OFFICE OF INSPECTOR GENERAL

AUDIT OF USAID/AFGHANISTAN'S ASSISTANCE IN BUILDING AFGHANISTAN BY DEVELOPING ENTERPRISES PROGRAM

AUDIT REPORT NO. F-306-16-002-P
MARCH 14, 2016

KABUL, AFGHANISTAN

Office of Inspector General

March 14, 2016

MEMORANDUM

TO: USAID/Afghanistan Mission Director, Herbert Smith

FROM: OIG/Afghanistan Country Director, Rob Mason /s/

SUBJECT: Audit of USAID/Afghanistan's Assistance in Building Afghanistan by Developing Enterprises Program (Report No. F-306-16-002-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 them in their entirety, excluding Attachments 2-14, in Appendix II. Attachment 1 is also included in Appendix II.

The report contains 12 recommendations to help USAID/Afghanistan improve the Assistance in Building Afghanistan by Developing Enterprises Program. After reviewing information provided in response to the draft report, we acknowledge management decisions on Recommendations 1 through 11 and final action on Recommendations 1 through 3, 9, and 10. Recommendation 12 remains without a management decision pending the agreement officer's determination of the amounts allowed or disallowed, and a target date for collecting any disallowed amounts. Please give us this determination within 30 days of the date of this memorandum, and provide evidence of final action on Recommendations 4 through 8 and 11 to the Audit Performance and Compliance Division.

Although we acknowledge the mission's management decision on Recommendation 8, we disagree with it for the reason stated on page 16. If the mission chooses to revise the management decision, please give me the revision in writing at your convenience.

Thank you and your staff for the cooperation and assistance extended to us during this audit.

CONTENTS

Abbreviations

The following abbreviations appear in this report:

ADS	Automated Directives System
AOR	agreement officer's representative
DAI	Development Alternatives Inc.
IESC	International Executive Service Corps
VEGA	Volunteers for Economic Growth Alliance

SUMMARY OF RESULTS

The U.S. Government's activities in Afghanistan include helping the Afghan police and military so that "terrorists never again encroach on Afghan soil" and threaten international security.[1] However, the Afghan Government depends heavily on international donors to fund its security forces because it does not generate enough tax revenue to cover those costs. Therefore, sustainable economic growth and financial independence have become increasingly important goals for both the U.S. and Afghan Governments as the United States reduces its military presence in the country.

Recognizing the importance of a strong private sector in promoting economic growth, USAID/Afghanistan signed a 4-year, $105 million agreement with the Volunteers for Economic Growth Alliance (VEGA)[2] in October 2012 to implement the Assistance in Building Afghanistan by Developing Enterprises Program. This program, which followed the Afghanistan Small and Medium Enterprise Development Project, was designed to stimulate growth and create jobs through partnerships called public-private alliances with selected small and medium-sized businesses. The program bought equipment and provided training to help partner businesses expand; it also worked to ease regulatory and procedural barriers hampering private industry. USAID expected the program to establish 406 partnerships that would in turn generate $180 million in private-sector investment, increase the partner businesses' sales by 20 percent, and create 46,000 jobs in different industries. As of March 31, 2015, USAID/Afghanistan had obligated $47.6 million and disbursed $36.9 million for program activities.

The Office of Inspector General (OIG) in Afghanistan conducted this audit to determine whether the program was creating jobs, improving the business environment, and increasing private investment as planned. We determined that although the program collaborated with a number of Afghan businesses and helped lay the foundation for their expansion, it had not done either of the first two. As for the third—improving private investment—we could not access documentation because of security conditions, and we could not rely on the program's internal records to answer this question (page 18). We discuss these and other problems below.

- The program was behind schedule and created few jobs (page 4). As of March 31, 2015, the program reported that fewer than half the targeted number of partnerships had been formed, and only 12 percent of the targeted number of jobs had been created.

- The program also was stymied because Afghan officials would not release equipment shipments until customs duties were paid (page 6). At one point, the program reported that 65 containers for 33 partnerships were waiting to be cleared, and some of them incurred 5 months of storage fees as a result. The Afghan Government has now declared that the shipments are exempt from customs duties.

[1] *Security and Defense Cooperation Agreement Between the Islamic Republic of Afghanistan and the United States of America*, September 30, 2014.

[2] VEGA is an alliance made up of international development organizations that pool their resources to implement USAID projects worldwide. For the Assistance in Building Afghanistan by Developing Enterprises Program, VEGA gathered a team of experts from the International Executive Service Corps (IESC), Land O'Lakes Inc., and Development Alternatives Inc. (DAI). IESC was considered the lead implementer and made subawards to the others for their respective components (Land O'Lakes provided technical assistance in marketing, financing, and management; DAI worked in regulatory reform).

- The program had little impact on regulatory barriers for business (page 8). Although the Afghan Government had accepted five plans developed by the program to help spur growth in specific industries, an official with the Afghan Government said it probably would not implement any of them because of a lack of resources.

- Reported results were not valid or reliable (page 9). The program reported the number of jobs created before partnerships received the equipment, although the equipment was the primary catalyst for generating new jobs.

- The program did not show the status of equipment shipments in quarterly reports (page 11). Although weekly and quarterly reports did mention customs delays, they did not specify which partnerships were affected or how.

- The mission did not set a realistic target for job creation (page 11). The initial target of 46,000 was based on assumptions that were incorrect or changed once the program started.

We found another problem not directly related to the audit objective consisting of roughly $18,000 in questioned costs for labor (page 13).

The report recommends that USAID/Afghanistan:

1. Immediately instruct VEGA to stop establishing new partnerships under the program (page 7).

2. In coordination with VEGA, implement a detailed plan, including milestones, for finishing the program at no additional cost to USAID (page 7).

3. Not fund any currently contemplated job apprenticeship activity through the program (page 8).

4. Develop a case study for training purposes that uses the lessons learned from the program (page 8).

5. Conduct and document a review to determine whether to continue activities under the program's third component, or put the remaining $1.6 million in unused funds to better use (page 9).

6. Evaluate the methodology used in compiling results reported under the performance indicators for the program to confirm that it was justifiable, and require VEGA to update its monitoring and evaluation plan to reflect any changes (page 10).

7. Develop a schedule of periodic meetings with program staff at the U.S. Embassy compound in Kabul to review performance results and other related issues (page 11).

8. Implement a plan to have third-party monitoring contractors verify the performance indicator results that the program reports (page 11).

9. Implement a plan to confirm that the program is included in the annual performance plan and report, as well as in any mission-wide data quality assessments (page 11).

10. Require VEGA's quarterly program reports to include detailed information on the status of equipment procurements, delivery, and installation, as well as any actions taken or planned to resolve delays and expedite activities that are behind schedule (page 11).

11. Require VEGA to implement a plan to improve financial oversight over all program partners (page 14).

12. Determine the allowability of $18,034 in questioned costs ($6,638 ineligible and $11,396 unsupported), and recover from VEGA any amounts determined to be unallowable (page 14).

Detailed findings appear in the following section, and the scope and methodology are described in Appendix I. Our evaluation of management comments starts on page 15, and the comments appear in Appendix II.

