MEMORANDUM

TO: USAID/Afghanistan Mission Director, William Hammink
FROM: OIG/Afghanistan Country Office Director, James C. Charlifue /s/

This memorandum transmits our final report on the subject audit. In finalizing the report, we considered your comments on the audit recommendations and have included those comments in Appendix II.

The report includes four recommendations to strengthen USAID/Afghanistan’s Financial Access for Investing in the Development of Afghanistan Project. We evaluated management comments and acknowledge the mission’s management decisions on all the recommendations. Please provide the Audit Performance and Compliance Division with the necessary documentation to achieve final action on all four recommendations.

I want to express my sincere appreciation for the cooperation and courtesy extended to my staff during the audit.
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SUMMARY OF RESULTS

Although there are few reliable statistics on poverty in Afghanistan, having been in conflict for decades it is undoubtedly one of the poorest countries in the world. The collapse of the formal banking system during these years of war, coupled with continuing security threats, weak governance, corruption, and a poorly educated population, means that Afghanistan will need significant time and investment before it is able to meet its social and economic objectives. The Afghanistan National Development Strategy acknowledges that increased private investment is critical for this process.

Accordingly, USAID/Afghanistan seeks to help the country develop its financial sector. As part of this, the mission awarded Chemonics International Inc. (Chemonics) a contract to implement the Financial Access for Investing in the Development of Afghanistan Project. The project began in February 2011. Its goal was to build a sustainable, diverse, and inclusive financial sector that could generate and sustain quality employment by meeting the needs of micro-, small, and medium-size enterprises. To do this, the project’s objectives were to enhance the outreach and capacity of financial institutions, update and develop financial regulations, and provide technical assistance to mobile money providers as shown below. The total estimated cost of the contract as of December 2013 was $88.5 million, with obligations of $79.3 million and disbursements of $69.5 million. The project was to end in August 2014.

**Project Structure**

- **Goal**: To build a sustainable, diverse, and inclusive financial sector that could generate and sustain quality employment by meeting the needs of micro-, small, and medium-size enterprises.

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*Mobile money allows customers to store and send money using their cell phones.*

†“Gender mainstreaming” and “grants and subcontracts” components cut across the other activities.
The Office of Inspector General/Afghanistan (OIG/Afghanistan) conducted this audit to determine whether the project was meeting its goal. Although the project was having measurable success in some areas, it was not meeting all its objectives, as discussed below.

Enhancing the Outreach of Financial Institutions: Facilitating Job-Creating Loans to Enterprises and Working With Agribusinesses. The project reported creating more than 20 new financial products at various financial institutions. This included Islamic banking products demanded by Muslim borrowers.¹ The project also worked with borrowers and lenders to facilitate 2,004 loans totaling $25.8 million. Both borrowers and lenders reported improved business practices after receiving assistance from the project, and are well situated to repeat the steps necessary for requesting and granting loans on their own in the future.

While these achievements are significant given the challenging operating environment, they have not necessarily resulted in a more sustainable, diverse, and inclusive financial sector, as they were designed to do. Examples of unmet expectations follow:

- The project reported that, as of September 30, 2013, its activities had helped create 2,458 full-time equivalent jobs.² When USAID approved the project in 2009, officials envisioned that it would result in 300,000 sustainable jobs. Mission officials now acknowledge that this target was set without a complete understanding of Afghanistan’s financial sector, including difficult loan collateral requirements.

- Only 4 percent of the loans by volume (i.e., number) were made by banks belonging to the Afghanistan Banks Association. With elections approaching in 2014 and an unclear security situation due to the scheduled drawdown of international forces, Afghans are reluctant to invest. The remaining loans were from donor-funded financial institutions and organizations—not sustainable funding sources. In fact, of the 2,004 loans that the project takes credit for, 1,851 (92 percent) were made by a microfinance institution that made loans using the project’s own grant money.

- While roughly 30 percent of the loans by volume went to female-owned businesses, they received only 7.2 percent of the loans by amount. This share is not significantly higher than the 3 percent that USAID noted for the entire sector during its approval of the activity in 2009, despite the plan to increase lending to women.

- Of the 2,004 loans, only 3 (totaling $301,600) went to businesses in southern Afghanistan, indicating that the financial sector there is still struggling. Of the full-time equivalent jobs created, only five were in the south. When it designed the project, USAID thought the contractor would be able to encourage institutions to enter this underserved market, but security concerns continue to deter serving it.

