



OFFICE OF INSPECTOR GENERAL

AUDIT OF USAID/AFGHANISTAN'S ALTERNATIVE DEVELOPMENT PROGRAM EXPANSION, SOUTH WEST

AUDIT REPORT NO. 5-306-10-011-P
JULY 29, 2010

MANILA, PHILIPPINES



Office of Inspector General

July 29, 2010

MEMORANDUM

TO: USAID/Afghanistan Director, Earl W. Gast

FROM: Regional Inspector General/Manila, Bruce N. Boyer /s/

SUBJECT: Audit of USAID/Afghanistan's Alternative Development Program Expansion, South West (Audit Report No. 5-306-10-011-P)

This memorandum transmits our final report on the subject audit. In finalizing the report, we considered your comments on the draft report and included the comments in their entirety in appendix II.

This report contains three recommendations to assist the mission in improving its management and oversight of the Alternative Development Program Expansion, South West. On the basis of the information provided by the mission in response to the draft report, we determine that management decisions have been reached on all recommendations. A determination of final action will be made by the Audit Performance and Compliance Division upon completion of the planned corrective actions for recommendations 1, 2, and 3.

I want to thank you and your staff for the cooperation and courtesy extended to us during the audit.

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SUMMARY OF RESULTS

The production and trafficking of illicit narcotics pose a serious challenge to the Islamic Republic of Afghanistan (Afghanistan). Narcotics revenues breed corruption at virtually all levels of the Afghan Government and provide resources to the Taliban, drug lords, and other terrorist groups. According to a 2009 U.N. report,¹ 123,000 hectares² of opium poppy were cultivated in 2009. Afghanistan produces 90 percent of the world's illicit opium, generating revenues equivalent to about 4 percent of Afghanistan's \$10.7 billion gross domestic product in 2009. Of the total cultivation, 99 percent took place in seven southern and western provinces: Helmand, Kandahar, Uruzgan, Day Kundi, Zabul, Farah, and Badghis. To address this narcotics problem, the U.S. Government has supported the Afghan Government's counternarcotics strategy of providing incentives to stop growing opium poppy through alternative development projects, supporting strong disincentives in the form of provincial governor-led eradication, interdiction, and law enforcement, and spreading the Afghan Government's antinarcotics message through public information activities (see page 3).

In March 2008, USAID/Afghanistan launched what was to become its Alternative Development Program Expansion, South West (the program), by awarding a 2-year, \$55 million contract to Associates in Rural Development, Inc. (ARD). The objective of the program was to counteract illicit poppy cultivation by providing alternative development programs, improved economic opportunities, and diverse regional economic growth. Activities during the first year of the program occurred in the southern provinces of Helmand, Uruzgon, and Nimroz and the western province of Farah. In January 2009, the mission increased the contract ceiling to \$75 million and extended the period of performance by 1 year. Through December 2009, the mission had obligated \$30 million and disbursed \$25 million for program activities (see page 3).

The program made progress toward counteracting illicit poppy cultivation by providing alternative development programs and improved economic opportunities in selected southern and western provinces. According to the *Afghanistan Opium Survey*, the collective decrease in 2009 poppy production in the provinces of Helmand, Uruzgan, Nimroz, and Farah, which were covered by the program, was 42,852 hectares—an approximate 32 percent decrease from 2008 levels. The decrease is attributable to such factors as strong antipoppy messages from provincial governors, increased interdiction activities, an overproduction of poppy in prior years that suppressed market prices, and provision of alternative economic opportunities in targeted districts within each province (see page 5).

The mission successfully provided alternative economic opportunities in the form of cash-for-work projects, high-value agricultural activities, and business development activities. Under the program, ARD completed 45 cash-for-work projects that included road, canal, and market rehabilitations. One project provided employment to 220 workers, while another project targeted 30 disadvantaged women—mainly widows (see page 6). In the area of high-value agriculture, the program assisted local farmers with

¹ United Nations Office of Drugs and Crime (UNODC), *Afghanistan Opium Survey 2009*, September 2009.

² A hectare is equivalent to 2.47 acres.

sales of produce totaling nearly \$3.8 million dollars (see page 6). One of the program's business development activities helped the Farah Farmer's Union, a cooperative of 8,700 growers, with identifying business opportunities and with developing the Farah Agricultural Center, which will provide an all-inclusive hub for market expansion, value chain³ development, training, and business development (see page 7).

Despite the program's progress in addressing its main goal, two issues need to be addressed. First, continued reductions in poppy cultivation may not be sustainable because no follow-on alternative development program has been approved beyond March 2011 and a critical southern province is not included in the current program. The investment in agricultural programs may be wasted and economic gains received by the local communities could disappear, potentially causing farmers to return to poppy cultivation. Furthermore, erosion of the economic development gains under the program could undermine the U.S. counterinsurgency strategy, which relies on sustained economic development to stabilize conflict areas (see page 7).

Second, the program has experienced delays in implementation, partially due to security issues. Further, changes in the mission's business practices present possible future challenges that could further delay program implementation if not properly managed (see page 12).

This report contains three recommendations to overcome these issues, including development of an implementation plan for follow-on alternative development activities to cover critical southern and western provinces (see page 12) and improvements in mission internal controls to manage changes in its business practices (see page 17). USAID/Afghanistan's comments will be included as appendix II to this report (see page 21).

³ Value chain development connects farmers, craftsmen, and other rural producers with specific markets and consumer demand.

BACKGROUND

According to the UNODC's *Afghanistan Opium Survey 2009*, 123,000 hectares of opium poppy were cultivated in 2009. Afghanistan produces 90 percent of the world's illicit opium, generating revenues equivalent to about 4 percent of Afghanistan's \$10.7 billion gross domestic product in 2009. Of the total cultivation, 99 percent took place in seven provinces in the southern and western regions, including the most insecure provinces in the country. The seven main provinces for opium cultivating and harvesting were Helmand, Kandahar, Uruzgan, Day Kundi, Zabul, Farah, and Badghis.

The production and trafficking of illicit narcotics pose a serious challenge to the Islamic Republic of Afghanistan. According to the U.S. Department of State⁴ (DOS), narcotics revenues breed corruption at virtually all levels of the Afghan Government while providing resources to the Taliban, drug lords, and other terrorist groups. The UNODC's 2009 survey reports growing evidence that some antigovernment elements in Afghanistan are turning into narco-cartels. After years of collusion with criminal gangs and corrupt officials, some insurgents are now opportunistically moving up the value chain—not just taxing supply but also getting involved in producing, processing, stocking, and exporting drugs. The impact of this expansion on the stability of Afghanistan, and the ways and means to oppose it, require attention.