AUDIT FINDINGS

Program Was Behind Schedule and Created Few Jobs

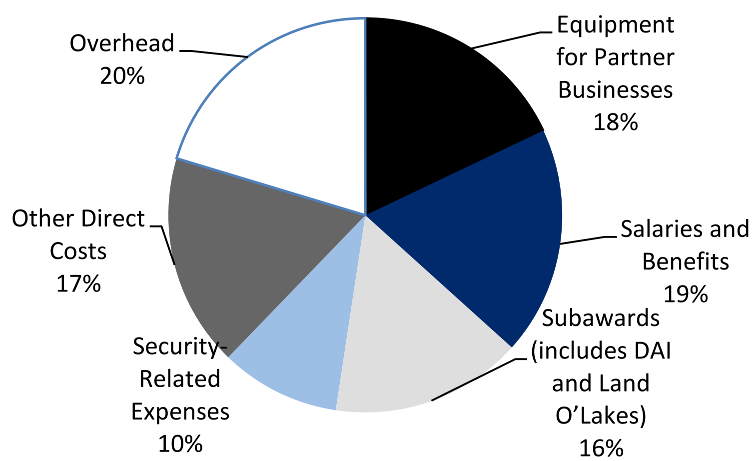
The program was designed to help small and medium-sized businesses expand by providing training and equipment. The original goal was to establish 406 partnerships with these businesses, which were expected to create 46,000 jobs.

After signing an agreement, the program staff worked with partners to procure equipment. This involved finding potential vendors, installing the equipment, training employees to use it, and transferring titles for the equipment to the business; the entire process took an average of 10.5 months.

According to program documents, the number of partnerships formed would peak at the end of the second year, with the remaining ones established by the end of the third (October 15, 2015). The program was required to complete the procurement process for all partnerships before the program's end date, October 16, 2016.

However, as of March 31, 2015, after spending $36.9 million as shown in Figure 1, the program reported forming only 190 partnerships, fewer than half of the original goal of 406, and creating only 5,625 of the projected 46,000 jobs.

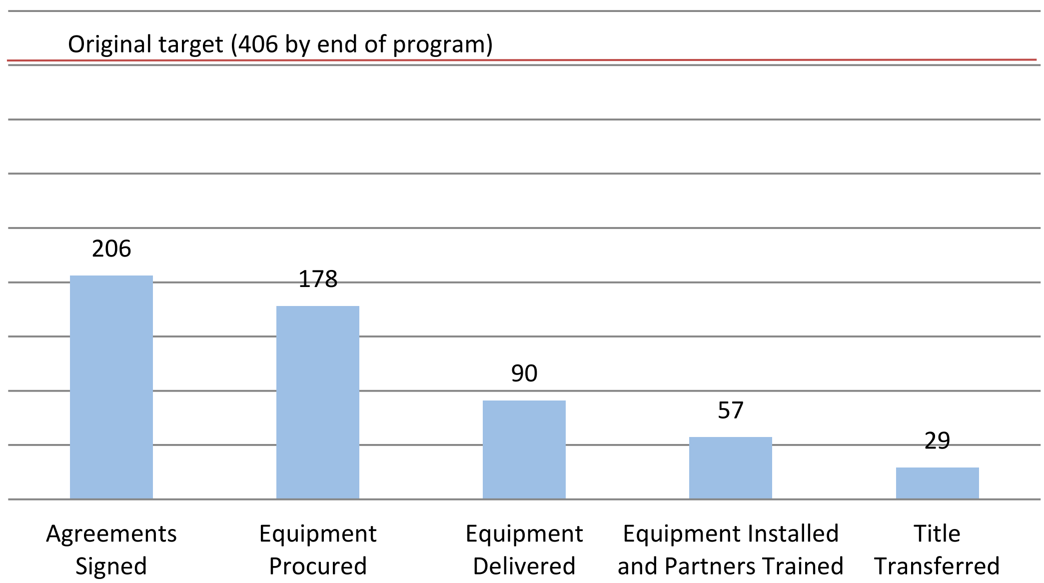
Figure 1. Program Expenditures as of March 31, 2015



Source: Prepared by OIG based on information provided by IESC and VEGA.

As of September 3, 2015, the number of partnerships was 206. In addition, most of the partnerships were still at a relatively early phase in the procurement process, with only 90 partners (44 percent) receiving their equipment, as shown in Figure 2.

Figure 2. Partnership Activity Status



Source: Prepared by OIG based on information provided by IESC and VEGA.

Since many partnerships were still waiting for equipment, and new partnerships were planned for 2016, the program appeared to be peaking during its final year, rather than winding down as expected.

This delay happened for several reasons.

1. IESC lacked key systems and procedures during start-up.

2. The initial management team was weak.

3. USAID's partnership vetting and application review process was initially inefficient and understaffed.

4. Federal shipping regulations were cumbersome.

5. The program had problems getting shipments through Afghan customs.

Initial Lack of Systems and Procedures. Key systems and procedures were not in place for field staff when it began. A manager said half the technical team spent part of the first year drafting personnel policies, field procedures, and a financial manual—standard procedures for most field offices. Likewise, the team's procurement director said that when he was hired some 16 months into the program, he spent much of his time developing various guidelines, templates, and checklists, delaying equipment purchases for a year. These problems suggest IESC may not have been fully prepared to initiate a program of this scale—the organization's largest ever.

Weak Management Team. According to program staff, the chief of party was an ineffective leader who could not streamline operations, confront poor performers, or provide technical guidance. The employees said other members of the team, including the deputy chief of party-technical, grants manager, international procurement manager, and contracts and compliance officer, were weak as well.

Program managers replaced most of the team, but were slow to do so. By the time they replaced the international procurement director, 20 procurements were due. The procurement team did not have a full staff until April 2015—30 months into the 48-month program.

To compound these problems, USAID provided limited guidance during the program's first year. The AOR at the time frequently deferred to the chief of party, who previously worked for the mission as the contracting officer's representative for the Afghanistan Small and Medium Enterprise Development Project (the AOR served as the alternate representative). After some staff changes in the fall of 2013, the mission's management improved, and in February 2014 USAID considered terminating the program because of its slow progress.

Inefficiencies and Understaffing in Vetting and Application Review. Nine months after the program began, the mission reduced from $125,000 to $25,000 the dollar threshold for determining which partnership applicants and vendors to vet, increasing the number that required vetting. Initially, staffing shortages in the vetting unit resulted in a backlog. That only got worse because both the AOR and agreement officer reviewed the entire application, instead of only reviewing the sections in which they had expertise.

To reduce the backlog, the mission hired more people and streamlined application review procedures. Program staff said this reduced the average time required to vet a prospective recipient or vendor from 67 days in 2014 to 6, and the average time to review an application from 48 days in 2014 to 18.

Shipping Regulations. Federal regulations required the program to ship 50 percent of its goods using U.S.-flagged vessels, and that often delayed equipment deliveries. U.S.-flagged vessels were typically unavailable to ship goods from China, where much of the equipment was bought, to Karachi, Pakistan. As a result, the staff said they used a combination of U.S.- and non-U.S.-flagged vessels to ship goods, often via circuitous routes. This practice added about 1 to 1.5 months in transit and cost from $5,000 to $10,000 more per shipment.

Customs Delays. In March 2015 equipment deliveries were delayed because Afghan customs officials would not exempt the program partners' equipment from customs duties; officials contended that although the equipment was procured under a USAID program, it was subject to duties because it would be given to the program's private-sector partners.

USAID officials countered that the U.S.-Afghan bilateral agreement—which exempted all USAID-financed activities and purchases from customs duties and import taxes—applied to all USAID funds, regardless of whether they were used to buy equipment that benefited the private sector.

Afghan officials referred the issue to President Ashraf Ghani in June. A month later, USAID reached an interim agreement with the Afghan Government to release the delayed shipments pending a presidential decree exempting the entire program from customs duties. However, Afghan customs continued to hold the shipments. President Ghani signed the decree in September 2015, but as of late October, not all of the shipments had been released.

