government and citizenry have considerable desire for strong centralization, in part because of historical legacies and fear of fragmentation, and in part because conflict did not destroy centralized state structures.

²³ *Sub-National Governance Policy*, Spring 2010.

²⁴ *A Handbook for Provincial Budgeting in Afghanistan*, Islamic Republic of Afghanistan, Ministry of Finance, 2008. *Sub-National Governance Policy*, Spring 2010.

²⁵ Due to the low capacity of the provincial directorates and the PDCs, many of the budgets produced in the provinces needed extensive revision and work before submission to the MoF. Hence, the participating ministries still control the budgeting process.

we spoke with stated that they have no control or input into the directorate's budget and lack the staff and expertise required to deliver public services effectively.

According to senior officials at most of the directorates and ministries we interviewed, there is poor communication between the central ministries and provincial directorates. Poor communication between central ministries and provincial directorates further indicate the unlikelihood of meaningful devolution of development authorities. According to senior MoF officials, as the government of Afghanistan enters into a performance management culture, ministers that are held accountable for procurement and budget execution will have greater incentives to retain procurement operations in Kabul, rather than devolve authority to the provinces.

Several of Nangarhar's Line Directorates Are Allocated a Core Development Budget, but Few Ministries Execute Any of the Associated Funds

Influencing budget execution is one of the primary mechanisms through which Nangarhar's provincial directorates may exert control over public resources, to the extent that resources flow through the provincial level. Although each directorate in Nangarhar executes a core operating budget, very few directorates are able to execute a core development budget. While 2 directorates were able to execute approximately \$75,000 in development budget expenditures, this represents five percent of total development budget allocations in solar year 1389.²⁶ The national development budget execution rates are low in most ministries; a significant number of central ministries have less than 30 to 40 percent execution rates. However, in Nangarhar Province, execution of the development budget is even lower, demonstrating the low capacity, the need for further capacity building, and improvements in both budget preparation and execution processes (see table 3 for a summary of Nangarhar line directorates' solar year 1389 core development budget execution).²⁷

²⁶ This is based on partial year data on funds allocated and executed between March 21 and June 13, 2010.

²⁷ Some reasons for low development budget execution include a provincial directorate's failure to meet all of the funding conditions associated with a particular development budget activity (that is, the provincial directorate would have to meet all the planning and accountability requirements associated with the funds), central ministries not releasing allocated funds to the directorate, and donors not providing committed funds.

Table 3: Core Development Budget Funds Executed by Line Directorates in Nangarhar Province, SY 1389 (March – June 2010)

Ministry Directorate	Budgeted Funds	Executed Funds	Execution Rate
Ministry of Energy and Water	\$326,198	\$0	0%
Ministry of Public Works	\$287,065	\$0	0%
Ministry of Commerce	\$240,965	\$0	0%
Ministry of Education	\$146,080	\$64,815	44%
Ministry of Agriculture	\$135,233	\$0	0%
Ministry of Rural Rehabilitation and Development	\$131,801	\$0	0%
Ministry of Finance	\$58,920	\$0	0%
Ministry of Higher Education	\$37,851	\$0	0%
National Olympic Committee	\$34,021	\$0	0%
Ministry of Economy	\$22,989	\$0	0%
Afghanistan National Standard Authority	\$16,121	\$0	0%
Ministry of Haj and Religious Affairs	\$12,138	\$0	0%
Ministry of Refugees and Repatriates	\$8,300	\$0	0%
Ministry of Public Health	\$7,110	\$0	0%
Independent Directorate of Local Governance	\$4,287	\$0	0%
Election Commission	\$2,299	\$0	0%
Attorney General	\$690	\$0	0%
Ministry of Martyrs, Disabled and Social Affairs	\$284	\$0	0%
Ministry of Justice	\$0	\$9,931	Unknown
Total	\$1,472,350	\$74,746	5%

Source: SIGAR analysis of data provided by the MoF.

CONCLUSION

To a large extent, the Afghan government funds only salaries for education and security in Nangarhar. To manage a significant increase in development funds, the Nangarhar provincial government and administration requires improved budget input and visibility, project prioritization and sectoral planning capacity, and closer interaction and insight into externally funded development projects. Nangarhar's provincial officials cannot manage or maintain what they cannot see, and most of the externally funded U.S. and international development activities we identified in Nangarhar are implemented without the input or visibility of provincial officials. Good development projects can result in waste if they are not properly maintained, and Nangarhar's provincial government and administration are severely limited in their ability to sustain U.S.-funded development projects. Development partners, especially U.S. military officials implementing CERP projects and USAID project implementers, need to work with Afghan partners in Nangarhar province to ensure that schools, irrigation systems, roads and other infrastructure projects are sustained and provide the essential services for which they were built. The lack of sectoral development planning in Nangarhar—on the part of the U.S. and Afghan government—has resulted in an incoherent approach to development because accomplishments cannot be measured against needs identified in a plan, and ultimately impeded capacity development within the provincial government. The international community needs to help reorient Nangarhar's provincial government—especially the PDC and TWGs—to focus on producing cohesive sectoral strategies and development plans, rather than focus on preparing project proposals for individual donors such as the U.S. PRT.

RECOMMENDATIONS

To help prevent waste in the implementation of U.S. development projects in Nangarhar, and to strengthen the capacity of Nangarhar's provincial administration to manage development funds, strategically prioritize needs, and sustain completed projects, SIGAR is making the following five recommendations.

To help ensure that Nangarhar's provincial directorates develop the capacity required to implement, absorb, and execute additional development funds and implement development projects—as outlined in the government of Afghanistan's Sub-National Governance Policy—SIGAR recommends that the U.S. Ambassador to Afghanistan, in coordination with the Nangarhar PRT and USFOR-A:

1. Work with the MoF and other ministries to develop a cohesive, interagency strategy focused on developing Nangarhar Province's capacity in budget formulation and execution, planning and project development, management and oversight, and operations and maintenance.

To ensure that the government of Afghanistan and U.S. personnel are aware of provincial-level U.S. development activities, priorities, and expenditures across Afghanistan, and to ensure that the Afghanistan government is able to develop an accurate picture of provincial-level expenditures for inclusion in the external budget, SIGAR recommends that the U.S. Ambassador to Afghanistan, in coordination with USFOR-A and the Afghan government:

2. Develop a strategy and methodology to formally report provincial-level project and expenditure data—at the appropriate level of detail—to the government of Afghanistan and provincially based Afghan and U.S. officials; this may require provincial-level expenditure reporting from implementing partners.