Building Capacity in Financial Institutions. Activities under this objective were generally advancing the overarching project goal. The project reported enhancing the capacity of financial institutions by training 2,101 financial sector employees and providing technical assistance to

¹ Islamic banking, or Sharia-compliant finance, prohibits the payment or acceptance of specific interest or fees.
² A full-time equivalent job is 260 working days in a year. To calculate full-time equivalent jobs, the project totals the 8-hour days worked by permanent, part-time, and seasonal employees and divides by 260.
31 entities working in the financial sector. One of these, the Afghanistan Institute of Banking and Finance, received assistance in raising and accounting for its own revenues—an example of the project’s efforts to enhance the sustainability of the financial sector. Roughly 23 percent of project trainees were women, a notable achievement since women make up a considerably smaller percentage of workers in the financial industry. Beneficiaries of training in Mazar-i-Sharif gave positive reviews and said they would welcome more training.

**Improving the Enabling Environment.** By their nature, activities under this objective should help to develop a more sustainable financial sector. To improve the enabling environment, the contract said that the project planned to build the capacity of various entities to support an enabling environment for policy, legal, and regulatory matters, which in turn enhances transparency, promotes expansion, and establishes the “rules of engagement” for financial institutions. As part of these activities, the project intended to provide direct assistance to strengthen the legal framework and supervisory capacity of Da Afghanistan Bank (DAB), Afghanistan’s central bank. However, the project no longer provides direct assistance to DAB, except with mobile money. The project is instead working with secondary entities to try to achieve the same objectives.

**Expanding Mobile Money and Branchless Banking.** To expand access to credit throughout Afghanistan, USAID and Chemonics agreed that the project would increase the number of mobile money agents, institutions using mobile money applications, participating merchants, and government employees who receive their salaries through mobile money.

With project help, DAB revised regulation related to mobile money; two of four mobile network providers in the country received their licenses to offer electronic money; and an industry association was established. The project also gave grants to mobile network providers from a $5 million innovation fund to expand their services. An official from one mobile network provider that received a grant told auditors that because the company had complemented the grant with its own significant investment, its mobile money program was likely to continue for the foreseeable future. However, because mobile money activities have not caught on in Afghanistan, activities under this objective have not furthered the goal of building a sustainable, diverse, and inclusive financial sector.

Across all objectives, the audit disclosed the following weaknesses:

- **Agribusiness activities did not meet their objectives** (page 5). Agribusiness assistance was added nearly 2 years after the project began. It was ineffective because of a difficult lending environment in southern Afghanistan and a short implementation period, factors that officials from USAID and Chemonics failed to address adequately during planning.

- **Activities have not strengthened the capacity of the central bank** (page 7). The project was reduced to working with various associations and institutions to improve the enabling environment, rather than working directly with DAB—the body responsible for regulating the country’s banking sector.

- **Mobile money has not caught on** (page 8). Problems confounded the expansion of mobile money, suggesting that funds might have been put to better use.

- **The mission had not awarded a contract for a financial audit of the project** (page 10). Officials were not confident that project funds were properly accounted for and spent in
accordance with applicable laws, regulations, and policies, but resource constraints stopped USAID from awarding a contract for a financial audit in fiscal year 2013.

To overcome these weaknesses, we recommend that USAID/Afghanistan:

1. Deobligate the remaining agricultural funds from the project (page 7).

2. Modify the expected results detailed in the contract that it expects Chemonics to achieve under the project, in light of the relationship with the central bank (page 7).

3. Determine whether mobile solutions are appropriate in Afghanistan, and modify the project’s expected results accordingly (page 10).


Detailed findings appear in the following section. Appendix I contains information on the scope and methodology. Management comments are included in their entirety in Appendix II, and our evaluation of them is included on page 12.
AUDIT FINDINGS

Agribusiness Activities Did Not Meet Objectives

In December 2012, 22 months into implementation, USAID/Afghanistan allocated $13.3 million to the project for agricultural activities in southern Afghanistan. The contractor was to develop the input distribution system, support produce-packing facilities and help develop markets, train producers in postharvest handling, and conduct crosscutting activities such as training women on small-scale activities that could be done from home. According to the contract, these activities would result in increased lending to underserved micro-, small, and medium-size enterprises, thereby enhancing the outreach of retail financial institutions.