This issue delayed delivery of many shipments. At one point, the program reported having 65 containers for 33 partnerships detained in Karachi, on Afghanistan's northern border, or at Kabul International Airport. For example, customs officials held a shipment of 2,000 electronic credit card readers at the airport for more than 10 months before releasing it. Moreover, a number of shipments incurred detention-related fees that will ultimately be paid by USAID. Although the Afghan Government did not impose the fees, the initial actions of Afghan customs officials caused the delays that led to their assessment. Examples follow:

- Equipment for a steel manufacturer worth $493,000 was held for 5 months before being released in August 2015, having incurred estimated fees of $115,095.

- A grinding mill worth $112,000 was held for more than 4 months, incurring estimated fees of $61,275.

- Four containers of printing equipment worth $534,643 were detained for 4 months and released on August 13, 2015, after incurring $41,454 in fees.

Because of these problems, program employees said they did not expect to complete all activities by October 16, 2016, and acknowledged that the anticipated economic benefits from 46,000 new jobs would not materialize.

The wait for equipment was costly. Businesses lost potential sales revenue, and those that rented or bought space for the equipment incurred opportunity cost. Furthermore, installation and training work remained. As a result, program officials said they would ask for a 6-month extension, at no additional cost, or a 1-year extension with costs.

Although some of the problems discussed were beyond the program's control, the initial weak management team and lack of key systems and procedures were not. Any extension that adds costs to the U.S. taxpayer is condoning IESC's earlier poor performance. Moreover, given the amount of work that needs to be done after equipment arrives, establishing more partnerships probably will strain the already limited staff, jeopardizing their ability to complete existing procurements and finish the program on time. Therefore, this audit makes the following recommendations.

> ***Recommendation 1.*** *We recommend that USAID/Afghanistan immediately instruct the Volunteers for Economic Growth Alliance to stop establishing new public-private alliances under the Assistance in Building Afghanistan by Developing Enterprises Program.*

> ***Recommendation 2.*** *We recommend that USAID/Afghanistan, in coordination with the Volunteers for Economic Growth Alliance, implement a detailed plan, including milestones, for concluding the Assistance in Building Afghanistan by Developing Enterprises Program at no additional cost to USAID.*

After fieldwork, we learned that USAID was considering funding a new apprenticeship activity worth about $15 million through a modification to the agreement. Doing so would further strain the program's ability to complete existing commitments and send the wrong signal regarding contractor and grantee accountability.

Finally, given the high turnover at USAID/Afghanistan, the lessons from this program and USAID's management of it should be disseminated to incoming staff. Therefore, we make the following additional recommendations.

> ***Recommendation 3.*** *We recommend that USAID/Afghanistan not fund any currently contemplated job apprenticeship activity via the Assistance in Building Afghanistan by Developing Enterprises Program.*

> ***Recommendation 4.*** *We recommend that USAID/Afghanistan develop a case study for training purposes that uses the lessons learned from the Assistance in Building Afghanistan by Developing Enterprises Program.*

Program Had Little Impact on Regulatory Barriers for Businesses

The program allocated $3.7 million to the third component, "Enterprise-Enabling Environment," which was designed to help businesses in Afghanistan by streamlining government regulations and processes. When the program began, it focused on reducing the number of days needed to obtain business licenses and construction permits. However, other donors had already been working with the Afghan Government for several years on these issues. After program officials discovered this several months later, USAID and IESC modified the agreement to focus on drafting or updating plans to help specific industries such as marble or carpet.

Nonetheless, activities under this component did not have much of an impact. Although auditors verified that the program had achieved 83 percent of its revised performance target (five plans accepted by the Ministry of Commerce and Industry out of six),[3] the ministry had not implemented any of them. An Afghan Government official referred to the plans as merely "stacks of paper" because without resources and assistance the ministry could not act on them.

In our opinion, the component's lack of impact was due primarily to inadequate research during the program's design. The staff said it was poorly designed and characterized it as an "afterthought." According to a program official, within the first 3 months the staff realized that the World Bank had already been working on license and permit issues. (We confirmed that this information was readily available on the Internet.)

Finally, the usefulness of the industry-specific plans was questionable because the previous project had developed similar plans that were not implemented.

Because the ministry has not followed up on the plans, the program has not had much success in removing some of the regulatory barriers for Afghan businesses, and the program has spent approximately $2.1 million that might have been put to better use. A USAID official said the mission intended to use the funds left in this component—about $1.6 million—to implement some of the more easily achievable items in the plans.

To make sure any additional amounts spent in this component represent the best use of funds, we make the following recommendation.

[3] The program had not yet received Afghan Government approval of the sixth plan by the end of fieldwork.

Recommendation 5. *We recommend that USAID/Afghanistan conduct and document a review to determine whether to continue activities under the Assistance in Building Afghanistan by Developing Enterprises Program's enterprise enabling environment activity (Component 3) or put the remaining $1.6 million in unused funds to better use.*

Reported Results Were Not Valid or Reliable

Automated Directives System (ADS) 203.3.11.1 requires that data meet quality standards for validity and reliability to measure performance effectively.

In reviewing the results reported for four key performance indicators, we found that supporting data for three did not meet ADS standards because of flaws in the methodology for compiling the results and the staff's failure to update certain data.

Reliance on Extrapolated Data. Although partnership agreements specified the expected number of jobs each would create, program employees did not track the actual number. Instead, they relied on quarterly surveys of partnerships, selected via random samples, and projected the results to the entire population.

This approach—described in in the program's monitoring and evaluation plan and approved by USAID—was flawed. The samples did not take into account the diverse nature of the partnerships and instead presumed that all of them were of equal size and capacity to hire new employees.

The reliability of the survey results also was problematic. One partnership reported having 694 employees during a quarterly survey, but later reported only 16 full-time and 30 part-time employees during an interview with the auditors. Another partner reported having 50 new employees, while survey results showed it had fewer people than it did when the program began, suggesting that jobs were lost.

Another problem with projecting survey results was applying them to the wrong population. Program staff included not only partner businesses but also nonpartners that received training but no equipment. They did so thinking the training would lead to job creation; program employees theorized that receiving 5 days of bookkeeping training could lead a nonpartner business to hire additional employees because of the money saved from more efficient office functions. We asked for an example that would bear out this theory, but the staff did not provide any. Officials we talked to in Kabul from two partnerships that received training said they had not hired any new employees as a result.

Program officials said projecting survey data was the best way to compile jobs data. They felt that collecting data directly from each partnership would be overwhelming for the limited number of staff. However, these officials were already visiting all partnerships each quarter, and program employees said a headcount could be done during these visits.

Results Collected Prematurely. Results were invalid because they were collected before they could be reasonably attributed to the program. For example, instead of counting the number of jobs created and the increase in sales after the partnership received its equipment—the primary catalyst for generating new jobs and sales—the program has been counting these results from when the partnership agreement was signed. The staff explained that by the time the agreement was signed, the partnership would have received technical assistance, so any increase in employees or sales can be attributed to this assistance. However, officials from 18 of 19 partner businesses we interviewed said they had not yet hired any new employees, primarily because they had not received the equipment.

Data Not Updated to Reflect Modifications. Tests performed on data supporting the amount of funds invested by partnerships showed a high error rate (59 percent), meaning the results were unreliable. Program staff said they did not update the database to reflect changes resulting from agreement modifications. After we shared the results of these tests with the staff, they then updated the database to reflect all modifications.

During the audit, the AOR said he was unaware of these problems and was not very familiar with the program's monitoring and evaluation systems. He explained that because of security restrictions, he visited the main office only a few times and spent 2 to 3 hours each time. While there, he added, they mostly discussed the management and progress of the program, leaving little time to discuss data quality or validate performance results.