To ensure U.S. development funds executed in Nangarhar are used in accordance with cohesive, government of Afghanistan sanctioned, provincial development priorities, SIGAR recommends that the U.S. Ambassador to Afghanistan:

3. Coordinate with USFOR-A, UNAMA, and other stakeholders to assist Nangarhar's line directors and technical working groups in developing meaningful, comprehensive sectoral development plans that can lead to sustainable economic improvement.
4. Advance and implement a development assistance plan for Nangarhar in a manner that increasingly transfers development management to the provincial government institutions, including line ministers, and the technical working groups/Provincial Development Committee process. This includes encouraging and/or requiring implementing partners to formally involve provincial officials in development projects and programs.

To ensure that completed CERP projects are sustained by the government of Afghanistan, and therefore benefit the long-term development of Afghanistan, SIGAR recommends that USFOR-A:

5. Improve CERP procedures for documenting the Afghan government's acceptance of responsibility for sustainment of completed construction, to include (1) the name and position/level of the Afghan government officials authorized to accept sustainment for projects at various costs; (2) sustainment plans that identify operations and maintenance costs for the projected lifetime of CERP projects; and (3) ensuring that project file documentation includes sustainment agreements, as currently required.

COMMENTS

USFOR-A and U.S. Embassy Kabul provided official comments on a draft of this report. The comments are included in appendices VIII and IX, respectively. In its comments, USFOR-A concurred with our recommendation to help ensure that completed CERP projects are sustained by the government of Afghanistan and benefit Afghanistan's long-term development and outlined steps it would take to address the recommendation. U.S. Embassy Kabul indicated general concurrence with the report's recommendations but expressed some concerns regarding two of the recommendations. The comments did not outline specific steps that U.S. Embassy Kabul planned to take to address any of the recommendations.

U.S. Embassy Kabul generally concurred with the recommendation to help ensure that Nangarhar's provincial directorates develop the capacity required to implement, absorb, and execute additional development funds and implement development projects—provided that this is done in close coordination with central ministries in Kabul, particularly the MoF. Based on the Embassy's response, SIGAR has included language in the recommendation to indicate the MoF's and other ministries' key role in such efforts. The Embassy also outlined some recent provincial capacity development initiatives. While we commend the initiatives to improve Nangarhar Province's capacity in this regard, these efforts are in the early stages of implementation. The primary effort identified by USAID—USAID's Economic Growth and Governance Initiative—began its activities in Nangarhar on September 20, 2010, the day SIGAR sent a draft of this report for comment. Moreover, it is unclear whether these initiatives include all relevant stakeholders, such as the U.S. Department of the Treasury, which is critical to avoid duplication of effort and maximize efficiency and effectiveness.

U.S. Embassy Kabul also generally concurred with our recommendation to ensure that government of Afghanistan and U.S. personnel are aware of provincial-level U.S. development activities, priorities, and expenditures across Afghanistan, and to ensure that the Afghan government is able to develop an accurate picture of provincial-level expenditures for inclusion in the external budget. The Embassy

expressed concern, however, about the complexity and potential misunderstandings created by the provision of these data. To address these concerns, SIGAR revised the language in the recommendation to indicate that only necessary and appropriate information—such as project or program expenditures, goals, and outcomes rather than salary information—need be reported. Despite the potential challenges that obtaining and disseminating this information may present, SIGAR maintains that this information is critical to the ability of U.S. officials working at the sub-national level to effectively monitor and evaluate programs and to the government of Afghanistan to maintain an accurate picture of provincial expenditures for inclusion in the external budget.

In addition, the U.S. Embassy stated that there needs to be a more comprehensive absorptive capacity assessment conducted. Although the scope of our audit did not include such an assessment, based on the results outlined in this report we agree that it would be appropriate for the U.S. government to undertake such an assessment prior to channeling more funds through the provincial governments of Afghanistan.

U.S. Embassy Kabul and the U.S. Department of the Treasury also provided technical comments that SIGAR incorporated in this report as appropriate.

APPENDIX I: SCOPE AND METHODOLOGY

This report discusses the results of the Office of the Special Inspector General for Afghanistan Reconstruction's (SIGAR) review of U.S. development funding in Nangarhar Province.

To identify the amount and type of government of Afghanistan, U.S. government, and other donor development funding expended in Nangarhar Province, we obtained and analyzed budget and expenditure data from the Ministry of Finance, Nangarhar's mustofiat, the U.S. Departments of Defense, State, Agriculture, and the Treasury, and the U.S. Agency for International Development (USAID). Included in our data analysis were government of Afghanistan budget documents, such as documentation from the official budget, the Afghan Management Information System, and the Development Assistance Database Afghanistan, U.S. Forces-Afghanistan information on the Commanders' Emergency Response Program (CERP) extrapolated from the Combined Information Data Network Exchange, and State and USAID expenditure data. We supplemented these data by conducting interviews with responsible officials at each of these entities to form a complete picture of development funding in Nangarhar. In reporting Afghan budget data in this report, all conversions from Afghani to U.S. dollars are based on the currency conversion rate of 0.0229885 (Afghani to Dollar).

To assess the degree to which U.S. projects are aligned with Nangarhar's development priorities, we used information obtained through the documents and interviews described above, observed meetings of Nangarhar's Provincial Development Committee and technical working groups, and conducted additional interviews with a USAID implementing partner, and Afghan government officials, including leadership at the Ministry of Finance, the Control and Audit Office, Nangarhar's provincial directorates of Education, Urban Development, Agriculture, Public Health, Rural Rehabilitation and Development, the Independent Directorate for Local Governance, the Mustofiat, and the Governor's Office. Further, we conducted qualitative analyses of a judgmental sample of CERP project files and obtained information from the contracting or agreement officers responsible for projects or programs in Nangarhar to determine the extent to which files demonstrated that projects were coordinated with the Afghan government and included in Nangarhar's Provincial Development Plan.

To determine the extent to which Nangarhar's provincial administration is prepared to absorb and execute additional development funds, we used information obtained through the documents and interviews described above and developed conclusions based on that evidence. After identifying the current capacity of Nangarhar's provincial administration to absorb and execute additional development funds, we compared those findings with criteria for provincial capacity as described in various Afghan government documents.