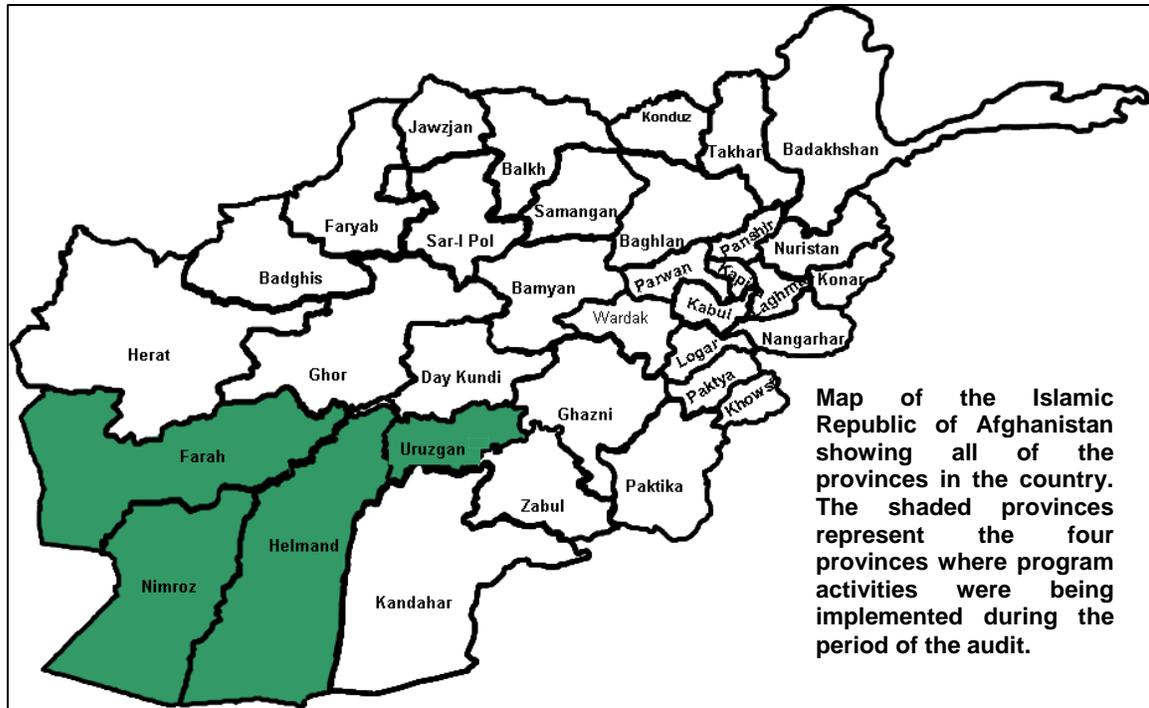
The U.S. Government's strategy focuses on helping Afghanistan disrupt the opium-based economy and strengthen the central government's control over the country. To address these objectives comprehensively, the U.S. Government has supported the Afghan Government's counternarcotics strategy of providing incentives to stop growing opium poppy through alternative development projects, supporting strong disincentives in the form of provincial governor-led eradication, interdiction, and law enforcement, and spreading the Afghan Government's antinarcotics message through public information activities. The Bureau of International Narcotics and Law Enforcement Affairs staff at U.S. Embassy/Kabul oversees the counternarcotics strategy and coordinates with various U.S. and Afghan Government agencies.

In March 2008, USAID/Afghanistan launched its Alternative Development Program Expansion, North and West, by awarding a 2-year, \$55 million contract to Associates in Rural Development (ARD), Inc., to implement the program in Balkh, Jawzjan, Farah, and Ghor Provinces. The objective of the program was to counteract illicit poppy cultivation by providing alternative development programs, improved economic opportunities, and diverse regional economic growth. Subsequent modifications added the southern provinces of Helmand, Uruzgan, and Nimroz and changed the name of the program to the Alternative Development Program Expansion, South West, because of where program activities are being implemented. Balkh, Jawzjan and Ghor Provinces were effectively eliminated from the program.

In January 2009, the mission modified the contract to increase the contract ceiling to \$75 million and extended the period of performance by 1 year. Through December 2009, the mission had obligated \$30 million and disbursed \$25 million.

⁴ From GAO Report No. GAO-05-575, June 2005

Appendix I contains a discussion of the audit's scope and methodology.



AUDIT OBJECTIVE

The Regional Inspector General/Manila conducted this audit as part of its fiscal year 2010 annual audit plan to answer the following question:

- Is USAID/Afghanistan's Alternative Development Program Expansion, South West, achieving its main goal of counteracting illicit poppy cultivation by providing alternative development programs and improved economic opportunities in selected southern and western provinces?

AUDIT FINDINGS

USAID/Afghanistan’s Alternative Development Program Expansion, South West (the program), made progress toward achieving its main goal of counteracting illicit opium poppy cultivation by providing alternative development programs and improved economic opportunities in selected southern and western provinces. These activities in turn contributed to reducing poppy cultivation. According to the UNODC report, *Afghanistan Opium Survey 2009*, the collective decrease in 2009 poppy cultivation in the provinces of Helmand, Uruzgan, Farah, and Nimroz, which were covered by the program, was 42,852 hectares—a decrease of approximately 32 percent from 2008 levels. The decrease in poppy cultivation is attributable to such factors as strong antipoppy messages from provincial governors, increased interdiction activities, overproduction of poppy in prior years, which suppressed market prices, and alternative economic opportunities provided to targeted districts within each province. Overall, the poppy reduction resulted from all the pillars of the U.S. Government counternarcotics strategy working successfully in concert. No one single pillar acting alone can affect poppy reductions; however, the lack of progress in one does affect the combined impact of all pillars on poppy production. The table below shows statistics on historical poppy cultivation in provinces covered under the program.

**Table 1. Poppy Cultivation Statistics
2004–09⁵ (Hectares)**

Province	2004	2005	2006	2007	2008	2009	Percentage Change 2008–2009
Farah	2,288	10,240	7,694	14,865	15,010	12,405	(17)
Helmand	29,353	26,500	69,324	102,770	103,590	69,833	(33)
Nimroz	115	1,690	1,955	6,507	6,203	428	(93)
Uruzgan	11,080	2,024	9,703	9,204	9,939	9,224	(7)
Total Program Coverage	42,836	40,454	88,676	133,346	134,742	91,890	(32)

Furthermore, the UNODC’s *Afghanistan Opium Survey 2010, Winter Rapid Assessment* reports that cultivation in Farah and Nimroz Provinces is expected to cause a moderate decrease in poppy cultivation, Helmand will remain stable, and Uruzgan will experience a moderate increase.