Even though participants said they were impressed with the quality of the agribusiness training and that their business practices had improved as a result, as of September 2013, the outcome in terms of increased lending was disappointing. The project had facilitated only $301,600 in loans to just three agribusinesses in the south—a $1,600 loan to buy chickens and feed, a $100,000 loan to buy equipment for cotton production, and a $200,000 loan to purchase an oil refinery and a packing machine.

Output-based measurements of the component’s success also fell short. While Chemonics reported conducting 94 training courses and hosting 4 conferences, only 637 individuals received training, and only 373 attended conferences. Further, many of the conference attendees (11.5 percent) were government or donor representatives, not producers, traders, or suppliers. Although Chemonics and USAID never agreed on how many individuals should have benefitted from the $13.3 million agribusiness component—a problem in itself—a mission official told auditors that he expected 3,000 to 4,000 beneficiaries.

Agribusiness activities did not meet the intended objectives because officials from USAID and Chemonics were focused on future agricultural projects, meaning that they did not ensure activities were planned and implemented to compensate for a difficult lending environment in southern Afghanistan and a short implementation period.

- **Difficult lending environment in southern Afghanistan.** Even though USAID endorsed Chemonics’ technical approach to achieving the objective, no matter how successful the project was in boosting agribusinesses’ creditworthiness, the following factors limited opportunities for those businesses to obtain loans:
  
  - Access to finance remains an acute constraint to private sector development. Few private banks have branches in southern Afghanistan, and there is very little microfinance coverage in the area. Beneficiaries also mentioned that, of the lending institutions available, few offered Islamic financing products—essential for some borrowers.
  
  - To secure a loan in Afghanistan, lending institutions generally require a land deed. Male beneficiaries interviewed in Kandahar estimated that only 20 percent of business owners in the region possess this documentation, and the female beneficiaries noted women rarely hold deeds.
Many of the beneficiaries interviewed said they would use a loan to purchase machinery. However, the existing environment—with circumstances such as ongoing electricity challenges and few qualified in machine maintenance—make machinery a risky investment for both borrowers and lenders.

- **Short implementation period.** To have a measurable impact, agricultural programs should correspond to the growing cycle. They should also extend beyond one growing season to give beneficiaries the time needed to implement new techniques. The agribusiness component of this project did not correspond to the growing cycle or give beneficiaries time to apply techniques. The component was added to the contract in December 2012, and activities concluded in October 2013.

Start-up activities also consumed a disproportionate share of the 10-month implementation period. For example, Chemonics had to bring in short-term technical assistance to write training materials before courses could be offered, and it was not until the last 3 months of the component that Chemonics was able to bring in a subcontractor to assist with monitoring. Because the new activities were to be implemented in southern Afghanistan—a very insecure region of the country—the start-up activities also included significant, and difficult, logistics planning. For example, Chemonics initially decided, for security reasons, to purchase fuel from the one vendor at the Kandahar International Airport, a decision that rendered its entire fleet of vehicles inoperable when the fuel was contaminated with water and debris.

Officially, the idea behind the expanded agricultural activities was to establish “quick response points of access to credit while building a foundation for a sustainable and inclusive financial system that will expand access to enterprises across the region.” However, an official from the mission’s Office of Agriculture said that the purpose of the activities was really to serve as a bridge between USAID’s stabilization programs in the area and the regional agricultural development program approved in June 2012. The idea that these activities would make agribusinesses more creditworthy, he said, was a “stretch.”

Meanwhile, some USAID officials thought that project officials’ on-the-ground experience and the project’s existing structure would help the component meet its intended objectives. However, once implementation started USAID officials began to feel that the project was not doing a good job of integrating the agribusiness component with the rest of the project. USAID officials called for increased collaboration between the leaders of the agribusiness activities and the rest of the project. When the project made only minimal adjustments, USAID officials wanted to terminate the agribusiness activities. But faced with pressure from external parties, including officials from the U.S. military, they did not.

While the U.S. Government may have benefitted from having a continuous agricultural presence in the region, and beneficiaries spoke highly of the trainings, the agribusiness activities did not achieve the objectives in the contract. As of September 2013, Chemonics had billed the U.S. Government for more than $9.6 million—including almost $2.5 million in salaries, fringe benefits, and allowances and almost $2.2 million in overhead, general and administrative costs, and fees.