During the planning stage of the review, we considered whether the use of internal controls, compliance with laws, regulations, or provisions of contracts and grant agreements, and fraud risk were significant to the audit objectives. We determined that none of these elements were significant. We used computer-processed data from United States and Afghan government sources to determine budgetary information. Except where noted in the report, we determined the data to be reliable for the purposes of identifying the amount and type of funds expended in Afghanistan and Nangarhar Province.

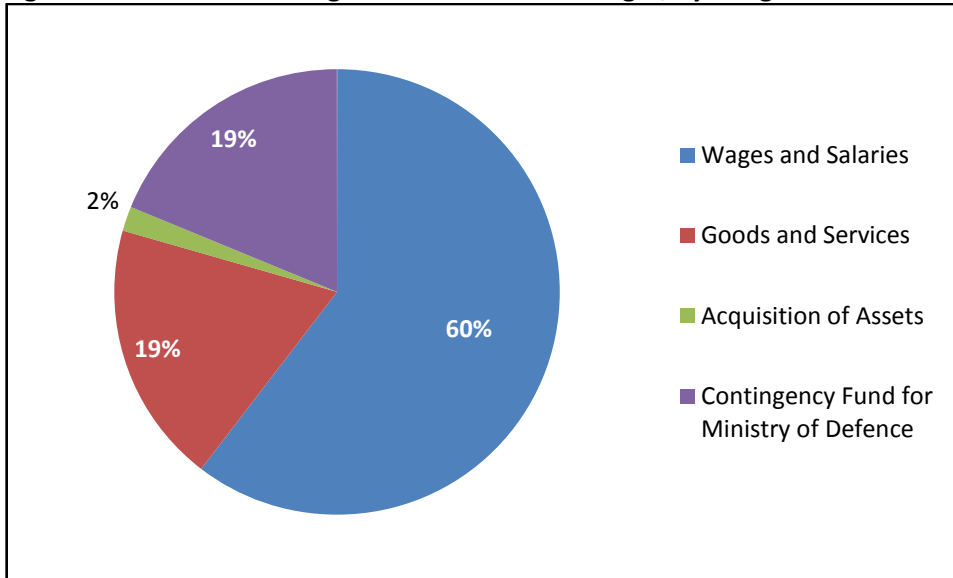
This report is part of a series of SIGAR audits addressing U.S. efforts to combat corruption and strengthen governance. We conducted work in Kabul and Nangarhar, Afghanistan, from May to September 2010 in accordance with generally accepted government auditing standards. These standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit

objectives. The audit was conducted by SIGAR under the authority of Public Law No. 110-181, and the Inspector General Act of 1978, as amended.

APPENDIX II: GOVERNMENT OF AFGHANISTAN CORE BUDGET INFORMATION

The government of Afghanistan's total budget consists of a core operating budget and a development budget. The operating budget is structured by primary budget organization (e.g., ministry, department, or government agency) and budget code (e.g., wages and salaries, goods and services, and acquisition of assets). Figures I and II show the allocation of the Afghan government's 1388 budget by code and economic classification, respectively.

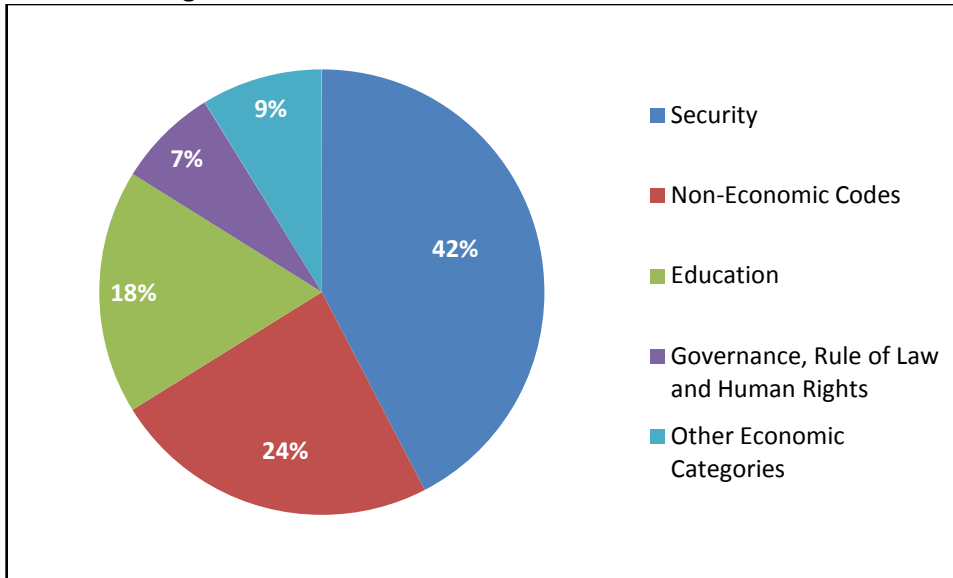
Figure I: Government of Afghanistan's SY 1388 Budget, by Budget Code



Source: SIGAR analysis of Ministry of Finance data.

Note: Total does not equal 100 percent due to rounding.

Figure II: Government of Afghanistan’s SY 1388 Recurring Operating Budget, by Economic Categories



Source: SIGAR analysis of Ministry of Finance data.

Notes: Non-economic codes include items such as salary supplements, fuel subsidies, pensions, and emergency funds. Other economic categories include health, infrastructure and natural resources, social protection, economic governance and private sector development, and agriculture and rural development.

Total does not equal 100 percent due to rounding.

The development budget is divided into the core development budget, which is executed through the government’s budget system, and the external development budget, which consists of expenditures by international donor organizations that are not routed through the government’s budget or treasury system. The core development budget is presented at the project level, sorted by ministry, and separated into approved budget (projects for which the budget resources are available) and approved projects (projects that are conditionally approved upon funding made available from external sources).²⁸

In addition to funding the entire external development budget, donor grants, whether from individual donor countries or multilateral agencies, support a large portion of the operating budget and fund nearly the entire core development budget.²⁹ Three sources of donor grants support the core operating budget:

- The Afghanistan Reconstruction Trust Fund (ARTF)—through its recurrent cost window—supports the overall operations of Afghanistan’s government;
- The Law and Order Trust Fund for Afghanistan supports the Afghan National Police; and
- The Afghan Security Forces Fund—through the Combined Security Transition Command-Afghanistan—supports the Afghan National Army and other security expenditures.

²⁸ The core development budget is almost fully funded by donor contributions and consists of discretionary spending, which is allocated to the government of Afghanistan when certain performance indicators are achieved, and nondiscretionary spending, which is provided to fund specific development projects and programs.