Under the terms of the contract, Associates in Rural Development, Inc. (the contractor), was expected to implement infrastructure development through cash-for-work projects, high-value agricultural activities, and business development activities. Activities implemented successfully by the contractor under the program include:

⁵ From United Nations Office of Drugs and Crime (UNODC), *Afghanistan Opium Surveys* for 2008 and 2009.

- Cash for Work.** As of December 2009, the program had completed 45 cash-for-work projects that included road, canal, and market rehabilitations. The contractor selected projects from the Farah Provincial Development Council in coordination with the Governor’s office, Rural Rehabilitation Department, and Irrigation Department. Once the project is selected, the contractor works with the local communities—those who benefit from the improvements—to identify local people to work on these infrastructure projects. For example, the contractor, in coordination with the Farah Governor, established a cash-for-work project in the province’s Lash Wa Juwayn District in response to a sandstorm that buried the district commercial center. The completion of this project affected 2,000 families in Lash Wa Juwayn and residents in 40 villages across the district who were once again able to move their agricultural products to market and conduct business. The project also provided income to 220 workers.

Additionally, the contractor provided opportunities for women to be involved in the cash-for-work project. With assistance from the Farah Department of Women’s Affairs, the contractor created the Women’s Gabion Weaving Activity, which provided 30 disadvantaged women (mainly widows) with work for 15 days each, weaving 350 of the 1-square-meter panels for gabions that were later used in repairs of water diversion projects.

- High-Value Agriculture.** As of December 2009, under its high-value agricultural projects, the program had trained over 11,000 farmers in new agricultural practices and in October through December 2009 had vaccinated over 13,000 animals while providing additional medical services to over 16,000 livestock. Additionally, since inception the program has assisted local farmers with sales of produce of nearly \$3.8 million dollars, as detailed in Table 2. For example, 1,820 women in six Farah districts have received 90,500 chickens. Each woman received 50 chickens, 220 kilograms of feed, a feeder, drinker, and battery lamp, and training in poultry management and basic accounting to promote future sustainability.

**Table 2. Sales of Assisted Value-Chain Products
From Program Inception to December 31, 2009⁶**

Commodity	Volume of Sales (Metric Tons)	Value of Sales (U.S. Dollars)
Wheat/cereal	9,823	3,357,899
Cucumber/vegetables	69	29,173
Pullets/eggs	73	194,072
Other commodities	1,551	208,818
Total	11,516	3,789,962

⁶ Amounts represent data verified during the course of the audit.

- **Business Development Activities.** As of December 2009, under its business development activities, the program has provided advance contracts to 112 men and 30 women for sale of their agricultural products. Specifically, in Helmand Province, 112 farmers were given advance contracts for the cultivation and sale of paprika.

Additionally, the contractor has provided the Farah Farmer's Union, a cooperative of 8,700 growers, with capacity-building support, such as assistance in identifying business opportunities and in developing the Farah Agricultural Center. The Farah Agricultural Center will provide an all-inclusive hub for market expansion, value-chain development, training, and business development.



Dried paprika harvested in Helmand Province in fall 2009. Paprika is an alternative crop promoted by the program. Photo courtesy of ARD.

However, despite these gains, the sustainability of these results is questionable, and the program must overcome additional barriers.

Poppy Reductions May Not Be Sustainable

Summary. The purpose of the program is to counteract illicit poppy cultivation by providing alternative livelihood programs, improved economic opportunities, and diverse regional economic growth in selected provinces. Furthermore, a key pillar of the U.S. Government's counterinsurgency strategy involves economic development of areas secured by the U.S. military. Although gains have been made in some targeted southern and western provinces to reduce poppy cultivation, these gains may not be sustainable because (1) no follow-on alternative development activity has been approved beyond March 2011; (2) a critical southern province is not included in the current program; (3) access to markets for cereal crops (such as wheat) is not guaranteed, nor is stability of commodity prices; (4) success of programs outside the

mission's control may affect poppy cultivation and harvest; and (5) the availability of water is uncertain. The impact of not having a follow-on program can be measured in terms of (1) loss of program investment in long-term projects totaling \$7 million, (2) loss of economic gains for Afghans including jobs, (3) potential increase in poppy cultivation, and (4) a negative effect on the U.S. Government's counterinsurgency policy.

The purpose of the program is to reduce illicit poppy cultivation by providing alternative livelihood programs, improved economic opportunities, and diverse regional economic growth in the provinces of Farah, Helmand, Nimroz, and Uruzgan. According to the mission the intent of the program is to produce sustainable gains in reducing poppy. Furthermore, one pillar of the U.S. Government's counterinsurgency strategy involves economic development of secured areas. As part of the strategy, USAID can assist U.S. Government counterinsurgency efforts by fostering economic growth through development assistance, which can mitigate the economic distress that often exacerbates insurgency. The strategy's second pillar is security, composed of military and policing activities while incorporating individual security, protecting human rights, and promoting the effective functioning of public safety and civil legal institutions. The third pillar is a political focus on strengthening the capability of the government to respond to the needs of its people. None of these pillars is independent—an activity may be characterized as belonging within one pillar, but it often has an immediate effect on other pillars.

Although gains have been made in some targeted southern and western provinces under the program, these gains may not be sustainable because (1) no follow-on alternative development activity has been planned beyond March 2011; (2) a critical southern province is not included in the current program; (3) access to markets for cereal crops (such as wheat) is not guaranteed, nor is stability of commodity prices; (4) success of programs outside the mission's control may affect poppy cultivation and harvest; and (5) the availability of water is uncertain. A detailed discussion of each issue follows.

- **Lack of a Follow-on Program.** The critical southern and western poppy-producing provinces are covered primarily by two USAID agricultural programs—the Afghanistan Vouchers for Increased Production in Agriculture (AVIPA) Program and the Alternative Development Program Expansion, South West—that end in the fall of 2010 and spring 2011, respectively. AVIPA distributes agricultural inputs and is not seen as an alternative development program. Further, no approved alternative development program is ready for implementation, and a 5-year, estimated \$370 million program that was close to contract award was canceled because the Special Representative to Afghanistan and Pakistan did not support it. According to the mission, as early as April 2008 it had begun the process of planning for a follow-on contract to cover the critical poppy-growing provinces in the south and west, to include Farah, Nimroz, Helmand, Kandahar, Uruzgan and Zabul. This follow-on program intended to take over the activities under the expiring Alternative Development Program, South West, and the now-completed Alternative Development South Program.