USAID/Afghanistan missed at least two opportunities to identify these problems sooner. First, the mission omitted the program from its performance plan and report for fiscal years 2013 and 2014, although it was one of the Agency's largest economic growth programs in Afghanistan. This meant that the program was not included in the mission-wide data quality assessment, which was intended to highlight the strengths and weaknesses of data in accordance with the ADS 203 data quality standards. While the mission could not say definitively why this oversight occurred, one official in the program office said it could be due to turnover and the amount of reporting required for the performance plan and report.

Second, the mission hired a third-party contractor to help monitor program activities. This contractor visited selected partnerships and completed a questionnaire developed by the AOR to assess progress toward goals, equipment quality, and the partnerships' experiences. While this information was useful, it was not linked to major performance indicators, nor was it sufficient for the AOR to use to verify program results.

With the recent closure of U.S. Government facilities outside Kabul and the removal of local staff based there, the AOR now relies almost exclusively on the contractor to monitor field activities. This underscores the need to verify that the contractor's work is linked to performance reporting and includes validating reported results.

Because of these problems with data, results for key indicators may be significantly misstated and not provide a clear picture of the program's performance. Without valid, reliable data, USAID managers face greater difficulties assessing the program's progress and actual accomplishments and may make inappropriate programming decisions. To confirm that the reported results meet USAID's data quality standards, we make the following recommendations.

> ***Recommendation 6.*** *We recommend that USAID/Afghanistan evaluate whether the methodology used in compiling results reported under the performance indicators for the Assistance in Building Afghanistan by Developing Enterprises Program is justifiable and, based on the results of this review, require the implementer to update its monitoring and evaluation plan to reflect any changes.*

Recommendation 7. *We recommend that USAID/Afghanistan develop a schedule of periodic meetings with Assistance in Building Afghanistan by Developing Enterprises Program staff at the U.S. Embassy compound in Kabul to review performance results and other related issues.*

Recommendation 8. *We recommend that USAID/Afghanistan implement a plan to have third-party monitoring contractors verify performance indicator results reported by the Assistance in Building Afghanistan by Developing Enterprises Program.*

Recommendation 9**.** *We recommend that USAID/Afghanistan implement a plan to confirm that the Assistance in Building Afghanistan by Developing Enterprises Program is included in the annual performance plan and report and any mission-wide data quality assessments.*

Program Did Not Show Status of Equipment Shipments in Quarterly Reports

To promote business and create jobs, the program aimed to provide equipment to 406 partnerships, a process that we calculated took an average of about 10 months. To be sure this aspect of the program was on schedule, the agreement required the staff to submit quarterly reports to USAID identifying "outstanding issues requiring resolution and actions that shall be taken in the next quarter" on them.

As of March 31, 2015, the program's records showed that it had delivered equipment to only 38 of 190 partnerships, and 41 percent of the deliveries missed deadlines set in the agreements. The quarterly reports did not address overall partnership progress for different activities, such as whether equipment deliveries were on schedule and where bottlenecks were occurring. For example, the reports did not include information on all pending shipments—including how many were late because of customs issues—although the staff had this information.

Mission officials said they did not ask program staff for more detailed information on the status of partnership activities in its quarterly reports and instead asked for procurement updates on an ad hoc basis. Such information in the program's quarterly reports might have helped the mission spot problems and address late deliveries faster. The audit therefore makes the following recommendation.

Recommendation 10**.** *We recommend that USAID/Afghanistan require the Volunteers for Economic Growth Alliance to include in quarterly reports for the Assistance in Building Afghanistan by Developing Enterprises Program detailed information on the status of equipment procurements, delivery, installation, and any actions taken or planned to resolve delays and expedite activities that are behind schedule.*

Mission Set Unrealistic Jobs Target

ADS 203.3.9 requires missions to establish ambitious yet realistic targets that can be achieved within a stated time and with available resources.

According to USAID's agreement with VEGA, the program was expected to "create a minimum of 46,000 full-time equivalent jobs in Afghanistan" through activities designed to help small and medium-sized businesses expand. Yet as of March 31, 2015, the program reported creating only 5,625 jobs—12 percent of the target—with only 1.5 years left in the program, as shown in the table below.

Target Number of Jobs Created Versus Actual Reported

Year	Targeted number (cumulative)	Actual number
1	5,000	0
2	16,000	2,180
3	31,000	5,625
4	46,000	-

Source: Prepared by OIG based on information provided by IESC and VEGA..

The target did not meet the ADS requirement because the initial assumptions and data it was based on either were incorrect or had changed. For example, the target was designed to include both direct and indirect jobs created. However, program staff counted only direct jobs, and USAID did not require them to report the number of indirect jobs created, thus making the target much more difficult to reach. The target also was based on an initial budget of $60 million to support partnerships, yet the final budget allocated only $41.5 million, resulting in fewer partnerships that could create jobs.

Setting unrealistic targets makes it difficult for USAID to assess whether the program is succeeding. Mission officials said they discussed changing the target in March 2014 and 1.5 years later lowered it to 15,000 direct jobs. But, as one explained, the modification was delayed because they were waiting for the Agency to decide whether to proceed with the project, as well as gauging progress on customs issues. The revised target was based on the number of partnerships they projected would be signed. In light of this action taken shortly before we finished audit fieldwork, we are not making a recommendation on this issue.

OTHER MATTER

Partner Charged Questionable Labor Costs

While reviewing three monthly invoices for Land O'Lakes, we found $18,034 in questionable labor charges in two, as described below.

Unsupported Labor Charges. Under federal regulations, costs charged to federal awards must be reasonable and adequately documented, and salaries and wages must be supported with records that reflect the work performed. One invoice, however, included a labor charge of $11,396 (including related indirect costs) for an unidentified employee, but did not list any details. When asked about this charge, Land O'Lakes officials could not provide an adequate explanation.

Inconsistent Accounting. According to federal regulations, direct costs are those that are directly attributable to a specific cost objective, such as a particular project, activity, or federal award. Indirect costs are those that are necessary for the management of an organization but cannot be linked to a specific cost objective.

Land O'Lakes has a negotiated indirect cost rate for fringe benefits. This means the organization accumulates the cost of fringe benefits in a separate pool and allocates them to cost objectives by applying the rate to a specific base. A cost item cannot be included in the indirect cost pool and also charged as a direct cost.

One invoice included 224 hours charged as direct labor for one employee during a 2-week pay period, even though his time sheet showed only 80 hours worked. Land O'Lakes officials said this employee stopped working for them during that pay period. In an e-mail, officials said the 224 hours covered 64 hours worked and 160 hours of severance pay in accordance with the organization's policy. However, a copy of the employee's termination letter stated that the employee would be paid for 30.7 hours of unused paid time off in addition to any severance payment.

According to information from Land O'Lakes, severance payments are accounted for as direct labor, while paid time off is included in the indirect cost pool for fringe benefits. An official said this was because paid time off "is a standard benefit afforded to everyone" whereas severance payments are not available to all employees, are based on national labor laws, and essentially constitute additional salary. According to this official, USAID endorsed this method of accounting before approving the negotiated indirect cost rate agreement.

Since the termination letter indicated that 30.7 hours was for paid time off, 30.7 of the 224 hours charged as direct labor should have been charged instead to the indirect cost pool for fringe benefits. Consequently, we are questioning $6,638 (including related indirect costs) as ineligible.

The fact that IESC's staff did not question these charges underscores the need for greater financial oversight to confirm that the organization is meeting its responsibility of providing control and accountability for federal funds. Presently IESC reviews and approves Land

O'Lakes' payment requests, which contain limited data, without asking for additional supporting details because, employees said, the agreement does not require them to get such information. Since these questionable labor charges were found in two of three invoices, we are concerned that they are part of a more widespread problem. We communicated these concerns to USAID and to the firm conducting a financial audit of two programs implemented by VEGA in Afghanistan, including this one, and make the following recommendations.