²⁹ The government of Afghanistan’s solar year 1388 core development budget was \$903 million, plus carry-over funds estimated between \$700 million and \$1 billion. The largest donors were ARTF (\$302 million); World Bank (\$287.9 million); and the Asian Development Bank (\$134.4 million).

Of these three assistance sources, only ARTF supports operations and development outside the security sector. ARTF is a partnership between the international community and the Afghan government to support the improved effectiveness of the reconstruction effort. Since 2002, 30 donors have contributed more than \$3 billion to ARTF, making it the largest contributor to the Afghan budget—for both operating costs and development programs.³⁰ ARTF’s management committee consists of the World Bank (as the administrator), the Islamic Development Bank, the Asian Development Bank, and the UN (United Nations Assistance Mission in Afghanistan and UN Development Program).³¹

ARTF allocates funding through its recurrent cost window, which reimburses the government of Afghanistan for a certain portion of eligible and non-security related operating expenditures every year, or its investment window, which provides grant financing for national development programs in the development budget.³² The recurrent cost window still finances around half of the government’s non-security costs. The investment window has increased significantly in volume and scope over the last two years due to increased levels of donor contributions, particularly from the United States. The “preferenced” portion of donor contributions has been the main factor driving growth in the ARTF over the past few years.³³ To ensure that ARTF has sufficient funding to finance the recurrent cost window, donors may not preference more than half of their annual contributions.

The following tables contain summary information related to the government of Afghanistan’s 1388 core budget, including total core budget information (see table I), operating budget allocation by budget code (see table II), operating budget by economic category (see table III), and a breakdown of the development budget by sector (see table IV).

Table I: Government of Afghanistan Total Operating and Development Budget, SY 1388

Government of Afghanistan National Budget, SY 1388	U.S. Dollars	Percentage of Core Budget
Core Budget	\$3,517,507,856	100%
Operating Budget	\$2,159,851,644	61%
Development Budget	\$1,357,654,833	39%

Source: SIGAR analysis of government of Afghanistan data.

³⁰ Approximately 15 donors contribute every year.

³¹ ARTF donors meet quarterly to discuss broader strategy with the government and ARTF management.

³² Domestic revenues continue to be insufficient to cover the costs of government. The ARTF recurrent cost window has therefore ensured the basic functioning of government.

³³ Preferences are a formal recognition by the fund administrator of the donor’s preference to allocate a certain portion of a contribution toward a particular project.

Table II: Government of Afghanistan Operating Budget by Code, SY 1388

Budget Code	U.S. Dollars	Percentage of Total
Wages and Salaries	\$1,304,884,294	60%
Goods and Services	\$410,677,346	19%
Acquisition of Assets	\$38,873,691	2%
Other Codes	\$405,416,243	19%
Total	\$2,159,851,575	100%

Source: SIGAR analysis of government of Afghanistan data.

Table III: Government of Afghanistan Operating Budget by Economic Category, SY 1388

Economic Category	U.S. Dollars	Percentage of Total
Security	\$914,859,562	42%
Other Codes	\$513,794,377	24%
Education	\$383,295,072	18%
Governance, Rule of Law and Human Rights	\$157,640,153	7%
Health	\$42,446,610	2%
Infrastructure & Natural Resources	\$42,072,288	2%
Social Protection	\$38,005,088	2%
Economic Governance and Private Sector Development	\$35,337,127	2%
Agriculture and Rural Development	\$32,401,297	2%

Source: SIGAR analysis of government of MoF data.

Note: The total percentage does not equal 100% due to rounding.

Table IV: Government of Afghanistan Core Development Budget by Sector, SY 1388

Sector	Total Budget Allocation
Infrastructure & Natural Resources	\$1,016,229,631
Agriculture & Rural Development	\$640,229,725
Education	\$329,425,205
Health	\$235,402,240
Economic Governance and Private Sector Development	\$221,494,198
Good Governance, Rule of Law and Human Rights	\$60,942,514
Unclassified	\$59,770,100
Social Protection	\$35,885,049
Security	\$11,494,250
Total	\$2,610,872,911

Source: SIGAR analysis of government of MoF data.

Note: Actual development budget expenditures were \$1,357,654,833.

APPENDIX III: NANGARHAR PROVINCE CORE BUDGET INFORMATION

Appendix III contains summary information related to Nangarhar Province’s 1388 core budget, including operating budget allocation by budget code (see table V), operating budget by government department (see table VI), and consolidated operating (by budget code) and development budget (by ministry) (see table VII).

Table V: Nangarhar Province Operating Budget by Budget Code, SY 1388

Budget Code	U.S. Dollars	Percentage of Total
Wages and Salaries (21)	\$51,317,713	85%
Use of Goods and Services (22)	\$6,543,791	11%
Subsidies, Grants & Social Expenditures (24)	\$2,771,988	5%
Acquisition of Assets (25)	\$68,392	0%
Grand Total	\$60,701,884	

Source: SIGAR analysis of Afghan government data.

Note: The total percentage does not equal 100% due to rounding.

Table VI: Allocation of Nangarhar Province Operating Budget by Government Department, SY 1388

Government Department	U.S. Dollars	Percentage of Total Operating Budget
Ministry of Interior	\$23,171,848	38.2%
Ministry of Education	\$20,300,296	33.4%
Ministry of Higher Education	\$4,432,017	7.3%
Ministry of Martyrs, Disabled and Social Affairs	\$2,696,658	4.4%
Ministry of Agriculture	\$2,350,256	3.9%
Independent Directorate of Local Governance	\$1,364,320	2.2%
Ministry of Justice	\$1,341,814	2.2%
Ministry of Finance	\$1,192,226	2.0%
Ministry of Public Health	\$792,102	1.3%
Supreme Court	\$533,201	0.9%
Attorney General	\$308,096	0.5%
Ministry of Haj and Religious Affairs	\$237,000	0.4%
Ministry of Communication	\$236,238	0.4%
Ministry of Rural Rehabilitation and Development	\$215,217	0.4%
Ministry of Information and Culture	\$203,517	0.3%
Ministry of Public Works	\$150,039	0.2%
Ministry of Defense	\$143,360	0.2%
Ministry of Energy and Water	\$116,976	0.2%
Ministry of Urban Development	\$97,171	0.2%
Geodesy and Cartography Office	\$96,718	0.2%
Ministry of Frontiers and Tribal Affairs	\$84,715	0.1%
Ministry of Transport and Aviation	\$69,081	0.1%
IARCSC (Civil Service)	\$68,119	0.1%
Ministry of Refugees and Repatriates	\$66,601	0.1%
Ministry of Foreign Affairs	\$62,933	0.1%
Directorate of Environment	\$59,274	0.1%
Ministry of Women Affairs	\$49,251	0.1%
Ministry of Economy	\$47,062	0.1%
Ministry of Commerce and Industry	\$45,103	0.1%
National Olympic Committee	\$39,188	0.1%
Office of Disaster Preparedness	\$34,638	0.1%
Central Statistics Office	\$32,359	0.1%

Government Department	U.S. Dollars	Percentage of Total Operating Budget
Ministry of Counter Narcotics	\$32,065	0.1%
Election Commission	\$18,288	0%
Directorate of Kochis	\$14,138	0%
Total	\$60,701,884	100%

Source: SIGAR analysis of Afghan government data.