Beginning in April 2009, as required by the Special Representative, the mission submitted all new and existing programs to the Representative for approval, including the follow-on alternative development program. During the review process, the Special Representative expressed concern over the award of a contract to a

U.S.-based contractor, including the length and value of the award. The mission attempted to explain to the Representative the Afghan Government's incapacity to administer a U.S.-financed Government of Afghanistan program, which the Representative preferred. Finally, the Special Representative was also concerned that too much emphasis was placed on agribusiness development instead of providing food security.

After working 14 months on the competitive procurement process, and considering the Special Representative's disapproval of the program, the mission decided to cancel the procurement on June 14, 2009. According to the mission, in the end the Special Representative talked about a "New Deal" for Afghan farmers with subsidized inputs, possible price supports, and subsidized agricultural financing, whereas the follow-on alternative development program the mission had proposed was designed to support market-based value chains that could independently compete with poppy and provide a longer-term economic incentive for farmers.

According to the mission, to achieve long-term economic development, alternative development programs are required to develop or reestablish high-value agricultural crops in poppy provinces. The mission is evaluating its options for the southern and western provinces and has several draft concept proposals under review.

- **Critical Southern Poppy Province Not Covered.** Kandahar Province (the second largest poppy-producing province in 2009), is not covered by an alternative development program, although it is covered by AVIPA and receives agricultural inputs (wheat seeds) According to the mission, significant alternative development activities in Kandahar ended in the fall of 2007. As discussed above, the follow-on program that was to cover Kandahar was canceled.
- **Access to Markets and Instability of Cereal-Crop Prices.** Additional obstacles to sustained reductions in poppy harvests are the lack of access to markets and the instability of cereal-crop prices; some fear these problems will cause farmers to shift back to poppy cultivation. For example, in the spring of 2009, farmers in Farah Province experienced a bumper wheat harvest, estimated by the contractor to be approximately 147,000 metric tons. The bumper crop resulted from above-average precipitation and significant distribution of wheat seeds by the U.S. Government through various programs, including the contractor's program. However, the farmers could not take the harvest to market because of deteriorating security, and the value of wheat was depressed by the unexpectedly higher production throughout Afghanistan, leaving many farmers unhappy and unable to sell their harvest. The contractor estimates that approximately 25,000 metric tons of wheat went unsold in Farah Province in 2009.

Farmers could not take their wheat to traditional markets because the main road leading to the markets in Herat and other provinces was not secure. According to the contractor, one road leading out of Farah contained many checkpoints, which required bribes. The farmers would not use the road because they would have to pay more in bribes than their crops were worth. According to the provincial reconstruction team commander in Farah, these roads have recently been cleared of insurgents, and access to markets in Herat should improve for the next harvest in 2010; however, the roads into Helmand and Kandahar Provinces will still be problematic.

Because fluctuating harvests cause price instability for cereal crops, the mission's Office of Agriculture encourages the use of other plants such as fruit trees and grape vines, which represent a more permanent alternative crop to poppy. However, political pressure from external sources, such as the Embassy, military, and host government national and local leaders, has resulted in wheat seed distributions.

Under the program the contractor is no longer asked to provide wheat seeds to farmers and is pursuing more permanent alternatives. However, wheat seed distribution by third parties occurred in the winter of 2009, and if there is another bumper crop in 2010, some farmers may switch back to poppy.



Wheat field in Farah Province benefiting from water from the Tewask Canal Rehabilitation Project. Photo by USAID OIG auditor.

- **Unknown Impact of Other Counternarcotics Programs.** Key stakeholders noted that sustained reductions in poppy cultivation require help from programs beyond alternative development activities. Affecting the supply side of poppy production requires successful, governor-led eradication and interdiction measures targeting large-scale poppy-producing drug lords. Decreasing the demand for poppy requires strong antipoppy messages from the provincial governors and successful implementation of drug treatment centers. Continued success of these other programs is beyond the mission's control.
- **Lack of Water.** According to the mission and contractor, the sustainability of poppy reductions and success of alternatives depend on the availability of water. While Helmand Province has summer water supplies from the Kajaki dam for year-round irrigation, Farah Province does not have a similar water source. Farah depends upon spring snow melts to replenish the watersheds and aquifers, But the watersheds supply water for only one planting season in early spring. The program

is conducting groundwater studies to identify areas where a summer planting season and alternative crops could be introduced.

Without a follow-on program—and in light of other issues discussed— (1) the investment and economic gains made under the program may be lost, (2) poppy cultivation may increase, and (3) the U.S. Government's counterinsurgency policy may be weakened.

In terms of program investment, the program supports several projects that will require follow-on activities beyond the contract completion date of March 2011. For one project, the contractor has budgeted approximately \$1.2 million for the purchase of fruit trees and grape vines for distribution to 1,240 farmers in Helmand Province as alternative crops. According to the mission and the contractor, the trees generally begin to bear fruit and become profitable in 3 to 5 years, and followup with the farmers is required to ensure proper care and maintenance of the saplings. According to the contractor, followup beyond the length of the contract would be required. In another project, the program inherited a poultry farm in Helmand Province from a predecessor alternative development program. Under the prior program, the mission had invested approximately \$1 million in equipment for the poultry farm in 2009. Under the current program, the contractor issued a subcontract for \$4.7 million to continue development of the farm. Because of complications under the predecessor program, the farm was built on land belonging to the Ministry of Agriculture, Irrigation, and Livestock (MAIL), and both the contractor and the mission expressed concerns over MAIL's ability to run the farm or its authority to turn over the farm and equipment to a private concern. Without a follow-on program to take over long-term projects such as these, the investment of nearly \$7 million may be wasted.

In addition, without a follow-on program to monitor long-term development projects such as the fruit tree distribution and the poultry farm, economic gains by Afghans could be eliminated. For example, once the fruit trees and grape vines become productive, the contractor estimates that income generated would range from \$19,000 to \$36,000 per hectare, depending on the type of crop. Furthermore, a feasibility study of the poultry farm estimated that in the fourth year of existence the farm would generate an estimated net income of \$289,000. Finally, the poultry farm currently employs 30 Afghans. Without proper followup, these economic gains could vanish.