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3 USAID advertised its planned regional agricultural development program to contractors in January 2013. Chemonics was one of three contractors to submit a proposal. Following competitive bidding, Chemonics received the award for the $125 million Regional Agricultural Development Program-South in October 2013.
While these figures will rise with the component’s final invoice, the agribusiness activities have concluded, and the total budget will be well below the $13.3 million allocated. The agricultural activities were not successful, and Chemonics cannot use the remaining funds for purposes other than agricultural activities unless the mission reprograms them. Accordingly, we make the following recommendation.

**Recommendation 1.** We recommend that USAID/Afghanistan deobligate the remaining agricultural funds from the Financial Access for Investing in the Development of Afghanistan Project.

**Activities Have Not Strengthened the Capacity of the Central Bank**

In addition to activities such as those focused on increasing lending to small enterprises and strengthening the capacity of industry associations, the project also has an objective to improve the enabling environment for private sector-led financial sector development. To do this, the contract said that the project should provide direct assistance to strengthen the legal framework and supervisory capacity of DAB, Afghanistan’s central bank.

However, the project was not providing direct assistance to DAB, except with mobile money. Instead, the project was working with secondary entities to improve the enabling environment. For example, the project was providing support to the Afghanistan Banks Association, which is trying to “create an environment in which its members can work in coordination with other key players for promoting the financial services to the wider public and advocating transparency and professionalism,” and may act as an intermediary between banks and DAB. While this approach may lead to some improvements in the enabling environment, it cannot achieve the same results that working directly with DAB could, since DAB is the body responsible for regulating the country’s banking sector.

The project was not providing direct technical assistance to DAB, except in the area of mobile money, because USAID instructed project officials not to in early 2012. USAID acted based on the U.S. Government’s political concerns stemming from the Kabul Bank crisis.4 USAID’s position remained the same in early 2014, given the limited potential for effectiveness in the current environment.5

Because USAID does not yet have assurances that additional technical assistance to DAB would be effective, we make the following recommendation.

**Recommendation 2.** We recommend that USAID/Afghanistan modify the results that it expects Chemonics to achieve under the Financial Access for Investing in the Development of Afghanistan Project, in light of the relationship with the central bank.

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Mobile Money Has Not Caught On

According to the contract, the project would enhance the capacity and reach of mobile money and branchless banking. USAID and Chemonics agreed to focus on mobile money by increasing the number of mobile money agents, institutions using mobile money applications, participating merchants, and government employees who receive their salaries through mobile money.

With project help, DAB revised its Money Service Providers Regulation to include mobile money considerations; two of four mobile network providers in the country received their licenses to offer electronic money (licenses for the others were in process); and an industry association, the Association of Mobile Money Operators of Afghanistan, was established. The project had also given grants to mobile network providers from a $5 million innovation fund to develop their services further. An official from the Afghan Wireless Communication Company (AWCC), a mobile network provider that received a grant, told auditors that because the company had complemented the grant with its own significant investment, its mobile money program was likely to continue for the foreseeable future.

Yet improvements in the project’s agreed-upon metrics (the indicators in the table below) were slow, and figures do not support that the project has significantly enhanced the capacity and reach of mobile money. As of September 2012—19 months into the project—the project was still reporting zero improvement. A year later, the metrics had improved only slightly.

<table>
<thead>
<tr>
<th>Measure</th>
<th>Result</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mobile money agents</td>
<td>310</td>
</tr>
<tr>
<td>Institutions using mobile money applications</td>
<td>13</td>
</tr>
<tr>
<td>Participating merchants*</td>
<td>270</td>
</tr>
<tr>
<td>Government employees receiving their salaries through mobile money</td>
<td>1,067</td>
</tr>
</tbody>
</table>

* Audited.

So little information exists on mobile money in Afghanistan that it is difficult to gauge what the project’s results should have been. In fact, when the project started, neither USAID nor Chemonics knew enough about the environment to set meaningful targets. However, USAID has stated that the “tipping point for commercial viability” of mobile money in Haiti, Afghanistan, Indonesia, Philippines, Malawi, and Mozambique is to have at least 20 percent of mobile phone users using mobile money within 4 years. Yet DAB reported that as of October 2013, only 10,642 (less than 1 percent) of Afghanistan’s almost 21 million mobile phone users were “active mobile money users,” meaning that they conduct at least 12 mobile money transactions per year.