Table VII: Nangarhar Province Consolidated Operating (by Budget Code) and Development Budget (by Ministry), SY 1388

Operating Budget	U.S. Dollars
Wages and Salaries	\$51,317,713
Use of Goods and services	\$6,543,791
Subsidies, Grants & Social Expenditures	\$2,771,988
Acquisition of Assets	\$68,392
Subtotal	\$60,701,884
Development Budget	
Ministry of Health	\$2,265,342
Ministry of Finance	\$146,791
National Olympic Committee	\$95,120
Ministry of Public Health	\$78,775
Ministry of Justice	\$9,931
Returned Funds	-\$229,885
Subtotal	\$2,366,074
Total Budget	\$63,067,958
Operating Budget Percentage of Total	96%

Source: SIGAR analysis of Afghan government data.

APPENDIX IV: CERP BUDGET INFORMATION IN NANGARHAR PROVINCE

Appendix IV contains summary information related to CERP expenditure in Nangarhar province, including fiscal year 2009 and 2010 (October 1, 2008 to March 31, 2010) CERP obligations delineated by project category (see table VIII).

Table VIII: Total Obligations by CERP in Nangarhar Province by Project Category, October 1, 2008 to March 31, 2010

Project Category	Obligations	Percentage of Total
Transportation	\$32,033,283	55%
Agriculture	\$10,445,165	18%
Rule of Law and Governance	\$5,758,294	10%
Education	\$5,022,779	9%
Water and Sanitation	\$1,895,660	3%
Healthcare	\$903,543	2%
Repair of Civic and Cultural Facilities	\$744,753	1%
Other Urgent Humanitarian and Reconstruction Projects	\$599,530	1%
Food Production and Distribution	\$488,348	1%
Electricity	\$284,351	0%
Protective Measures	\$259,715	0%
Economic, Financial, and Management Improvements	\$150,864	0%
Condolence Payments	\$139,118	0%
Battle Damage Repair	\$4,039	0%
Total	\$58,729,443	

Source: SIGAR analysis of CERP data.

APPENDIX V: USAID BUDGET INFORMATION IN NANGARHAR PROVINCE

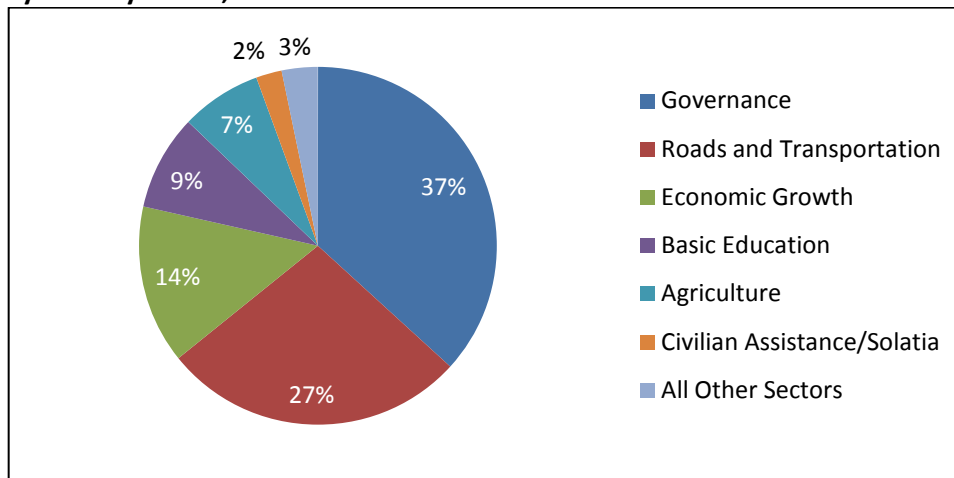
Appendix V contains summary information related to USAID estimated development expenditures in Nangarhar Province, including total estimated fiscal year 2009 disbursements delineated by primary sector (see table IX and figure III) and implementing partners responsible for various USAID projects or programs in Nangarhar and the primary sector of those projects or programs (see table X).

Table IX: Estimated USAID Disbursements and Percentages in Nangarhar Province by Primary Sector, FY 2009

Primary Sector	Est. FY 2009 Disbursements
Governance	\$15,597,245
Roads and Transportation	\$11,632,178
Economic Growth	\$6,072,846
Basic Education	\$3,650,895
Agriculture	\$3,081,652
Civilian Assistance/Solatia	\$991,329
All Other Sectors	\$1,381,996
Total	\$42,408,141

Source: SIGAR analysis of USAID data.

Figure III: Estimated USAID Disbursements Percentages in Nangarhar Province by Primary Sector, FY 2009



Source: SIGAR analysis of USAID data.

Note: Solatia are the payments or other recompense for mental suffering or financial or other loss.