Recommendation 11. *We recommend that USAID/Afghanistan require the Volunteers for Economic Growth Alliance to implement a plan to improve financial oversight over all partners implementing the Assistance in Building Afghanistan by Developing Enterprises Program.*

Recommendation 12. *We recommend that USAID/Afghanistan determine the allowability of $18,034 in questioned costs ($6,638 ineligible and $11,396 unsupported) and recover from the Volunteers for Economic Growth Alliance any amounts determined to be unallowable.*

EVALUATION OF MANAGEMENT COMMENTS

In its response to the draft report, USAID/Afghanistan agreed with Recommendations 1 through 11, and we acknowledge management decisions on them. Recommendation 12 remains without a management decision for reasons discussed below. On the basis of the information provided, we also determined that the mission took final action on Recommendations 1 through 3, 9, and 10. We disagreed with the management decision on Recommendation 8. An evaluation of the comments follows.

Recommendation 1. The mission decided to instruct the program to submit all partnership applications by December 31, 2015, and the final year work plan referred to that instruction. We acknowledge the mission’s management decision and final action.

Recommendation 2. The mission decided to issue a modification extending the program to April 15, 2017, at no additional cost to USAID and approved a detailed, final work plan to complete all activities. We acknowledge the mission’s management decision and final action.

Recommendation 3. The mission decided not to include in the final year work plan any apprenticeship activities. We acknowledge the mission’s management decision and final action.

Recommendation 4. The mission decided to develop a case study for training to disseminate the lessons from this program by July 31, 2016. We acknowledge the mission’s management decision.

Recommendation 5. The mission decided to conduct a review by July 31, 2016, to determine whether to continue Component 3 of the program or put any remaining funds to better use. We acknowledge the mission’s management decision.

Recommendation 6. The mission decided to review the program’s method for compiling results on performance indicators and, depending on the results of this review, require the program’s monitoring and evaluation plan to conform with applicable mission policies. The mission set July 31, 2016, as the target completion date for these actions. We acknowledge the mission’s management decision.

Recommendation 7. The mission decided to develop a schedule of periodic meetings with program staff at the embassy compound to review performance results and related issues. The mission set July 31, 2016, as the target completion date for this action. We acknowledge the mission’s management decision.

Recommendation 8. The mission decided to make monitoring this program a priority under its new third-party monitoring initiative, Monitoring Support Program. Mission officials said the AOR had met with those working on the initiative to draw up a plan for monthly monitoring and had given them 15 detailed questionnaires to use during their monitoring visits to partners’ business locations. The mission provided a copy of one questionnaire for the Herat area. We acknowledge the mission’s management decision.

However, we disagree with the management decision because it does not go far enough. Although questionnaire responses provide useful and important information, such as the quality and condition of the equipment referred to in the partnership agreement, and a status update on meeting partnership goals, they do not address the verification of performance indicator results, which was the central aim of the recommendation. For OIG to acknowledge a revised management decision without disagreement, the questionnaire should include steps for spot-checking the data underlying selected performance indicator calculations. We would not expect all indicators to be spot-checked on every visit; rather, a reasonable sampling would be sufficient. Ideally, these procedures would be developed after the mission completes its proposed actions under Recommendation 6.

Recommendation 9. The mission provided excerpts from the fiscal year 2015 performance plan and report showing the program was included, along with copies of data quality assessments performed on three program indicators. They said that the program is scheduled to be included in the fiscal year 2016 report and that more data quality assessments are planned. We acknowledge the mission's management decision and final action. However, we note that the assessment for the job creation indicator, conducted before the draft of this report, did not address the reliance on extrapolated data or premature collection of data that we highlighted. These two areas should be addressed in the review of the program's method for compiling performance indicator results performed as part of Recommendation 6.

Recommendation 10. The mission decided to require the program to include a detailed schedule in future quarterly and annual reports showing status of equipment procurements, delivery, installation, and any actions taken or planned to resolve delays and expedite activities that are behind schedule. The schedule in the program's fiscal year 2015 annual report included each shipment's current location, the date it arrived at the port or border crossing, and the number of containers. We acknowledge the mission's management decision and final action.

Recommendation 11. The mission decided to ask the implementer for a plan outlining its current financial oversight of the program and subawardees, as well as the actions it proposes to improve that oversight. The agreement officer will review the implementer's plan and confirm that it is put into action. The mission set a target completion date of July 31, 2016. We acknowledge the mission's management decision.

Recommendation 12. The mission said that the implementer had provided supporting documentation and that the agreement officer would make a determination on the allowability of questioned costs. In accordance with ADS 595.3.1.2a, Recommendation 12 remains without a management decision pending the agreement officer's determination of amounts allowed or disallowed and a target date for collecting any disallowed amounts.

SCOPE AND METHODOLOGY

Scope

OIG in Kabul conducted this performance audit in accordance with generally accepted government auditing standards. They require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions, in accordance with our audit objective. We believe the evidence obtained provides that reasonable basis.

The objective of this audit was to determine whether USAID/Afghanistan's Assistance in Building Afghanistan by Developing Enterprises Program was creating jobs, increasing private investment, and improving the business environment as planned.

In October 2012 USAID/Afghanistan awarded a 4-year, $105 million cooperative agreement to VEGA—a not-for-profit group composed of economic growth organizations—to implement the program. VEGA assigned IESC as the lead implementer, with subawards made to DAI and Land O'Lakes. The period of performance was from October 16, 2012, to October 16, 2016.

The audit covered the period from the program's inception on October 16, 2012, through March 31, 2015. However, we updated the report to reflect subsequent information and developments that we became aware of after March 31, 2015, through the end of fieldwork, such as the most recent data on the number of partnerships established and the presidential decree dealing with the customs issue. As of March 31, 2015, USAID/Afghanistan had obligated $47.6 million and disbursed $36.9 million for program activities.

We conducted fieldwork from March 31 to September 21, 2015, at USAID/Afghanistan in Kabul, Camp Marmal in Mazar-e Sharif, and Camp Arena in Herat. We could not visit program offices or participating Afghan businesses because of security-related travel restrictions imposed by the U.S. State Department. Therefore, we met with USAID and program staff, Afghan Government officials, and partnerships at either the mission or the two field locations visited, or interviewed them by phone. During fieldwork, we met with officials from 27 partnerships, which collectively received about $7 million in grants, representing 41 percent of the total amount.

In planning and performing the audit, we assessed the significant internal controls the mission used to manage the program, such as work plans, quarterly and annual progress reports, and mission approval of partnership agreements. We reviewed USAID and program activities in accordance with 2 CFR 200, 22 CFR 226 and 201, relevant chapters from USAID's ADS, USAID/Afghanistan mission orders, the program's cooperative agreement and successive modifications, and the monitoring and evaluation plan. We also reviewed the mission's fiscal year 2014 annual assessment of internal controls required by the Federal Managers' Financial Integrity Act of 1982.[4]

Methodology

To determine whether USAID/Afghanistan appropriately managed program activities, we reviewed relevant documents, including the cooperative agreement and modifications,

[4] Public Law 97-255, codified in 31 United States Code 3512.

subawards and modifications, work plans, quarterly and annual performance reports, monitoring and evaluation plan, operation manuals, the grant manual, policies and procedures for selecting partners, the midterm evaluation, and partnership agreements, as well as the mission's site visit reports and correspondence. We also conducted a risk assessment, testing the program's internal controls over computer-processed data, data quality, performance results, program management, partnerships, and human resources management.