Furthermore, if alternative development programs do not continue, poppy cultivation might return. According to the UNODC *Afghanistan Opium Survey 2009*, Kandahar—the only critical southern province not covered by an alternative development program in 2008—was the southern province with the largest increase in hectares of poppy cultivation. The 2009 harvest increased by 35 percent over 2008 levels—an increase of 5,100 hectares. However, the last time Kandahar received significant alternative development coverage (fall 2007), the UNODC reported a reduction in the poppy harvest of 12 percent or approximately 2,000 hectares. Access to alternative development programs is only one of many factors for successful declines in poppy harvest. Nevertheless, the UNODC's *Afghanistan Opium Survey 2008* noted that in southern and western provinces, farmers tend to cultivate opium poppy because of the high profits to be made and the chance to alleviate their poverty. Reducing poverty is a goal of alternative development programs, and although economic gains from alternative sources of income, such as alternative crops and permanent employment opportunities, do not completely replace opium income, key stakeholders commented that these

alternatives provide sufficient income to act as an incentive to not grow poppy. Finally, the mission stated that farmers with fruit trees and vines are less likely to tear these out and switch to poppy because of the difficulty in reestablishing the trees and vines, which ultimately do compete with poppy for providing sufficient incomes. The mission also commented that the goal of alternative development programs was not only the introduction of alternative crops but also economic alternatives that may be outside the agriculture sector.

Finally, alternative development programs add to the economic stability of the affected regions and contribute directly to the success of the U.S. Government's counterinsurgency strategy. According to one provincial reconstruction team commander we interviewed, although the military can provide short-term stability through cash-for-work projects and distribution of some agricultural inputs (such as seeds) under its Commander's Emergency Response Program, the regions need an alternative development program that focuses on long-term economic growth.

Although some of the issues affecting the sustainability of the poppy reductions are beyond the mission's control, we are nonetheless making the following recommendation:

Recommendation 1. *We recommend that USAID/Afghanistan develop an implementation plan for follow-on alternative development activities to cover critical southern and western provinces.*

Program Implementation Experienced Delays and Faces Future Challenges

Summary. According to the contract, the contractor was expected to achieve certain targets for specified indicators within the first 100 days of the program. Furthermore, the first year performance management plan contained targets that were expected to be met in the first-year. However, because of the delays described below, the contractor was not able to meet its targets for several indicators within the first 100 days or the first year of the program. Changes in mission operations added new challenges that must be managed to avoid further implementation delays. These challenges include a new, Embassy-led annual program review process, the restructuring of the regional commands, and the mission's plan to implement regional platforms. The program did not achieve all of its intended targets because of a delay in startup of the program and lack of focus for cash-for-work projects. The program did not deliver on key deliverables and thus did not have as great an impact as it might have had in its first year. In terms of the future challenges, the organizational changes being implemented by the mission could affect the implementation of the program and delivery of services in the future.

According to the contract, the contractor was supposed to achieve certain targets for specified indicators within the first 100 days of the program. Furthermore, the first year's performance management plan contained targets for specified performance indicators for the first year of the program.

However, the contractor met almost none of its targets for the first 100 days or the first year of the program. For example, one of the goals during the first 100 days was to train 2,000 farmers in new agricultural techniques, yet the contractor trained only 700 farmers.

Further, the program did not achieve its targets on several first-year indicators. For example, the program was to increase sales of program-assisted agricultural value chains by \$1 million, yet it delivered only about \$500,000. In terms of opening new hectares for irrigation, as a result of canal rehabilitations through cash-for-work projects, the program also fell short by opening up only 1,442 hectares—far short of the 10,000-hectare target. The table below summarizes selected indicator targets and results. Appendix III identifies the targets and achieved results for the first 100 days and first year of the program and life of project through December 31, 2009.

Table 3: Selected Targets and Results for First 100 days and First Year

Indicators	First 100 Days		Program Year 1 (April 2008– March 2009)	
	Target	Actual	Target	Actual
Value (U.S.\$) of sales of assisted value-chain products	N/A	N/A	1,000,000	510,423
Structures built or rehabilitated	15	13	42	31
Village members employed	2,000	1,265	N/A	N/A
Farmers trained	2,000	700	6,000	3,744
New technologies or practices made available	N/A	N/A	10	9
Hectares of crops supported	N/A	N/A	10,000	1,442
Farmer organizations assisted	N/A	N/A	20	78
New varieties or technique introduction programs under way in at least five communities in each province	5	0	N/A	N/A
Farmers given advance contracts (M/F)	N/A	N/A	1,000	0
Agribusiness firms engaged in expanding capacity to meet market opportunities	40	1	N/A	N/A

The program did not achieve its intended targets for a variety of reasons, including a delay in the program’s startup and lack of focus for its cash-for-work projects. Furthermore, changes in mission operations added challenges that must be managed to avoid further implementation delays.

- Program Startup Delays.** According to the contractor and the mission, several factors delayed the start of the program—specifically, a change in provincial focus by the mission and a deterioration in security. The original contract emphasized work in the northern provinces. However, subsequent to the award, the mission required the contractor to establish its office in the western province of Farah, rather than in the northern province of Balkh as originally planned. Additionally the contractor was asked to focus its first-year efforts in Farah Province. However, the contractor said it was not prepared to establish an office in Farah because its plan, included in its accepted proposal, was to establish a base of operations in Balkh, where security was better and fewer security precautions were required. Key personnel did not

want to move to Farah because of the security situation, and the contractor could not readily find local staff with sufficient capacity to assist in program implementation. For example, upon learning of the shift from Balkh to Farah, the contractor had to restart the search for a new senior civil engineer to replace the proposed candidate, who had refused to move to Farah.

In addition, the deteriorating security situation in Farah restricted the contractor from moving around Farah Province to implement its projects under the program. For example, after an attack on the contractor's deputy chief of party convoy in May 2008, the contractor was put under lockdown for a day, and movements were restricted to a 15-kilometer radius around Farah City until July 2008, when the working radius was decreased to 10 kilometers. Additional lockdowns were issued in June 2008. During the first year of the contract, security concerns caused expatriate staff to live on the provincial reconstruction team compound. In retrospect, the contractor recognized that the decision to move off the provincial reconstruction team compound had taken too long and had impeded program implementation.