Table X: USAID Implementing Partners in Nangarhar Province by Number of Projects and Sector, Fiscal Years 2009 and 2010 (Partial Year)

USAID Implementing Partners	Number of Projects	Mechanism Title	Sectors
(ARD) Associates in Rural Development	1	The Afghan Sustainable Water Supply and Sanitation (SWSS) Project	Potable Water & Sanitation
Academy For Educational Development	2	(1) Agriculture, Rural Investment and Enterprise Strengthening Program (ARIES) (2) Higher Education Program / HEP	Economic Growth; Higher Education
Asia Foundation, The	2	(1) Financial Management Services for the American University of Afghanistan (2) Ministry of Women Affairs' Strengthening Policy and Advocacy (MISPA)	Basic Education; Women
CAII-Creative Associates International, Inc.	1	Building Education Support System for Teachers (BESST)	Basic Education
CARE	1	Partnership for Advancing Community Education in Afghanistan (PACE-A)	Basic Education
Central Asia Development Group, Inc. (CADG)	1	Support for Food insecurity Response for urban population (PRT-FIRUP)	Economic Growth
CEPPS - Consortium for Elections and Political Process Strengthening	1	To support increased Electoral Participation in Afghanistan with Consortium for Elections and Political Process Strengthening (CEPPS)	Elections
CI-Chemonics International	1	Accelerating Sustainable Agriculture Program (ASAP)	Agriculture
Counterpart International Inc	1	Initiative to Promote Afghan Civil Society (I-PACS)	Civil Society
Deloitte Consulting LLP	3	(1) Economic Growth and Governance Initiative (EGGI) (2) Economic Growth and Governance Initiative (EGGI) (3) Afghan Civil Service Support (ACSS)	Economic Growth (2); Governance

USAID Implementing Partners	Number of Projects	Mechanism Title	Sectors
Development Alternatives, Inc.	4	(1) Incentive Driving Economic Alternatives Northeast and West (IDEA- NEW) (2) Afghanistan Small and Medium Enterprise Development Program (ASMED) (3) Afghanistan Stabilization Initiative (ASI) (4) Local Governance and Community Development (LGCD) Project	Economic Growth (2); Governance; Agriculture
Futures Group International, LLC	1	Expanding Access to Private Sector Health Products and Services	Health
IFES, Inc.	1	Elections and Political Processes	Elections
International City/County Management Association Inc	2	(1) Afghanistan Municipal Strengthening Program (2) Commercialization of Afghanistan Water & Sanitation Activity (CAWSA)	Governance; Potable Water & Sanitation
International Organization for Migration	2	(1) Construction of Health and Education Facilities (CHEF) (2) Civilian Assistance Program - Inc. Fund funding to Afghan Civilian Assistance Program (ACAP) / Leahy Initiative	Agriculture; Civilian Assistance/Solatia*
International Relief and Development, Inc.	2	(1) Human Resources and Logistic Support (2) Strategic Provincial Roads-South and East Afghanistan	Roads and Transportation
Internews Network	1	Independent Media in Afghanistan	Media/Communications
JHPIEGO Corporation	1	Health Service Support Project (HSSP)	Health
Louis Berger Group Inc., The	2	(1) Afghanistan Infrastructure Rehabilitation Program (AIRP) TO# 14 Operation and Maintenance (O&M)/ Capacity Building (2) Quick Response II	Roads and Transportation (2)
New Mexico State University (NEMESTUN)	1	Afghanistan Water, Agriculture and Technology Transfer (AWATT)	Agriculture
Purdue University	1	Advancing Afghan Agriculture Alliance	Agriculture
State University of New York	1	Afghanistan Parliamentary Assistance Program (APAP II)	Governance
United Nations Habitat	1	Learning for Community empowerment Program (LCEP II)	Basic Education

USAID Implementing Partners	Number of Projects	Mechanism Title	Sectors
University of California, Davis	1	Pastoral Engagement, Adaptation and Capacity Enhancement (PEACE)	Agriculture
Washington State University (WSU)	1	Afghan E-Quality Alliance	Higher Education
Wildlife Conservation Society Inc	1	Biodiversity Conservation at the Landscape Scale Program	Environment

Source: SIGAR analysis of USAID data.

Note: Solatia are the payments or other recompense for mental suffering or financial or other loss.

APPENDIX VI: STATE DEPARTMENT BUDGET INFORMATION IN NANGARHAR PROVINCE

Appendix VI contains summary information related to State Department's estimated development expenditures in Nangarhar Province, including total estimated fiscal year 2009 and 2010 grant disbursements (see table XI) and budget and expenditures under the Performance Based Governor's Fund in SY 1389 (see table XII).

Table XI: State Department Grants for Nangarhar Province, Fiscal Years 2009 and 2010 (Partial Year)

Funding Agency	Number of Grants	Total
Bureau of Population Refugees and Migration	3	\$2,499,563
Embassy Kabul	8	\$149,896
Total	11	\$2,649,459

Source: SIGAR analysis of Department of State data.

Note: Grant totals may include funding for multiple provinces. The list may be incomplete because the State Department does not require grants to be tracked by province.

Table XII: Budget and Expenditures for Performance Based Governor's Fund SY 1389 (Partial Year) for Nangarhar Province

Category	Hamal (21 March - 20 April)			Swar (21 April - 21 May)			Total to date		
	Budget	Spent	Variance	Budget	Spent	Variance	Budget	Spent	Variance
Total	\$25,000	\$7,862	\$17,138	\$24,800	\$25,759	-\$959	\$49,800	\$33,621	\$16,179
Vehicle and Equipment	\$8,600	\$7,452	\$1,148	\$7,900	\$15,703	-\$7,803	\$16,500	\$23,155	-\$6,655
Transportation	\$3,000	\$0	\$3,000	\$3,000	\$533	\$2,467	\$6,000	\$533	\$5,467
Maintenance and Repair of Public Facilities	\$6,500	\$0	\$6,500	\$7,000	\$0	\$7,000	\$13,500	\$0	\$13,500
ICT and Communications	\$0	\$410	-\$410	\$0	\$0	\$0	\$0	\$410	-\$410
Capacity Building	\$2,500	\$0	\$2,500	\$2,500	\$23	\$2,477	\$5,000	\$23	\$4,977
Community Outreach	\$4,400	\$0	\$4,400	\$4,400	\$9,500	-\$5,100	\$8,800	\$9,500	-\$700

Source: SIGAR analysis of PBGF data.

Note: Total annual budget for Nangarhar is \$300,000.

APPENDIX VII: UN-HABITAT ACTIVITIES IN NANGARHAR PROVINCE

Appendix VII contains summary information related to UN-Habitat activities in Nangarhar throughout FY 2009. Table XIII describes the number of projects under this program, delineated by various project categories.

Table XIII: Projects Conducted by UN-Habitat (United Nations Human Settlements Programme) in Nangarhar Province, FY 2009

Project Categories	Number of Projects
Building	4
Construction	3
Education	291
Human Capital Development	118
Health	1
Irrigation	20
Latrine	2
Power	23
Sanitation	44
Shallow Well	1
Shelter	21
Transportation	64
Water Supply	63
Watsan (Water & Sanitation)	34
Total Projects	689

Source: SIGAR analysis of UNAMA data.