Many factors account for the limited progress:

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USAID did not do enough research on the suitability of mobile money in Afghanistan. USAID’s policy requires activities to be supported by a development hypothesis, which describes how the Agency will achieve its long-term goals. The hypothesis should be country-specific, and based on proven development concepts and experiences. However, USAID/Afghanistan invested in mobile money activities without including them in its framework.7

USAID/Afghanistan officials could provide only one study—of limited scope and methodology, and not completed until 2013—confirming a “slight preference” among teachers in Afghanistan for receiving salaries via mobile money instead of by other methods. On the other hand, mobile money was not defined as a priority in the Afghanistan National Development Strategy, and business owners in Kandahar, many of whom had never heard of mobile money, did not anticipate ever adopting the technology. Instead, they wanted financial institutions to increase access to finance through other means, such as automatic teller machines.

Ostensibly, mobile money activities in Afghanistan were driven by USAID’s recent emphasis on innovation and successes in countries like Kenya, where 70 percent of adults use mobile money. However, these countries have very different business environments. For example, USAID/Afghanistan officials listed challenges inhibiting the adoption of mobile money in the country including high fees; limited interoperability among banks, mobile operators, and merchants; banking laws that do not consider modern technologies; customer preferences; agents’ without enough cash on hand for transactions; uncertain business sustainability; and low transaction limits.

Recipients had trouble implementing their grants. By March 2012, Chemonics was already reporting that three of the mobile network operators were having trouble implementing their grants, especially in procuring goods and services, because they lacked experience implementing USAID-funded projects. Ultimately, the project revoked a grant to one mobile network operator who could not deliver as planned. These difficulties delayed implementation.

Grant-funded pilot programs were unsuccessful. Mobile network operators launched pilot programs for their mobile money offerings, which failed for different reasons. For example, Etisalat launched a program in July 2012 that allowed customers to pay their utility bills using mobile money. By December 2012, the company reported registering 87,815 new subscribers for the service; however, only 15 of them—all USAID employees—used the service to pay their bills that month. Still, in early 2014, while subscribers numbered close to 100,000, only a few hundred were active users. In early 2013, AWCC ran a pilot program for electronic payment of teacher salaries at two schools. Although 400 teachers registered for it, none of them were using the service at the time of the audit because of fees associated with transferring money between their existing bank accounts and the bank integrated with AWCC’s service.

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7 The U.S. Foreign Assistance for Afghanistan Post Performance Management Plan-2011-2015 described four ways to develop the country’s business climate: implementing effective fiscal and monetary policy; strengthening policy, legal, and regulatory frameworks for key economic sectors; enhancing private sector competitiveness; and enhancing the workforce so that it meets private and public sector demands.
USAID continues to push for mobile solutions in development, but the results described above suggest the Agency’s significant investments in mobile money in Afghanistan might have been put to better use. According to mission officials, other mobile solutions, such as branchless banking, might be more successful. Before additional taxpayer funds are spent on this initiative in Afghanistan, we recommend the mission take the following action.

**Recommendation 3.** We recommend that USAID/Afghanistan conduct an analysis to determine whether mobile solutions are appropriate in Afghanistan and modify accordingly the expected results for the Financial Access for Investing in the Development of Afghanistan Project.

Mission Had Not Awarded a Contract for a Financial Audit of the Project

According to USAID guidance (Automated Directives System 591.3.1.2), auditors “must examine the direct and indirect costs incurred under the awards to determine the allowable direct costs and recommend the indirect cost rates.” Normally, according to Federal Acquisition Regulation 42.101, the Defense Contract Audit Agency (DCAA) is the government audit agency for projects implemented by for-profit contractors like Chemonics. USAID/Afghanistan, to “improve the Mission’s ability to ensure that USG [U.S. Government] funds are properly accounted for and spent in accordance with applicable laws, regulations and policies,” has imposed an additional requirement that 100 percent of costs incurred in Afghanistan undergo a financial audit.

However, as of October 2013, DCAA was still auditing Chemonics’ fiscal year 2004 costs. USAID/Afghanistan had not yet contracted with a firm to conduct an audit of the costs incurred in Afghanistan, though the project was awarded in February 2011.

As discussed in a 2012 report issued by the Special Inspector General for Afghanistan Reconstruction, understaffing at DCAA has led to a backlog of audits, and USAID lacks funding to contract audits of all awards in Afghanistan. USAID/Afghanistan had included the project on its list of audits to be completed in fiscal year 2013; however, it was not listed as the highest priority, and the mission did not get to it, citing a lack of resources.