We interviewed USAID officials in-country and in Washington. Mission officials included the AOR, the agreement officer, agreement specialists, the legal office director, program office staff, economic growth specialists, and financial analysts. We also interviewed field staff and a representative from the Office of the Chief Financial Officer in Washington, D.C.

We interviewed program employees, including the chief of party, senior technical adviser, deputy chief of party-operations, deputy chief of party-technical, director of contracts and compliance, director of monitoring and evaluations, and procurement director, as well as component team leaders and regional field staff. We also interviewed DAI, IESC, Land O'Lakes, and VEGA headquarters officials to gain an understanding of the program's management controls, their assessment of its progress, and any implementation constraints.

We met with Afghan Government officials based in Kabul and Mazar-e Sharif to solicit their views of the program's performance. We also met with 27 partnership representatives based in Herat, Kabul, and Mazar-e Sharif to solicit their views on the program's impact and the quality of technical assistance received, as well as to verify reported performance results. These partnerships were judgmentally selected based on award size (ranging from $2,695 to $908,000), date awarded (2013 and 2014), and status (mix of active and closed awards).

In assessing the program's performance, we compared reported results with established targets for the following performance indicators: (1) *[U.S. dollar] value of private-public sector [partnerships] established*, (2) *Number of full-time equivalent jobs created*, (3) *Average increase in sales by [partnership with small and medium-sized enterprises]*, and (4) *Number of action plans accepted by the [Ministry of Commerce and Industry]*. We verified the reliability of the reported results under these indicators through reviews of source documents, when available, and through confirmation from partner businesses and other stakeholders. We did not evaluate the seven other indicators because they do not answer the audit objective directly or measure the program's impact.

In answering the audit objective, we relied extensively on computer-processed data in the program's database and maintained by the staff through its subaward to DAI. We assessed the reliability of program data by (1) performing electronic testing of required data elements, (2) reviewing existing information about the data and the system that produced them, (3) interviewing program officials knowledgeable about the data, and (4) tracing a judgmentally selected sample of data to source documents.

After our review of system controls and the results of data tests, we could not verify the results reported under *[U.S. dollar] value of private-public sector [partnerships] established* or under *Average increase in sales by public-private alliance [small and medium enterprises]*. This was because most of the documentation was held at partners' sites, which we were not allowed to visit. The only documentation available was the program's internal records, which were insufficient. In the case of *[U.S. dollar] value of private-public sector [partnerships] established*, a comparison of the amounts recorded in the program database with the internal records showed a high error rate, casting doubt on the data's validity. Because the audit objective requires specific statements based on the data and sufficient independent evidence was not available, we could not provide specific projections, conclusions, or recommendations for the private investment part of the audit objective.

Regarding the other parts of the audit objective (creating jobs and improving the business environment), we assessed the reliability of the data maintained for these areas together with relevant general and application controls of the database. Although we found the general and application controls were adequate, the methodology for computing *Number of full-time equivalent jobs created* was flawed, thus casting doubt on the data's validity. However, since we were able to corroborate these data with other available evidence, we believe the opinions, conclusions, and recommendations in the report are valid. We did not find any errors in the data pertaining to *Number of action plans accepted by the [Ministry of Commerce and Industry]*.

The audit also included a limited review of program expenditures to date against the budget. We reviewed the three most recent monthly invoices submitted by Land O'Lakes at the time of the audit to gauge whether additional financial oversight of implementing partners might be needed. The three invoices totaled $166,321, out of a universe of 29 invoices submitted by Land O'Lakes totaling $1,506,482. We examined them for accuracy, checked labor charges for selected staff against supporting time sheets, and recomputed overhead charges to verify they were in accordance with the organization's negotiated indirect cost rate agreement. Although we found questionable charges in two of the three invoices examined, we did not project our findings to the other invoices, but communicated our concerns to USAID and the firm conducting a financial audit of this and another VEGA program.

MANAGEMENT COMMENTS

USAID | **AFGHANISTAN**
FROM THE AMERICAN PEOPLE

MEMORANDUM February 22, 2016

TO: Rob Mason
OIG/Afghanistan Country Director

FROM: Herbert Smith, Mission Director/s/

SUBJECT: Mission Response to Draft OIG Report titled "*Audit of USAID/Afghanistan's Assistance in Building Afghanistan by Developing Enterprises Program*" (Report No.F-306-16-002-P)

REFERENCE: OIG Transmittal Email Dated January 21, 2016

GENERAL COMMENTS

Thank you for providing USAID/Afghanistan with the opportunity to review the draft report of the performance audit undertaken for the Assistance in Building Afghanistan by Developing Enterprises (ABADE) program. We welcome the analysis included in the audit, which augments the information we have already received through our regular oversight procedures. We are pleased that many of the audit recommendations align well with the corrective actions USAID/Afghanistan has already initiated as part of the normal program management process. USAID/Afghanistan is committed to performance monitoring of all of our projects and we will use the audit findings to improve the program's quality and impact.

The Mission would like to take this opportunity to note areas of disagreement with the points of view presented in the audit report and recent actions that have been taken *(see Attachment 1*).

COMMENTS ON OIG'S RECOMMENDATIONS

Recommendation 1. *We recommend that USAID/Afghanistan immediately instruct the Volunteers for Economic Growth Alliance to stop establishing new public-private alliances under the Assistance in Building Afghanistan by Developing Enterprises Program.*

USAID Comments: The Mission concurs with Recommendation 1.

Actions Taken/Planned: The Mission instructed the ABADE program that no more Public Private Alliance (PPA) applications should be submitted to USAID for approval after December 31, 2015. The program complied with this directive and is currently focusing on ensuring that all equipment for Afghan partner companies is delivered and that public-private alliances are appropriately monitored and closed out.

Closure Request: Based on the above actions and the documentation supplied, we therefore request OIG's concurrence to the closure of Recommendation 1.

Related Documentation:
Attachment 6—ABADE FY2016 Work Plan
Attachment 7—No more PPA Submissions to USAID

Recommendation 2. *We recommend that USAID/Afghanistan, in coordination with the Volunteers for Economic Growth Alliance, implement a detailed plan, including milestones, for concluding the Assistance in Building Afghanistan by Developing Enterprises Program at no additional cost to USAID.*

USAID Comments: The Mission concurs with Recommendation 2.

Actions Taken/Planned: On October 29, 2015, a detailed work plan that lays out milestones for the final year of the program was approved by the Agreement Officer's Representative. A six-month no-cost extension to the ABADE program was approved by the Agreement Officer on January 11, 2016, giving the program additional time to complete all milestones.

Closure Request: Based on the above actions and the documentation supplied, we therefore request OIG's concurrence to the closure of Recommendation 2.

Related Documentation:
Attachment 6—ABADE FY2016 Work Plan
Attachment 3—ABADE Cooperative Agreement Modification #7

Recommendation 3. W*e recommend that USAID/Afghanistan not fund any currently contemplated job apprenticeship activity via the Assistance in Building Afghanistan by Developing Enterprises Program.*

USAID Comments: The Mission concurs with Recommendation 3.

Actions Taken/Planned: When OIG raised concerns over the idea of providing further funding to the ABADE program to implement a job apprenticeship component, the Mission concurred with the recommendation. No additional money or activities have been or will be added to the program for job apprenticeships and the ABADE FY2016 Work Plan makes no mention of this activity.

Closure Request: Based on the above actions and the documentation supplied, we therefore request OIG's concurrence to the closure of Recommendation 3.

Related Documentation:
Attachment 6—ABADE FY2016 Work Plan

Recommendation 4. *We recommend that USAID/Afghanistan develop a case study for training purposes that uses the lessons learned from the Assistance in Building Afghanistan by Developing Enterprises Program.*

USAID Comments: The Mission concurs with Recommendation 4.