- **Cash-for-Work Projects.** The mission, the contractor, and at least one provincial governor said that, implementation of the original cash-for-work projects lacked focus. Instead of selecting projects from a list of provincial development council priorities, projects were selected on the basis of promises made by a former chief of party. These projects were not integrated into an overall plan to develop alternatives to poppy or to improve existing agricultural irrigation, and they generally represented smaller projects that should have been done by the local government. For example, from May to June 2008, the contractor worked on a 10-kilometer Abdula Karman–Dahna Kohdanak gravel road. While this road provided jobs to local workers, it did not directly contribute to the goals of the program. In fact, small-scale projects such as this caused the program to fall 8,558 hectares short of achieving its first-year target for opening new hectares for irrigation through cash-for-work canal rehabilitation projects. In February 2009, the mission directed the contractor to review its cash-for-work project. The contractor has revised its approach and now coordinates its cash-for-work project selections with provincial development council priorities that best support alternative crops.



Before (*left*) and after (*right*) pictures of the Tewask canal. The Tewask Canal Rehabilitation Project was a cash-for-work project. Photos show the canal cleared of vegetation and widened, allowing for better water flow. Photos courtesy of ARD.

- **Future Challenges.** Although the program has evolved and dealt with early implementation issues, it faces challenges in the future that, if not properly managed, could delay program implementation even more. Specifically, the mission has revised its process for approving continuation of existing programs, and the mission will mirror the International Security Assistance Force's reorganization of its commands.

Annual Review Process. Because of the confusion surrounding the U.S. Embassy's annual program review process, the program almost ran out of funds in January 2010. Beginning in April 2009, the Embassy has required annual review of all programs to ensure that they still contribute to the Embassy's overall goals for the country. The review and approval process involves completion of standard forms that document a description of the activity to be funded, contribution of the activity to the U.S. Government's counterinsurgency strategy, contribution to Afghanistan, prior results, and expected results for additional funding. Requests are submitted through USAID/Afghanistan's Office of Program and Project Development for initial reviews by the deputy mission director and the staff of the coordinating director for Development and Economic Affairs. Once the initial reviews are completed, the forms are sent for approval to the USAID mission director, the U.S. Ambassador for Coordinating Director Development and Economic Affairs, the Deputy U.S. Ambassador, and finally the U.S. Ambassador.

The review of the program took place because the contracting officer's technical representative (COTR) had requested incremental funding. Although the typical review process takes 7 to 21 days, sometimes it has taken up to a month. In this case the program almost ran out of funding at the end of January 2010 because the COTR was not aware of the mission's procedure for gaining Embassy approval. In fact, in September 2009, the COTR had obtained incremental funding that bypassed the Embassy's process entirely. Having received incremental funding in the past, the Office of Agriculture assumed that the annual review had taken place, not aware that the process had been bypassed in September 2009. Therefore, in January 2010, when the COTR requested incremental funding of \$10 million, the Office of Agriculture assumed that it did not need to go through the Embassy's review process. However, when it was discovered that the process had been bypassed, the appropriate paperwork was finally prepared and submitted on January 10, 2010, for approval. Final approval was obtained from the Ambassador 5 weeks later, on February 17, 2010. To ensure that the contractor would not stop implementing the program, an emergency incremental funding extension of \$2 million was processed before the Ambassador issued final approval.

The COTR was unaware of the required process because he was stationed at a provincial reconstruction team and did not receive the guidance issued by USAID/Afghanistan's Office of Program and Project Development. According to that office, the mission acknowledges past problems and is refining and centralizing the review process within the mission. The mission plans to send monthly e-mails to technical office directors on programs requiring reauthorization. The Office of Program and Project Development suggested that as more COTRs are put in the field, each technical office should assign one individual to handle the preparation and coordination of all the approval requests.

Reorganization. According to the mission, the restructuring of the International Security Assistance Force's regional commands and the mission's plan to implement regional platforms at various commands could affect program implementation as well. Further, the Office of Agriculture is concerned that as more employees are deployed to the field to staff the mission's regional platforms, the assigned field program officers may attempt to direct implementing partner staff.

One of the COTR's responsibilities is to coordinate with all personnel (military and civilian) in the field. When the program began, the COTR had to coordinate with four organizations: one regional command (RC-South) and three provincial reconstruction teams. Recently, Farah Province has been moved from RC-South to RC-West. In addition, RC-South will be split into two separate regional commands: one containing the Provinces of Kandahar, Day Kundi, Zabul, and Uruzgan, and British-controlled parts of Helmand called RC-South, and the other containing American-controlled portions of Helmand and Nimroz called RC-Southwest. The mission plans to have employees at each of the regional commands, including technical and management staff. In addition, Helmand Province will be split into two provincial reconstruction teams, one British and one American. Further, the mission, in conjunction with the Embassy, plans to have district-level support teams. Instead of the past coordination with four organizations, in the future the COTR will have to coordinate with three regional commands, four provincial reconstruction teams, regional platform personnel, and up to eight district teams. The COTR is concerned that he will spend more time coordinating with these entities than delivering results.



In Farah Province, chickens are distributed to women who are trained to raise chickens for eggs and meat. Photo courtesy of ARD.

Additionally, as the regional platforms and district teams are created, the Office of Agriculture is concerned that new field program officers stationed in the field will attempt to direct implementing partners without COTR permission and possibly make commitments to contractors outside the contract terms. Under the program, field

program officers are formally assigned as activity managers and receive activity manager designation letters, which state that they will work through the COTR or will be given technical directives as to their responsibilities. Activity managers provide valuable information to the COTR, such as site visit reports on program activities. However, according to the mission's Office of Acquisition and Assistance, while all COTRs within the mission are required to sign designation letters that outline their responsibilities, there is no standard designation letter for activity managers, and the use of these letters for activity managers is left up to the discretion of various technical offices. The COTR designation letters also include attachments related to mission policies in regard to making unauthorized commitments and funds control violations.

In summary, as a result of the delays during the initial implementation of the program, targets were not achieved for specific indicators during the first 100 days and first year of the program, as displayed in Appendix III. Because of the delay in achieving targets for specific indicators that could affect the reduction of poppy harvest, the program did not have as large an impact as it might have. In terms of the future challenges, although the COTR has no quantifiable difficulties resulting from the extra coordination, these complications might affect implementation of the program. Further, although the current activity managers understand their responsibilities, future managers might make unauthorized commitments that would result in funds-control violations as the mission deploys more staff to the field to act as activity managers under other programs and assist in monitoring programs.