Although the contracting officer’s representative for the project reviews invoiced charges and denies those he finds inappropriate, he does not know whether Chemonics spends and accounts for U.S. Government funds in accordance with applicable laws, regulations, and policies. In fact, this has been a source of concern to him. For example, he saw costs once split between this project and other Chemonics projects rise when those projects ended.

An audit of the costs incurred in-country would give USAID assurances about Chemonics’ practices and might identify ineligible or unsupported costs that the mission could recover. For example, as the result of a recent audit of Chemonics’ Trade Accession and Facilitation for

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Afghanistan Project, USAID planned to issue a bill of collection for almost $3.7 million in costs unsupported by a subcontractor’s timekeeping records. That same subcontractor did work under the Financial Access for Investing in the Development of Afghanistan Project.

To ensure that U.S. Government funds were properly accounted for and spent in accordance with applicable laws, regulations, and policies, we make the following recommendation.

**Recommendation 4.** We recommend that USAID/Afghanistan award a contract for an audit of costs incurred in Afghanistan by Chemonics under the Financial Access for Investing in the Development of Afghanistan Project.

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EVALUATION OF MANAGEMENT COMMENTS

In its comments on the draft report, USAID/Afghanistan agreed with and made management decisions on all four recommendations. In addition, the mission provided technical comments on the draft that we incorporated in this report. Our detailed evaluation of management comments follows.

Recommendation 1. USAID/Afghanistan agreed to deobligate the remaining agricultural funds from the project. The mission expected to complete action by March 31, 2014. We acknowledge management’s decision.

Recommendation 2. USAID/Afghanistan agreed to modify the results that it expects Chemonics to achieve under the project. The mission’s Office of Economic Growth and Infrastructure will work with the contracting officer as necessary to modify the project’s targets. The new targets will be presented to the Office of Acquisition and Assistance with a contract modification expected by April 30, 2014. We acknowledge management’s decision.

Recommendation 3. USAID/Afghanistan agreed with the recommendation. The contractor has already completed an assessment of the use and perceptions of financial services, especially mobile money, and the mission reported performing a similar analysis. With the results, the mission expected to amend the project’s scope by April 30, 2014. We acknowledge management’s decision.

Recommendation 4. USAID/Afghanistan agreed with the recommendation. The mission included the project in its fiscal year 2014 audit plan and expected to achieve final action by August 2014. We acknowledge management’s decision.
SCOPE AND METHODOLOGY

Scope

The OIG/Afghanistan Country Office conducted this performance 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 in accordance with our audit objective. We believe the evidence obtained provides that reasonable basis.

The audit objective was to determine whether the project was building a sustainable, diverse, and inclusive financial sector that could generate and sustain quality employment by meeting the needs of micro-, small, and medium-size enterprises throughout the country.

In planning and performing the audit, we assessed USAID/Afghanistan’s internal controls. We reviewed and inquired about the mission’s reporting for the Federal Managers’ Financial Integrity Act of 1982, which provided detail on the mission’s significant internal control deficiencies. We also obtained an understanding of and evaluated the mission’s organizational structure and its contracting, monitoring and evaluating, and reporting processes. This included obtaining and reviewing documentation to support the designation of the contracting officer’s representatives, the completion of data quality assessments, the performance of site visits, meetings held with implementing partners, the submission of periodic performance reports, and the scheduling of program evaluations.

As of December 2013, USAID/Afghanistan had disbursed $69.5 million of the $79.3 million obligated to the project. We chose to focus our audit procedures on activities implemented directly by the contractor, limiting our procedures for grants ($5 million) and subcontracts ($11.8 million).

Audit fieldwork was conducted from October 21, 2013, to January 9, 2014. We conducted fieldwork in Kabul, where we interviewed key personnel at USAID/Afghanistan, Chemonics, DAB, AWCC, and the Ministry of Finance. In Kandahar Province, we met with the provincial and regional representatives from Chemonics, two of the three business owners in the region who had been approved for the project-facilitated loans, and five women and eight men of the 637 people who had attended the project’s agribusiness trainings in southern Afghanistan. In Balkh Province, we visited Mazar-i-Sharif to meet with officials from the project’s regional office, the Afghan Rural Finance Corporation, Azizi Bank, and two loan beneficiaries.

Methodology

To answer the audit objective, we first reviewed applicable laws, best practices, and guidelines, including the contract and its modifications. We then sought to understand the economic environment in Afghanistan, including the strategies of the Afghan and U.S. Governments to improve it, by obtaining and reviewing relevant studies and documents such as the Afghanistan National Development Strategy and the U.S. Civil-Military Strategic Framework for Afghanistan.