Actions Taken/Planned: A case study for training purposes that highlights the lessons learned from the ABADE program will be developed.

Target Closure Date: July 31, 2016.

Recommendation 5. *We recommend that USAID/Afghanistan conduct and document a review to determine whether to continue activities under the Assistance in Building Afghanistan by Developing Enterprises Program's Enterprise Enabling Environment activity (Component 3) or put the remaining $1.6 million in unused funds to better use.*

USAID Comments: The Mission concurs with Recommendation 5.

Actions Taken/Planned: The Mission will conduct and document a performance review to determine whether to continue activities under the ABADE program's Enterprise Enabling Environment activity (Component 3) or put the remaining $1.6 million in unused funds to better use.

Target Closure Date: July 31, 2016.

Recommendation 6. *We recommend that USAID/Afghanistan evaluate the methodology used in compiling results reported under the performance indicators for the Assistance in Building Afghanistan by Developing Enterprises Program is justifiable and, based on the results of this review, require the implementer to update its monitoring and evaluation plan to reflect any changes.*

USAID Comments: The Mission concurs with Recommendation 6.

Actions Taken/Planned: Monitoring and evaluation experts in the Mission's Office of Project and Program Development are in the process of evaluating the methodology used in compiling results reported under the program's performance indicators. Once this review is complete, a report will be produced and the implementer will be fully informed. Following on the evaluation's results, the Mission will ensure that the program's monitoring and evaluation plan is updated to bring it into line with the Mission's guidance.

Target Closure Date: July 31, 2016.

Recommendation 7. *We recommend that USAID/Afghanistan develop a schedule of periodic meetings with Assistance in Building Afghanistan by*

Developing Enterprises Program staff at the U.S. Embassy compound in Kabul to review performance results and other related issues.

USAID Comments: The Mission concurs with Recommendation 7.

Actions Taken/Planned: While the Mission constantly reviews performance results for the program, we will take the added step of convening periodic meetings with ABADE program staff at the U.S. Embassy compound in Kabul specifically for the purpose of reviewing performance results and other related issues. The next meeting is planned for February 25, 2016, at which time a schedule for future meetings will be produced.

Target Closure Date: July 31, 2016.

Recommendation 8. *We recommend that USAID/Afghanistan implement a plan to have third-party monitoring contractors verify performance indicator results reported by the Assistance in Building Afghanistan by Developing Enterprises Program.*

USAID Comments: The Mission concurs with Recommendation 8.

Actions Taken/Planned: The ABADE program has been selected as a priority program for the Mission's new Monitoring Support Program (MSP) which has been recently awarded. On January 25, 2016 the Agreement Officer's Representative met with the MSP program managers to lay out a plan for monthly, third-party monitoring of ABADE program activities. On February 2, 2016, the Agreement Officer's Representative submitted 15 detailed monitoring questionnaires to the MSP for review.

Closure Request: The Mission believes that the selection of ABADE as a priority program for the Monitoring Support Program and the groundwork that has been laid to get high quality monitoring reports on the ABADE activities on a monthly basis. Based on the above actions and the documentation supplied, we therefore request OIG's concurrence to the closure of Recommendation 8.

Related Documentation:
Attachment 8--MSP monitoring request for Herat area

Attachment 9--ABADE Monitoring Questionnaire Herat 1

Recommendation 9. *We recommend that USAID/Afghanistan implement a plan to confirm that the Assistance in Building Afghanistan by Developing Enterprises Program is included in the annual performance plan and report and any mission-wide data quality assessments.*

USAID Comments: The Mission concurs with Recommendation 9.

Actions Taken/Planned: ABADE program results were included in the Mission's FY2015 performance plan and report and are scheduled to be included in the FY2016 performance plan and report. Data quality assessments were conducted on select indicators from the ABADE program in 2015, and more data quality assessments are scheduled to be conducted in 2016.

Closure Request: Based on the above actions and the documentation supplied, we therefore request OIG's concurrence to the closure of Recommendation 9.

Related Documentation:
Attachment 10—ABADE DQA, New PPPs
Attachment 11—ABADE DQA, Jobs Created
Attachment 12—ABADE Extracts from the FY2015 PPR
Attachment 13—ABADE DQA, Improved Management Practices

Recommendation 10. *We recommend that USAID/Afghanistan require the Volunteers for Economic Growth Alliance to include in quarterly reports for the Assistance in Building Afghanistan by Developing Enterprises Program detailed information on the status of equipment procurements, delivery, installation, and any actions taken or planned to resolve delays and expedite activities that are behind schedule.*

USAID Comments: The Mission concurs with Recommendation 10.

Actions Taken/Planned: As recommended by the audit report, the Mission requested that the program's Chief of Party include a table detailing the status of equipment procurements, delivery, installation, and any actions taken or planned to resolve delays and expedite activities that are behind schedule in all quarterly and annual reports. The program included this information in the FY2015 Annual Report and will continue to include it in future quarterly reports.

Closure Request: Based on the above actions and the documentation supplied, we therefore request OIG's concurrence to the closure of Recommendation 10.

Related Documentation:
Attachment 14--ABADE FY2015 Annual Report

Recommendation 11. *We recommend that USAID/Afghanistan require the Volunteers for Economic Growth Alliance to implement a plan to improve financial oversight over all partners implementing the Assistance in Building Afghanistan by Developing Enterprises Program.*

USAID Comments: The Mission concurs with Recommendation 11.

Actions Taken/Planned: On February 20, 2016 the Agreement Officer requested Volunteers for Economic Growth Alliance (VEGA) to submit, no later than March 31, 2016, their current financial oversight procedures of the sub-awardees implementing the ABADE program and a plan to improve financial oversight over all partners implementing ABADE. The Agreement Officer will evaluate VEGA's financial oversight procedures and will ensure that the improvement plan is implemented by VEGA.

Target Closure Date: July 31, 2016.

Recommendation 12. *We recommend that USAID/Afghanistan determine the allowability of $18,034 in questioned costs ($6,638 ineligible and $11,396 unsupported) and recover from the Volunteers for Economic Growth Alliance any amounts determined to be unallowable.*

USAID Comments: The Agreement Officer will make an allowability determination as described below.

Actions Planned: On February 10, 2016, Volunteers for Economic Growth Alliance provided supporting documentation on questioned costs.

The Agreement Officer will review the supporting documentation and determine the allowability of the $18,034.

Target Closure Date: July 31, 2016.