APPENDIX VIII: COMMENTS FROM U.S. FORCES – AFGHANISTAN

SIGAR DRAFT REPORT SIGAR audit 11-1 (SIGAR-008A)

Weaknesses in Development Assistance and Lack of Provincial Capacity Pose Risks to U.S. Development Funds and Strategy in Nangarhar Province

COMMENTS TO THE DRAFT REPORT

RECOMMENDATIONS FOR USFOR-A (see page 17 of the report)

To ensure that completed CERP projects are sustained by the government of Afghanistan, and therefore benefit the long-term development of Afghanistan, SIGAR recommends that USFOR-A:

5: Improve CERP procedures for documenting the Afghan government's acceptance of responsibility for sustainment of completed construction, to include (1) the name and position/level of GIRoA officials authorized to accept sustainment for projects at various costs; (2) sustainment plans that identify operations and maintenance costs for the projected lifetime of CERP projects; and (3) ensuring that project file documentation includes sustainment agreements, as currently required.

RESPONSE: USFOR-A concurs: USFOR-A will create a FRAGO (and coordinate with ISAF Joint Command (IJC) to create a corresponding FRAGO) requesting that each of the USFOR-A detachments and each of the RC J9s create a listing of individuals authorized to sign project sustainment memorandums and subsequently be responsible for a project's sustainment. USFOR-A will update the MAAWS-A CERP SOP to reflect that sustainment memorandums, when required, will also need to include an estimate for operations and maintenance costs for the life of the requirement. Lastly, USFOR-A will send out an e-mail to all USFOR-A Detachments and RC J9s, reminding them that sustainment agreements are required for all projects that require sustainment and are greater than \$50K.

APPROVED BY:
Kim R. Leftwich-Blocker
COL, USA
Chief, USFOR-A J9

PREPARED BY:
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APPENDIX IX: COMMENTS FROM THE U.S. EMBASSY KABUL

Response to the Office of the Special Inspector General for Afghanistan Reconstruction's (SIGAR) draft report on: "Weakness in Development Assistance and Lack of Provincial Capacity Pose Risks to U.S. Development Funds and Strategy in Nangarhar Province," October 2010.

Embassy Kabul's response to the SIGAR audit is divided into two parts: comments on the report in general and comments on specific SIGAR recommendations. .

I. GENERAL COMMENTS ON THE SIGAR AUDIT

Embassy has long recognized the systemic obstacles to provincial budgeting and locally managed development created by Afghanistan's centralized system of government. We therefore concur with the SIGAR's draft report (at pages 1-2) when it describes provinces as having limited authority to govern and no authority at all as budgetary units. This is a matter of Afghan law over which the USG and other donors have no control. Indeed, in Afghanistan's centralized state there is no such thing as a "provincial" budget.

Thus, it is a systemic problem when 85% of Nangarhar's budget is allocated by the central government to the salaries of essential employees who must be paid. Likewise, it is the centralized system that denies provincial officials budgetary capacity. Even provincial governors have no legal authority to lead budgeting, contrary to the draft report's implication that they do (at page 1). All the governor and other provincial officials have is the power of persuasion.

Because of this systemic problem, Embassy recommends that the title of the SIGAR's draft report be more accurately be restated as follows: "Afghanistan's Centralized Government System and Consequent Lack of Provincial Capacity Poses a Challenge to U.S. Development Funds and Strategy in Nangarhar Province."

For SIGAR's consideration:

- There needs to be a more comprehensive absorptive capacity assessment conducted that puts in place a funding range that limits the amount of USG investment dollars flowing into provinces like Nangarhar. It's not sufficient that all USG assistance should go through GIROA when the capacity does not exist to manage it properly and the levels of funding that clearly exceed existing capacity are based on strategic objectives that may not take these limitations into account.
- The SIGAR report could address more thoroughly the coordination successes and challenges at the levels above and below the provincial level. As an example, an evaluation of the District Delivery Program (DDP) and other like efforts at the district level and how they complement and/or hinder capacity building at the provincial level would be very helpful

Page 1, first sentence, “Since 2002, the majority of U.S. development assistance to Afghanistan has been managed by U.S. agencies, bypassing the Afghan government.”

It is true that much support came through intermediaries and other agencies; however, the word ‘bypass’ is misleading, since often times project support via intermediaries was, or at least may have been, developed in conjunction with, in coordination with, or at the behest of Afghan governmental institutions. Embassy suggests that ‘bypass’ be replaced by a more value neutral term more accurately capturing the actual complexity of aid delivery, such as “rather than directly through the Afghan government.”

Page 6, footnote 3: “Additionally, beginning in solar year 1389, Nangarhar is entitled to receive up to \$300,000 annually from the Performance Based Governor’s Fund. The Independent Directorate for Local Governance, an Afghan government agency, manages the program, which is funded by multilateral donors. . .”

It is more accurate to say that IDLG coordinates this program. The Asia Foundation actually manages it and is the recipient of USAID and UK funding to do so.

P16, final paragraph: “U.S. government development strategies in Nangarhar have compounded the Afghan government’s difficulties in bridging the gap between the government and the people of Afghanistan. The lack of sectoral development planning in Nangarhar—on the part of the U.S. and Afghan government—has resulted in an incoherent approach to development because accomplishments cannot be measured against needs identified in a plan, have not created sustainable development, jobs, or enterprise and ultimately do not seem to have resulted in substantial economic development, increased capacity, or changed governance dynamics in the region. “

This paragraph equates both U.S. and Afghan development planning, but the primary driver should be Afghan planning informed by international assistance and advice. To say that USG development policies have compounded the Afghan government’s difficulties in bridging the gap between the government and people is a largely unsupported assertion. Improving provincial level capacities to strategize, plan, budget and implement is a key governance priority – one which will take time and considerable focus to achieve. Encouraging and supporting full implementation of sub national governance policy is an important step in the right direction.

PART II: COMMENTS ON SPECIFIC SIGAR RECOMMENDATIONS

Recommendation 1:

To help ensure that Nangarhar's provincial directorates develop the capacity required to implement, absorb, and execute additional development funds and implement development projects—as outlined in the government of Afghanistan's Subnational Governance Policy—SIGAR recommends that the U.S. Ambassador to Afghanistan, in coordination with the Nangarhar PRT and USFOR-A:

- 1. Develop a cohesive, interagency strategy focused on developing Nangarhar Province's capacity in budget formulation and execution, planning and project development, management and oversight, and operations and maintenance.*

Embassy Comment: The systemic limitations referenced in the Embassy general comments must also be kept in mind when considering the SIGAR's recommendations. The draft report's first recommendation, to increase "Nangarhar's capacity in budget formulation and execution" can only be done in close coordination with the central ministries in Kabul and particularly with the Ministry of Finance (MoF).