At USAID/Afghanistan, we met with officials responsible for oversight of the project. We interviewed the deputy team leader for economic growth; contracting officers; the contracting officer's representative; the gender adviser for economic growth; a representative from the agriculture office; and officials from the program, controller, and outreach communication offices. We conducted these meetings to assess mission personnel's knowledge and implementation of USAID guidance and requirements, and their general familiarity with the project activities. We reviewed documentation provided by USAID/Afghanistan, such as contract documents, work plans, and performance reports, to determine the extent to which planned results were being achieved. Testimonial evidence was evaluated in conjunction with other interviews, available documentation, and site visits.

We conducted additional interviews with officials from Chemonics in Afghanistan. This included the chief of party, his deputies, the managers of each of the project's components, a representative from Chemonics' headquarters, and monitoring and evaluation staff. Through these interviews, we assessed the implementing partner's knowledge and compliance with USAID guidance and requirements. In conjunction with the interviews, we reviewed documentation provided by Chemonics and USAID/Afghanistan, in part to validate results on the following performance indicators:

- Number of full-time equivalent jobs created.
- Amount of private financing mobilized.
- Number of participating (mobile money) merchants.

For the first two indicators, we reviewed the detailed support for 18 randomly selected businesses supported by the project and approved for loans—5 each from the north, east, and west, and all 3 loans from the south. We did not use a statistical sample as it would have required a sample size of 50 to reach a 90 percent confidence level, and we did not expect that this testing would lead to a different answer to our audit objective. For the third indicator, because the project does not produce the supporting documentation, we simply compared the results reported by the project with the data provided by the mobile network operators. We then met with AWCC, one of the operators, in part to understand how data were collected. We also used the opportunity to obtain officials' feedback on the project.

Additional interviews were conducted with officials at DAB and the Ministry of Finance. These interviews were used to learn more about the private sector in Afghanistan and obtain officials' perspective on the project's activities.

We selected site visit locations judgmentally, based on our ability to travel to field locations and to meet with individuals that could give us qualitative feedback on the project's activities. We visited Kandahar Province to understand the challenges of working in southern Afghanistan—and how the project addressed those challenges—by meeting with the provincial and regional representatives from Chemonics and two of the three business owners in the region who had been approved for the project-facilitated loans. We also met with five women and eight men (of the 637 people who had attended the project's agribusiness trainings in southern Afghanistan) to assess the quality and impact of the trainings, as well as to gauge the project's compliance with rules and regulations. We visited Balkh Province to meet with owners of businesses whose loans were facilitated by the project to (1) confirm loan amounts, (2) confirm the number of jobs created, (3) assess public awareness of U.S. Government involvement, and (4) assess the quality of the project's assistance to the loan beneficiaries.
Given the nature of the audit objective, we established no materiality thresholds. Rather, auditors did a qualitative analysis to determine whether the desired results had been achieved and whether Chemonics followed applicable laws, regulations, and requirements. Our conclusions are based on stakeholders' testimonial evidence; a comparison of the project's performance against established targets; and compliance with award terms, Office of Management and Budget circulars, and the Automated Directives System.
MEMORANDUM

DATE: March 15, 2014

TO: James Charlifue, OIG/Afghanistan Director

FROM: Carolyn Bryan, Acting Mission Director /s/


REFERENCE: SHaqshenas/JHope memo dated February 13, 2014

Thank you for providing USAID/Afghanistan with the opportunity to review the subject draft audit report. We commend the OIG audit team on the thorough review of the Financial Access for Investing in the Development of Afghanistan (FAIDA) project. The Mission takes note of the efforts made by the team to see a broad spectrum of the activities of the project, the extensive time spent interviewing beneficiaries, host-nation officials and other international partners, and the willingness of OIG team members to travel outside Kabul to see the ongoing national project. These efforts made the recommendations all the more significant to the Mission.

We also appreciate OIG’s recognition of the measurable success of FAIDA in enhancing the outreach of financial institutions in Afghanistan. The project has facilitated the creation of more than 20 new financial products at various financial institutions and helped provide approximately 2,004 job-creating loans to business enterprises. Despite operating in such a challenging environment, FAIDA is contributing to the development of an inclusive financial sector that is generating quality employment and meeting the needs of small to medium enterprises.