APPENDIX A

USAID TECHNICAL COMMENTS
Draft OIG Report Audit of Assistance in Building Afghanistan by Developing Enterprises Program (ABADE)" (Report No.F-306-16-002-P)

The Mission would like to take this opportunity to note areas of disagreement with the points of view presented in the audit report and recent actions that have been taken. This feedback is provided for each of the following audit findings:

1. Program Was Behind Schedule and Created Few Jobs
2. Program Had Little Impact on Regulatory Barriers for Businesses
3. Reported Results Were Not Valid or Reliable
4. Program Did Not Report Status of Equipment Shipments
5. Mission Set Unrealistic Jobs Targets

1. Response to Audit Finding: Program Was Behind Schedule and Created Few Jobs

Public Private Alliance formation and equipment procurement and delivery

The Mission agrees that the program's formation of Public Private Alliances (PPAs) and Innovation PPAs was behind schedule and that procurement and installation of equipment was likewise delayed. However, in the time since the audit was conducted, three conditions have brought significant improvement:

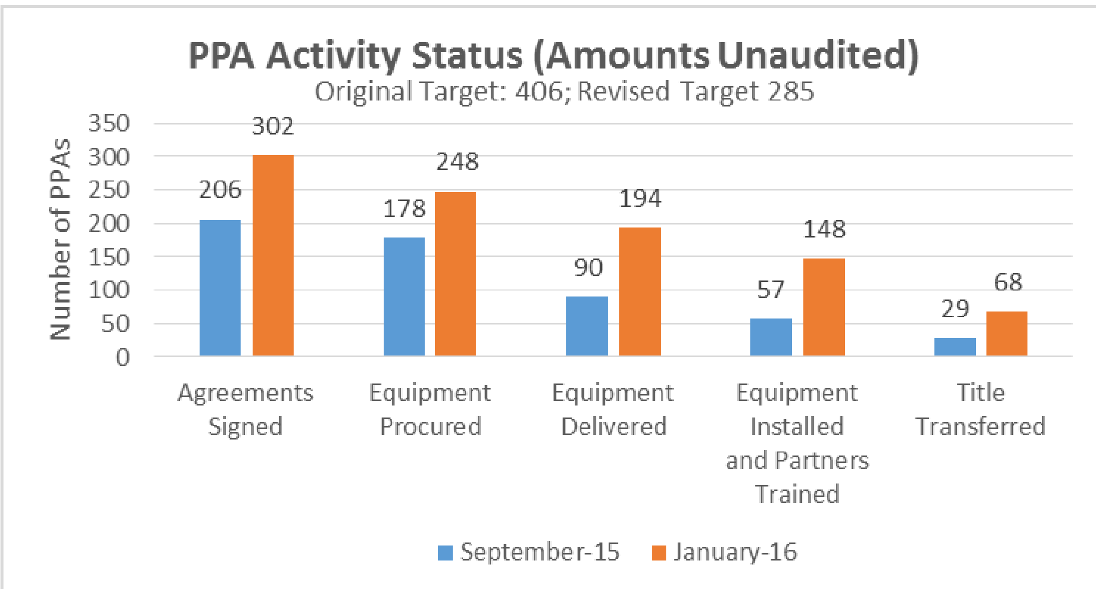
(1) As noted in the audit report, President Ghani signed a decree in September 2015 exempting the entire program from customs duties. As a result, all shipments that had been held at locations outside of the country for months were successfully imported in the October—December 2015 time-frame. ABADE reports that subsequent shipments are currently being imported without significant delay.

(2) In September 2015, the Mission approved a revision to the program's Monitoring and Evaluation Plan that reduced the target number of Public Private Alliances (PPA) sub-awards from 365 to 260 and reduced the target number of Innovation PPA sub-awards from 41 to 25. See *Attachment 2*—ABADE Revised Monitoring and Evaluation Plan.

While the Mission believes that the ABADE program would have had no trouble meeting the original target number of PPAs and Innovation PPAs, retaining the target would have had the effect of unfairly prioritizing microenterprises with less than 12 employees. As the fund that supports PPAs is fixed at $41.85 million, the higher number of partnerships would translate into smaller individual investments. The reduced targets will lead to greater impact in terms of jobs creation and overall economic benefit as larger, more capable Small and Medium Enterprises (SMEs) will receive a greater share of USAID assistance which has always been the intent of the program. Targets for supporting micro-enterprises have already been met.

(3) In January 2016 the Mission approved a six month no-cost extension to the program, which will allow additional time for procured equipment to be imported and installed in partner enterprises and for jobs creation to be monitored. See *Attachment 3*—ABADE Cooperative Agreement Modification #7.

Following is a chart that provides an update to Figure 2 that appears on page 5 of the audit report.



Jobs Creation

The Mission agrees that the program has not created the number of jobs that were originally envisioned. After a comprehensive review of program results, the Mission approved a revised ABADE Monitoring and Evaluation Plan in September 2015 which reduced the number of full-time equivalent jobs from 46,000 to 15,000. See *Attachment 2*—ABADE Revised Monitoring and Evaluation Plan.

The justifications for reducing the jobs targets are:

(1) The original target was based on creating both direct and indirect full-time equivalent jobs. However, as monitoring indirect full-time equivalent jobs was very difficult due to the wide variety of enterprise types served by the program and significant logistical challenges, it was agreed that only direct full-time equivalent jobs would be counted.

(2) Before the ABADE program was awarded, the initial Cost-Benefit Analysis projected that a $60 million investment fund for Public Private Alliances (PPAs) could be expected to produce 46,000 jobs. However, when USAID reduced the investment fund to $41.85 million, the jobs target was not proportionally reduced.

With modified targets, the program is on track to achieve all of its performance objectives by April 15, 2017, within the original budget allocation. As shown in the *Attachment 4*—ABADE FY2016 Quarter 1 Report, the program has already met or exceeded 10 of 13 life of project indicators and is on track to meet the other targets during the 14 months remaining in the program.

2. Response to Audit Finding: Program Had Little Impact on Regulatory Barriers for Businesses

While it is true that ABADE's third component did not focus on reducing the number of days needed to obtain business licenses and construction permits, for the reasons outlined in the audit report, the Mission takes exception to the claim that activities under this component did not have much of an impact and that the six action plans developed jointly by ABADE and the Ministry of Commerce and Industry (MoCI) amount to "stacks of paper."

While the MoCI action plans outline specific steps to energize six priority sectors—marble, gemstones, carpets, agricultural enterprises, construction materials, and women small and medium enterprises—an even more significant benefit of the action plan process is that Afghan entrepreneurs, trade association representatives, and MoCI officials got together in the same room on many occasions to voice concerns, thrash out new ideas, and align priorities. Proof of the usefulness of the public-private engagement strategy is that four roundtable discussion groups met in the first quarter of FY2016 to discuss arising sector-specific challenges even though the action plans had already been finalized. ABADE is working with MoCI to ensure that the working groups continue through the end of the program and beyond. See *Attachment 4*—ABADE FY2016 Quarter 1 Report.

The Mission's strong commitment to moving forward with the MoCI action plans was demonstrated when the new indicator "Business Constraints Addressed" was added to the Monitoring and Evaluation Plan in September 2015. See *Attachment 2*—ABADE Revised Monitoring and Evaluation Plan.

The new indicator focuses the program on getting decisive progress on the constraints identified in the MoCI action plans. For example, the high cost of transporting carpets to international markets, which was identified as a major obstacle to growth in the Carpet Action Plan, was decisively addressed in the first quarter of FY2016 when a memorandum of understanding was signed between Turkish Airlines and the carpet industry. This agreement, which was facilitated by ABADE staff, reduced the cost of air transport of carpets by more than 50% and is a major benefit to Afghan carpet traders.

3. Response to Audit Finding: Reported Results Were Not Valid or Reliable

The Mission's plan to ensure the validity of reported results can be found in the response to Recommendation 6.

4. Response to Audit Finding: Program Did Not Report Status of Equipment Shipments

While it is true that the Mission accepted quarterly reports that did not include detailed tables tracking the progress of procurement and importation of equipment and machinery, the Mission was in no way blind to these challenges. Upon the Mission's request, ABADE started providing reports in April 2015, when the number of blocked shipments started to grow. The Agreement Officer's Representative and the Regional Legal Officers were in constant communication with ABADE staff on this issue—often on a daily basis—and ABADE consistently provided information as requested.

As stated in the response to Recommendation 10, ABADE now includes detailed information on the status of shipments as an annex to quarterly reports. See *Attachment 5*—Updates Regarding Status of Equipment Shipments.

5. Response to Audit Finding: Mission Set Unrealistic Jobs Target

The Mission concurs with this finding and the modification to the jobs target is described in the response to the first finding above.

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