Although the earlier implementation issues have been resolved, we are making the following recommendations to help the mission manage its future challenges:

Recommendation 2. *We recommend that USAID/Afghanistan officially designate a specific position within each technical office to handle the preparation and coordination of Embassy program approval requests.*

Recommendation 3. *We recommend that USAID/Afghanistan develop procedures requiring an activity manager designation letter for all activity managers, outlining the responsibilities of the activity manager and including relevant mission orders related to making unauthorized commitments and funds control violations.*

EVALUATION OF MANAGEMENT COMMENTS

In response to the draft report, USAID/Afghanistan concurred with all three recommendations. The Office of Inspector General reviewed the mission's response to the draft report and determined that a management decision has been reached on Recommendations 1, 2, and 3. Determinations of final action will be made by the Audit Performance and Compliance Division upon completion of the planned correction actions.

The status of each of the three recommendations is discussed below.

In response to Recommendation 1, USAID/Afghanistan stated that the mission's Office of Agriculture started development on follow-on agriculture programs that will deliver alternative development activities in the southern and western provinces of Afghanistan. The mission is in the process of implementing two programs that will address this issue. These programs are the Agriculture Development for the South Program, which is expected to be awarded by early September 2010, and the Agriculture Credit Enhancement Program, which has a target execution date of August 15, 2010. The mission expects actions to be completed by early September 2010.

In response to Recommendation 2, the mission has designated one officer from the Office of Program and Project Development to be responsible for the preparation and coordination of all project reviews. This officer coordinates with each technical office director to ensure that the appropriate contract officer's or agreement officer's technical representative completes the review documentation in a timely manor. Additionally, an extensive review of all the mission programs was conducted to determine which programs are due for 1-year reviews. On the basis of this review a schedule for upcoming 1-year reviews was prepared. Lastly, by September 2010, the mission will formalize the procedures described above by issuing Mission Order 201.1, "Project and Activity Approval under Strategic Objectives and Amendments." The mission expects action to be completed by September 1, 2010.

In response to Recommendation 3, the mission has drafted and is currently finalizing Mission Order 103, which addresses the role and responsibilities of activity managers. The mission expects action to be completed by August 15, 2010.

SCOPE AND METHODOLOGY

Scope

The Regional Inspector General/Manila conducted this audit in accordance with generally accepted government auditing standards. Those 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 objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective. The objective of this audit was to determine whether USAID/Afghanistan's Alternative Development Program Expansion, South West, was achieving its main goal of counteracting illicit poppy cultivation by providing alternative development programs and improved economic opportunities in selected southern and western provinces.

In March 2008 USAID/Afghanistan awarded a 2-year, \$55 million contract to ARD, Inc., to implement the Alternative Development Program Expansion, North and West. The goal of the program was to counteract illicit poppy cultivation by providing alternative livelihood programs, improved economic opportunities, and diverse regional economic growth in selected areas in Balkh, Jawzjan, Farah, and Ghor Provinces in Afghanistan. In January 2009, USAID/Afghanistan expanded the scope of work to include the provinces of Helmand, Uruzgan, and Nimroz effectively eliminating Balkh, Jawzjan, and Ghor Provinces; expanded the performance period to 3 years; and increased the contract ceiling price to \$75 million. Subsequently the program name was changed to Alternative Development Program Expansion, South West (the program). As of December 31, 2009, USAID/Afghanistan had obligated \$30 million and disbursed \$25 million for program activities.

The audit was performed in Afghanistan from January 28 to February 25, 2010, and covered the program's activities implemented by the contractor from March 5, 2008, to December 31, 2009. In Kabul, fieldwork was conducted at USAID/Afghanistan, at the contractor's home office, and with representatives from the Department of State's Bureau of International Narcotics and Law Enforcement Affairs and the Drug Enforcement Administration at the U.S. Embassy. Site visits were conducted in the province of Farah; at the Tewask Canal cash-for-work project site, Tewask village, the Farah Department of Agriculture, Irrigation and Livestock offices, and the Farah governor's residence compound.

As part of the audit, we assessed the significant internal controls used by USAID/Afghanistan to monitor program activities. The assessment included controls related to whether the mission had (1) conducted and documented site visits to evaluate progress and monitor quality, (2) required and approved an implementation plan, (3) reviewed progress reports submitted by the contractor, and (4) compared reported progress to planned progress and the mission's own evaluations of progress. We reviewed invoices totaling \$11.6 million from the total \$25 million disbursed for program activities for compliance with the mission's established review processes. We also reviewed the mission's Federal Managers' Financial Integrity Act report for fiscal year 2008 and prior audit reports for any issues related to the audit objective.

Methodology

To answer the audit objective, we interviewed officials from USAID/Afghanistan, the contractor (ARD Inc.), subcontractors, and ministry officials. We also reviewed and analyzed relevant documents at the mission and the contractor's office. This documentation included performance management plans and the contract between USAID/Afghanistan and the contractor. Furthermore, we reviewed contractor site visit and other monitoring reports, progress reports, and financial records.

To determine the reliability of computer-processed data received from the mission in support of its obligated and disbursed amounts, we reviewed prior audits of the mission's financial statements and internal controls. In addition, to verify the data used by ARD in its performance reports, we obtained an understanding of the ARD internal controls in place over the monitoring, collection, and verification of results and tested these controls by verifying a judgmental sample of supporting documentation to reported results. Furthermore, we verified results through site visits to selected project sites. Since the testing was based on a judgmental—not statistical—sample, the results and overall conclusions related to this analysis were limited to the items tested and could not be projected to the entire audit universe. To determine the impact of program activities on poppy production within Afghanistan, we relied on UNODC's *Afghanistan Opium Surveys* for 2008 and 2009 and UNODC's *Afghanistan Opium Survey 2010, Winter Rapid Assessment*, February 2010.

MANAGEMENT COMMENTS



MEMORANDUM

TO: Bruce N. Boyer, Regional Inspector General/Manila

From: Earl W. Gast, Mission Director, USAID/Afghanistan /s/

DATE: July 1, 2010

SUBJECT: Audit of USAID/Afghanistan's Alternative Development Program Expansion—South West (Audit Report No. 5-306-10-00X-P)

REFERENCE: BBoyer/WFrej memo dated June 8, 2010

Thank you for providing the Mission the opportunity to review the subject draft audit report. We would like to express our gratitude for the professionalism, flexibility, resourcefulness, and hard work exhibited by the audit team. We are providing confirmation of the actions that have been taken or are planned to be taken to address the recommendations in the draft audit report.

MISSION RESPONSES TO AUDIT RECOMMENDATIONS

Recommendation No 1: We recommend that USAID/Afghanistan develop an implementation plan for follow-on alternative development activities to cover critical southern and western provinces.