Please find below the Mission comments on the report audit recommendations.
**Recommendation 1:** We recommend that USAID/Afghanistan de-obligate the remaining agricultural funds from the Financial Access for Investing in the Development of Afghanistan Project.

**USAID Comments:** The Mission concurs with Recommendation 1.

**Actions Taken/Planned:** The Contracting Officer Representative of FAIDA has had discussions with the Office of Financial Management (OFM) to de-obligate these funds. The COR will initiate action to review and de-obligate any remaining funds.

**Target Closure Date: March 31, 2014**

**Recommendation 2:** We recommend that USAID/Afghanistan modify the results that it expects Chemonics to achieve under the Financial Access for Investing in the Development of Afghanistan Project, in light of the relationship with the Central Bank.

**USAID Comments:** The Mission concurs with Recommendation 2.

**Actions Taken/Planned:** A strong central bank is a key pillar of economic stability. Shortly after FAIDA started work, because of external factors, the U.S. Government (USG) complied with President Karzai’s directive to cease working with the Da Afghanistan Bank (DAB). Nevertheless, the Mission, recognizing the need for central-bank reform, is reluctant to de-scope all DAB support. The vulnerability of Afghanistan’s financial sector and the weaknesses of DAB were recently highlighted by a Special Inspector General for Afghanistan Reconstruction audit of USG support to DAB. FAIDA has endeavored to find ways to influence DAB, while not directly working with it. An example and a key proponent has been work with the Afghanistan Banks Association.

With the elections pending, a new regime will likely create the opportunity to support DAB. The Office of Economic Growth and Infrastructure (OEGI) will work with the Contracting Officer as necessary to modify Chemonics FAIDA targets to reflect the current situation.

**Target Closure Date:** New targets will be presented to OAA with an expected contract modification by April 30, 2014.
**Recommendation 3:** We recommend that USAID/Afghanistan conduct an analysis to determine whether mobile solutions are appropriate in Afghanistan and modify accordingly the expected results for the Financial Access for Investing in the Development of Afghanistan Project.

**USAID Comments:** The Mission concurs with Recommendation 3.

**Actions Taken/Planned:** FAIDA commissioned Altai Consulting to assess the penetration, usage and perceptions of financial services across Afghanistan, with a focus on mobile money. The aim of the study was to support FAIDA, the Mission, and, ultimately, mobile network operators (MNOs) in designing the right strategies to boost mobile-money penetration and usage in Afghanistan. The study was recently completed and is being used to shape the future design of FAIDA electronic payment/mobile money efforts. Further, OEGI undertook a desk review to guide future activities in the mobile money sector. A thorough analysis was conducted of mobile money case studies, reports, assessments, and best practices developed by international scholars and industry leaders. The review suggested the Mission should focus on electronic payments, to include mobile money, rather than focus solely on mobile money. The FAIDA project scope of work is being amended to reflect the combined analysis’ suggested changes.

**Target Closure Date: April 30, 2014**

**Recommendation 4:** We recommend that USAID/Afghanistan award a contract for an audit of costs incurred in Afghanistan by Chemonics under the Financial Access for Investing in the Development of Afghanistan Project.

**USAID Comments:** The Mission concurs with Recommendation 4.

**Actions Taken/Planned:** FAIDA is included in the FY 2014 Audit Plan and the audit is expected to start on or around May 2014. It is a priority audit because of the recent performance audit. Additionally, FAIDA was not audited last year, as planned. USAID is required to audit all program costs in Afghanistan.

**Target Closure Date: August 2014**

Tab 1: Technical comments
cc: OAPA Afghanistan Audit
Attachments:

Tab 1: Technical Comments

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“However, USAID has published that in the context of its mobile money programs in Haiti, Afghanistan, Indonesia, Philippines, Malawi, and Mozambique, the “tipping point for commercial viability” of mobile money is to have at least 20 percent of mobile phone users using mobile money within 4 years.”

Proposed revision to the report:


Page 9

“USAID continues to push for mobile solutions in development but the results described above suggest the Agency’s significant investments in mobile money in Afghanistan might have been put to better use.”

Proposed revision to the report:

Cite document source in parentheses or footnote: http://www.usaid.gov/mobile-solutions, as follows:

“USAID continues to push for mobile solutions in development (http://www.usaid.gov/mobile-solutions), but the results described above suggest the Agency’s significant investments in mobile money in Afghanistan might have been put to better use.”