

Key Points – SFRC Report: Evaluating U.S. Foreign Assistance to Afghanistan

The Administration can be more effective in how it spends money in Afghanistan. Our aid projects should meet the three basic conditions of being *necessary, achievable, and sustainable*.

I. Why Foreign Assistance to Afghanistan Matters

We support the President's FY2012 request of \$3.2 billion in foreign aid to Afghanistan. This funding level reflects the pivotal role the State Department and USAID will need to play to help consolidate our military gains and ensure a successful transition to Afghans.

II. President Obama's Foreign Assistance Strategy for Afghanistan

The President's review of U.S. assistance strategies in the region resulted in a profound change in the coordination of our foreign assistance to Afghanistan.

- While the migration of foreign assistance responsibilities from USAID to the State Department has succeeded to some degree in advancing a "whole of government approach," it has also created new layers of bureaucracy, diminished USAID's voice, and put decision making on development issues in the hands of diplomats instead of development experts.
- In light of funding constraints, the State Department may want to consider a smaller footprint – a "civilian ebb" – that gives priority to the key aspects of the civilian mission that are *necessary, achievable, and sustainable*.

III. Using Development Dollars to Support Counterinsurgency (COIN)

About 80 percent of USAID's resources are being spent in Afghanistan's south and east, particularly on stabilization programs.

A. COIN Theory and Stabilization

- Our strategy assumes that short-term aid promotes stability in counterinsurgency operations and "wins hearts and minds." The evidence from Afghanistan supporting these assumptions is limited. More analysis is needed before the United States continues investing significant sums of money in conflict zones in the name of stability.

B. Agriculture and the Challenges of Stabilization

- Since 2002, USAID has awarded about \$1.4 billion for agricultural programs with mixed results. Projects such as the \$449 million Agricultural Vouchers for Increased Production in Afghanistan (AVIPA) Plus program do not necessarily yield intended outcomes and may generate unintended and potentially adverse consequences.
- We need to consider whether our aid will have a net positive effect, particularly in the area of agriculture, which forms the backbone of our assistance strategy in the south.

C. Consequences of Stabilization on Local Communities

- Stabilization projects have raised expectations and changed incentive structures in Afghanistan. Too much aid can have a destabilizing effect on local communities that are unable to absorb the cash surge and can distort the economy.
- While stabilization projects may yield short-term results, these successes do not necessarily win over the local population and could have the opposite effect.

IV. The Challenges of Spending U.S. Aid Dollars

Spending aid effectively in Afghanistan is extremely challenging, given the security climate, abject poverty, weak indigenous capacity, widespread corruption, and poor governance. High staff turnover, pressure from the military, imbalances between military and civilian resources, unpredictable funding levels from Congress, and changing political timelines have further complicated efforts. Pressure to achieve results puts our civilians are under enormous strain to spend development money quickly.

A. Political versus Development Timelines

- Political pressures create perverse incentives for the Administration to spend money quickly, even when the conditions are not right.

B. Limited Contractor Oversight

- The U.S. government relies heavily on contractors in Afghanistan, but multiple reports have raised alarms about the lack of robust oversight and accountability for multi-billion dollar investments.
- The Kabul Bank crisis, which resulted partly because of USAID's lack of adequate oversight, and fraud committed by one of USAID's largest contractors – the Louis Berger Group Inc., highlight the dangers of outsourcing U.S. aid projects to contractors with limited oversight.
- USAID and the State Department have insufficient qualified contracting staff serving in Afghanistan to oversee a multi-billion dollar portfolio.
- The Administration is taking welcome steps to improve oversight, but more can still be done. The U.S. should consider channeling more funds to national Afghan programs and Afghan civil society; taking immediate steps to ensure sufficient staffing levels and relevant professional expertise of contracting staff before contracts are awarded; and enacting recommendations put forth by the bipartisan Congressional Commission on Wartime Contracting in Iraq and Afghanistan.

C. On-Budget versus Off-Budget Funding

- Most U.S. aid to Afghanistan is “off-budget,” meaning it does not go through the Afghan government. This approach can weaken the ability of the Afghan state to control resources, which can fuel corruption and has led to the creation of thousands of donor-driven projects without any plan for sustaining them.
- The United States has committed to funding up to 50 percent of our aid through the Afghan government by FY2012, but stronger measures must first be taken to ensure greater accountability of our funds.
- For instance, the Afghanistan Reconstruction Trust Fund, which receives about \$2.08 billion from USAID, requires structural changes to improve absorptive capacity and ensure adequate field oversight. The Administration's process of assessing Afghan ministries' capability to manage and account for U.S. assistance is problematic and needs to be standardized and improved. The Afghan government must demonstrate progress on meeting its reform commitments, including improving its public financial management and ability to protect money from fraud and abuse.

D. Capacity Building using Technical Advisors

- The U.S. strategy is focused on building the capacity of Afghan institutions to deliver basic services largely through international technical advisors. Our overreliance on these advisors and minimal oversight has proved costly and may actually undermine efforts to build Afghan capacity.
- The State Department and USAID are currently spending approximately \$1.25 billion on Afghan capacity-building programs and are funding around 260 civilian advisors.

- Perhaps the most important step the U.S. government can take is to standardize Afghan salaries and work within Afghan government staffing constraints.

E. Transitioning to Afghan Ownership

- The United States must focus its assistance programs on Afghan ownership and sustainability.
- At times, we have failed to develop a strategy for transferring responsibility to Afghan control. For example, the Department of State continues to operate two counternarcotics compounds near the Kabul airport and in Kunduz province with no plans to transfer them to Afghan control.
- In other instances, we have transferred programs even when Afghan capacity does not yet exist, as with the case of the \$31 million Partnership for Advancing Community-Based Education program.
- There must also be unity of effort across the U.S. government. If we conclude that a civilian program lacks achievable goals and needs to be scaled back, no other actors should take over the effort. Too often, when our civilians determine that a project is infeasible, we simply transfer the program to other actors, such as the US military and other donors.

F. Fiscal Sustainability for the Afghan Government

- Strengthening the capacity of the Afghan government to undertake basic government functions is important, but it will require fiscal sustainability to succeed. Donors currently cover most of the costs of running the Afghan government.
- According to the World Bank, an estimated 97 percent of Afghanistan’s GDP is derived from spending related to the international military and donor community presence. A precipitous withdrawal of international support, in the absence of reliable domestic revenue and a functioning market-based economy, could trigger a major economic recession.
- Our capacity-building efforts should focus on key ministries and institutions that must work for the Afghan government to deliver. Instead of creating additional “off-budget” assets like schools, clinics, and roads, our attention must turn to how the Afghan government will sustain and staff what the donor community has already built.

V. Case Studies

- The National Solidarity Program and Basic Package of Health Services are examples of Afghan-led development programs that are *necessary, achievable, and sustainable*.
- The Performance-Based Governors Fund illustrates how the design of our aid programs impacts the outcome. While it may be “necessary” in its second phase, the program in its current design may not be “achievable” or “sustainable.”

VI. Recommendations

- **Consider authorizing a multi-year civilian assistance strategy for Afghanistan.** *Develop a multi-year strategy that defines U.S. assistance goals and the tools, authorities, and oversight mechanisms necessary for a successful military drawdown and transition.*
- **Re-evaluate the performance of stabilization programs in conflict zones.** *Continue to assess the impact of U.S. stabilization programs in Afghanistan and reallocate funds, as necessary.*
- **Focus on sustainability.** We should follow a simple rule: *Donors should not implement projects if Afghans cannot sustain them.*