The Mission agrees with the recommendation.

Actions Taken:

In January 2010 the Office of Agriculture (OAG) began developing follow-on agriculture programs that will deliver alternative development activities in Southern and Western Provinces. The program descriptions, locations and expected funding are as follows:

Agriculture Development for the South (ADS- for RC/South and RC/Southwest a \$450 million multi-year program). A solicitation for proposals was published on May 6, 2010 (See Attachment No. 1) for a new multi-year agriculture program to provide: a) a follow-on to the AVIPA stabilization activities (cash-for-work, vouchers, grant-in-kind); and b) long-term agricultural development activities focused on value-chain development (“field to plate”) and local construction of the necessary supporting agricultural infrastructure such as

agricultural feeder-roads, whole sale markets, and irrigation. Proposals were received on June 6, 2010 and are now under review in collaboration with the Ministry of Agriculture, Irrigation, and Livestock (MAIL) as well as USG field staff. This new project should be awarded by end of August/early September with the implementer mobilized to Afghanistan by late September.

Agriculture Credit Enhancement (ACE – nationwide program \$150 million; 2010-2013). The new ACE program, of which the Agriculture Development Fund (ADF) is a key component, will improve agricultural productivity, upgrade high-potential value chains, and develop new markets for Afghan produce, while increasing access to credit for agriculture-related investment and building the capacity of financial institutions and other intermediaries to sustainably provide rural and agricultural credit. The ADF will promote lending throughout the agricultural value chain by a broad range of participating intermediaries, including banks and non-bank financial institutions (e.g., credit unions, agriculture input dealers), many of whom operate in the South and West. The target date for execution of ADF project is August 15, 2010. The ACE and ADF concept paper is in attachment # 2.

Based on the above, the Mission deems that corrective actions have been taken to address this recommendation and a management decision has been reached. Therefore, the Mission requests RIG's concurrence to the management decision and closure of this recommendation.

Recommendation No 2: We recommend that USAID/Afghanistan officially designate a specific position within each technical office to handle the preparation and coordination of Embassy program approval requests.

The Mission agrees with the recommendation.

Actions Taken:

Since March 2010, USAID/Afghanistan has undertaken three steps to further improve the Project Review Process: First of all, the Mission has designated one officer in the Office of Program and Project Development (OPPD) to be responsible for preparation and coordination of all Project Reviews. The officer's responsibilities include verifying which projects are due for one year reviews; ensuring that technical offices complete Project Review sheets in a timely manner; overseeing the quality control of the sheets; and tracking the clearance and approval process with all necessary Embassy offices. OPPD has ensured that the officer has a back-up in the event that the officer is temporarily unavailable, for example, due to rest breaks. Secondly, the OPPD officer in charge of the Project Review Process directly coordinates upcoming reviews with one point person in each technical office, namely the technical office director, who will be accountable for ensuring that the office's relevant COTR or AOTR completes the review sheet in a timely manner – whether the COTR/AOTR is located in Kabul or in the field. Third, in June 2010, the designated officer in OPPD conducted an extensive inventory of all Mission programs to determine which are due for one-year review and, based on this inventory, established a specific schedule for upcoming one-year reviews.

Planned Actions:

By September 1, 2010, the Mission will officially institute the above first two steps into Mission Order 201.01, entitled "Project and Activity Approval under Strategic Objectives and Amendments."

Based on the above, the Mission deems that corrective actions are being taken to address this recommendation and a management decision has been reached. Therefore, we request RIG/M's concurrence.

Recommendation No. 3: We recommend that USAID/Afghanistan develop procedures requiring an activity manager designation letter for all activity managers, outlining the responsibilities of the activity manager and including relevant mission orders related to making unauthorized commitments and funds control violations.

The Mission agrees with the recommendation.

Actions Taken:

The Mission has drafted Mission Order #103 that addresses the role and responsibilities of activity managers in USAID/Afghanistan project monitoring and includes a sample designation letter. It is currently being circulated within the mission for comments and clearances. The estimated date for release of the final Mission Order is August 15, 2010.

Based on the above the Mission deems that corrective actions are being taken to address this recommendation and a management decision has been reached. Therefore, we request RIG/M's concurrence.

Attachments

Attachment No. 1: Annual Program Statement for Addressing Short-Term Stabilization and Long-Term Development Objectives through Revitalization of Afghan Agriculture
Attachment No. 2: ADF/ACE Concept Paper

Table A-1. Indicators, Targets, and Actual Results for the First 100 Days of the Program, First Year, and Life of Project Through December 31, 2009

Indicators	First 100 Days		Program Year 1 (April 2008–March 2009)		Life of Project Through December 31, 2009	
	Target	Actual	Target	Actual	Target	Actual
Value (US\$) of sales of assisted value-chain products	N/A	N/A	1,000,000	510,423	7,993,150	3,789,962
Structures built or rehabilitated	15	13	42	31	251	45
Village members employed	2,000	1,265	N/A	N/A	N/A	N/A
Hectares converted to target value-chain crops	N/A	N/A	3,000	1,442	10,085	3,648
Farmers trained	2,000	700	6,000	3,744	22,500	11,314
New technologies or practices made available	N/A	N/A	10	9	94	29
Hectares of crops supported (includes those supported by canal/karez rehab)	N/A	N/A	10,000	1,442	39,750	17,859
Hectares under improved technologies or practices	N/A	N/A	6,000	1,442	21,430	4,115
Farmer organizations assisted	N/A	N/A	20	78	85	163
Contract farming business plans approved and under execution, targeting at least 400 participating farmers in Farah	2	0	N/A	N/A	N/A	N/A
New varieties or technique introduction programs under way in at least five communities in each province	5	0	N/A	N/A	N/A	N/A
Farmers given advance contracts	N/A	N/A	1,000	0	3,850	142
Public-private partnerships facilitated	N/A	N/A	5	0	34	2
Marketing/collection points developed	N/A	N/A	5	0	67	20

Indicators	First 100 Days		Program Year 1 (April 2008–March 2009)		Life of Project Through December 31, 2009	
	Target	Actual	Target	Actual	Target	Actual
Value-adding technologies/practices introduced	N/A	N/A	4	2	44	12
Micro- and small and medium enterprises (SMEs) participating in assisted value chains	N/A	N/A	15	1	111	2
SMEs accessing bank loans or private equity	N/A	N/A	5	0	49	0
Agribusiness firms engaged in expanding capacity to meet market opportunities	40	1	N/A	N/A	N/A	N/A

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