In this regard it should be added to the draft report that there are many such efforts already under way to increase provincial capacity in the budget process. First, both USAID (through its Economic Growth and Governance Initiative Project (EGGI) and the U.S. Treasury Department have imbedded mentors in the Ministry of Finance who advise on provincial budget training. Second, the Ministry of Finance has formally established a Provincial Budgeting Unit to train and assist provinces with their budget inputs. Third, the MoF has reached out and specifically addressed provincial budgeting in its recent Budget Circular #2 on formulation of the Year 1390 Budget. Fourth, the MoF is currently conducting training on provincial capacity building throughout Afghanistan. For example, in Nangarhar province itself, the PRT helped MoF host a Budget Training Conference and Workshop on 20-21 September 2010. Over 200 local Afghan officials from Nangarhar, Laghman, Kunar and Nuristan provinces attended.

Embassy through USAID/OEG supports the Ministry of Finance's Provincial Budget Unit to conduct training and follow-on capacity building in budget formulation and execution, project development, budgeting for operations and maintenance expenses for key Nangarhar provincial line directorates for 2010-2011. This is a key activity under OEG's EGGI Provincial Budgeting Reform workstream for 2010-2011. In line with this effort, EGGI recently completed a two-day workshop (September 20 and 21) for key provincial line directorates on preparing budget (operating and developing) estimates for the 1390 budget for Nangarhar, Kunar, Laghman and Nuristan provinces to kickoff the provincial budgeting activity in this region.

Current Embassy/USAID programs, including the Performance Based Governors' Fund (PBGF) in Nangarhar, can and do contribute to these objectives. In the future, the PBGF will devote additional resources to build capacity in provincial governors' offices in budget formulation and execution. The PBGF also provides incentives for governors who consult widely in making decisions about PBGF funding (e.g. for those who reach out to civil society, the provincial council, etc.) and who utilize transparent decision-making and allocation processes.

Recommendation 2:

To ensure that the government of Afghanistan and U.S. personnel are aware of provincial-level U.S. development activities, priorities, and expenditures across Afghanistan, and to ensure that the Afghanistan government is able to develop an accurate picture of provincial-level expenditures for inclusion in the external budget, SIGAR recommends that the U.S. Ambassador to Afghanistan, in coordination with USFOR-A and the Afghan government:

- 2. Develop a strategy and methodology to formally report provincial-level project and expenditure data to the government of Afghanistan and provincially based Afghan and U.S. officials; this may require provincial-level expenditure reporting from implementing partners.*

Embassy comment: Embassy concurs that it is beneficial to make available all provincial-level project and expenditure data to the government of Afghanistan and provincially based Afghan and U.S. officials. Such information is public data, much of which is already available through USAID's Afghanistan website, www.afghanistan.usaid.gov, or directly from USAID in Kabul upon request.

Much in the way of provincial level reporting information is available through USAID's website or directly from USAID Kabul upon request. Expenditure data at the provincial level is available with some level of specificity; however, full project financial data disclosure (i.e. including proprietary contractor data, including staff/consultant salaries, overhead, etc) could generate significant complexity and misunderstanding for both implementers and USAID.

Recommendation 3:

To ensure U.S. development funds executed in Nangarhar are used in accordance with cohesive, government of Afghanistan sanctioned, provincial development priorities, SIGAR recommends that the U.S. Ambassador to Afghanistan:

- 3. Coordinate with USFOR-A, UNAMA, and other stakeholders to assist Nangarhar's line directors and technical working groups in developing meaningful, comprehensive sectoral development plans that can lead to sustainable economic improvement.*

Embassy comment. Embassy concurs with the draft report's third and fourth recommendations calling for the revitalization and improvement of Nangarhar's provincial planning process. Embassy/USAID should lead this effort from its regional platform.

Recommendation 4:

4. Advance and implement a development assistance plan for Nangarhar in a manner that increasingly transfers development management to the provincial government institutions, including line ministers, and the technical working groups/Provincial Development Committee process. This includes encouraging and/or requiring implementing partners to formally involve provincial officials in development projects and programs.

Embassy Comment: Such recommendations can and must be taken in line with official GIROA policy and law, including most importantly the recently approved Sub-National Governance Policy. The USG supports its full implementation.

Recommendation 5:

To ensure that completed CERP projects are sustained by the government of Afghanistan, and therefore benefit the long-term development of Afghanistan, SIGAR recommends that USFOR-A:

- 5. Improve CERP procedures for documenting the Afghan government's acceptance of responsibility for sustainment of completed construction, to include (1) the name and position/level of GIROA officials authorized to accept sustainment for projects at various costs; (2) sustainment plans that identify operations and maintenance costs for the projected lifetime of CERP projects; and (3) ensuring that project file documentation includes sustainment agreements, as currently required.*

Embassy Comment: The CERP program is run by USFOR-A. Embassy/USAID has met periodically with PRT and Civil Military Cooperation (CIMIC) representatives to provide feedback and suggestions on improving CERP procedures and better aligning the CERP program with the government's budget process.

UNCLASSIFIED
DECISION MEMORANDUM

October 23, 2010

TO: Ambassador Karl W. Eikenberry *23 Oct 10*

THROUGH: Deputy Ambassador E. Anthony Wayne *EA* (8/25)
Assistant Chief of Mission, Ambassador James R. Keith

FROM: CDDEA - Ambassador William E. Todd *WT*

SUBJECT: Response to Draft SIGAR Report, Development Funds and Strategy in Nangarhar Province, Version Two

CONTEXT

SIGAR has prepared a draft audit report titled, "Weakness in Development Assistance and Lack of Provincial Capacity Pose Risks to U.S. Development Funds and Strategy in Nangarhar Province." We have revised the earlier version presented to the Front Office in response to comments received.

RECOMMENDATION

That you approve the response to SIGAR at Tab 1.

Approve *ku* Disapprove _____ Let's discuss _____

Attachments:

- Tab 1 -- Post Response to Draft SIGAR Audit on Development Funds in Nangarhar Province
- Tab 2 -- Draft SIGAR Audit on Development Funds in Nangarhar Province
- Tab 3 -- Previous version of our response to the SIGAR Report together with Ambassador Eikenberry's comments

(This report was conducted under the audit project code SIGAR-008A).

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

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