



**OFFICE OF INSPECTOR GENERAL**  
U.S. Agency for International Development

# USAID Had Challenges Verifying Achievements Under Afghanistan's New Development Partnership

**AUDIT REPORT 8-306-19-001-P**  
**July 24, 2019**

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## MEMORANDUM

DATE: July 24, 2019

TO: USAID/Afghanistan, Mission Director, Peter Natiello

FROM: USAID OIG Middle East and Eastern Europe Regional Office, David Thomanek, Director /s/

SUBJECT: USAID Had Challenges Verifying Achievements Under Afghanistan's New Development Partnership (8-306-19-001-P)

This memorandum transmits the final report on our audit of the New Development Partnership. Our audit objectives were to (1) determine if USAID/Afghanistan adopted internal policies and procedures to adequately verify indicator achievements and (2) determine if USAID/Afghanistan adequately verified reported achievements for paid-out indicators. In finalizing the report, we considered your comments on the draft and included them in their entirety, excluding attachments, in appendix C.

The report contains our audit findings and no recommendations.

We appreciate the assistance you and your staff extended to us during this audit.

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## INTRODUCTION

A December 2014 conference in London focused international attention on Afghanistan's future.<sup>1</sup> At the conference, President Ashraf Ghani outlined steps taken to reform Afghanistan and to deliver economic security. The Afghan Government believed that the reforms presented at the conference would enable the country to overcome its fiscal crisis and move toward self-reliance.

To help achieve these reforms, according to a U.S. Department of State official, President Obama committed \$800 million to fund the New Development Partnership (NDP) between the United States and Afghan Governments at Camp David in March 2015. To solidify the commitment, a memorandum of understanding (MoU) was signed in Kabul, Afghanistan, in August 2015. The NDP was conceived as a set of 40 results and associated indicators spread across three objectives defined in the MoU: fiscal sustainability, better governance, and reducing poverty. Funding would be provided at a fixed \$20 million for each result measured by one or two associated indicators, once the USAID mission in Afghanistan verified the results reported by the Afghan Government.

Our audit objectives were to (1) determine if USAID/Afghanistan adopted internal policies and procedures to adequately verify indicator achievements and (2) determine if USAID/Afghanistan adequately verified reported achievements for paid-out indicators. After completion of audit work, the mission decided to cancel the NDP MoU in July 2018 and transfer the remaining funds to the Afghanistan Reconstruction Trust Fund's incentive program, which is administered by the World Bank.

To answer our objectives, we reviewed documents the mission relied on to assess the results reported by the Afghan Government between August 2015 and July 2016. We also interviewed Agency officials from the mission and the Office of Afghanistan and Pakistan Affairs and officials from the U.S. Department of State, U.S. Department of Treasury, World Bank, and Afghan Government. Appendix A provides details of our scope and methodology.

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## SUMMARY

When entering into the NDP MoU between the Afghan and United States Governments, USAID did not apply a key aspect of Agency guidance on monitoring, evaluating, and learning from its activities. Specifically, USAID did not use performance indicator reference sheets to clearly define the terms associated with each performance indicator to promote consistent interpretation and reliable measurements of achievement. One reason for not using performance indicator reference sheets may have been due to political sensitivity. According to a former senior mission official,

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<sup>1</sup> On its website, the U.K. Government described the conference as providing "a platform for the Government of Afghanistan to set out its vision for reform and for the international community to demonstrate enduring solidarity and support for Afghanistan."

reforms were supposed to be Afghan led whereby the U.S. Government would not tell the Afghan Government what it had to do to get NDP funds. Another reason may have been the lack of time to properly plan in light of the demands being placed on the United States leading up to the meeting of high-level Afghan and other international officials in early September 2015. Without reference sheets, the indicators we reviewed were not clearly defined and had no specific sources of data to support the reported achievements. For example, one indicator result required the Afghanistan customs department to pilot an e-payment system at a border crossing. Mission officials disagreed on what the term “pilot” meant. The mission ultimately paid the \$20 million for this reported result after determining that having a pilot “in place” was sufficient and functionality could be addressed “down the road.”

Indicator reference sheets require the names of the entities providing the data and confirmation of where and how those entities obtained the data. By not using reference sheets for NDP indicators, the mission had difficulty verifying achievements before approving payments, as specified by the NDP MoU. We identified several examples of paid results that lacked adequate verification. For example, one indicator result required implementation of a new tax law. The mission struggled to determine when implementation had occurred. It approved payment after reviewing a series of draft documents, including one that reported on steps taken to implement only 9 of the law’s 65 sections. A mission official from the Office of Financial Management noted that implementation was in the “very early stages” and reported accomplishments were “highly subjective.”

We make no recommendations because the mission terminated the NDP MoU in July 2018.

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## **BACKGROUND**

According to a USAID Office of Afghanistan and Pakistan Affairs official, the \$800 million in NDP funding committed to the Afghan Government in March 2015 was intended to provide a significant financial boost to pay civil service salaries as well as other operations and maintenance costs, while holding the Afghan Government accountable for making fiscal reforms agreed on with other international donors. The Afghanistan Reconstruction Trust Fund, established in 2002, would provide the payment mechanism.<sup>2</sup> This World Bank-administered, multidonor trust fund provides on-budget support (funding disbursed directly to the Afghan Government) for Afghanistan’s reconstruction and development. According to the MoU, the United States would release funds through the ad hoc payment component of the trust fund’s recurrent cost window.

The MoU stipulated that the United States would pay the Afghan Government \$20 million for successfully achieving each reported result. At the start, 31 results with

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<sup>2</sup> OIG reported on it in 2017: “USAID Planning and Monitoring Gaps Weaken Accountability for Results Through the Afghanistan Reconstruction Trust Fund” (8-306-17-004-P), August 16, 2017.

one or two associated indicators were set. Of these results, 27 measured ongoing activities funded or overseen by other international entities. Although the MoU stipulated that payments were to be made after the achievement of each result, the mission paid \$100 million to the Afghan Government for achieving the first five results based on documents that reported the achievements were made prior to signing the MoU in August 2015. A Department of State official explained that the U.S. Government had conceptually agreed to the first five results before signing the MoU because the \$800 million was committed by President Obama to President Ghani as a deliverable.

An excerpt of these indicators (listed in full in appendix B) appears in the following table.

**Table 1. Selected NDP Results and Indicators**

<b>Result</b>	<b>Indicator</b>
1. Fiscal and banking vulnerabilities addressed, revenue mobilization improved, and supervision of and enforcement in the financial sector strengthened.	- Staff Monitored Program (SMP) approved by the International Monetary Fund (IMF).
2. Civil aviation services maintained.	- Civil airspace management contract signed.
3. Revenue mobilization improved through customs reform.	- Customs Department pilots e-payment system at one border crossing.
4. Procurement reform program implemented.	- Establishment of the National Procurement Committee. - Committee meets and reviews procurements regularly.
5. National Action Plan for Women, Peace, and Security implemented.	- Action Plan approved by the President.
6. Key benchmarks under the IMF's SMP met.	- 2015 budget legal amendments completed to increase revenues (mobile phone top-ups and Business Receipt Tax). - Weaknesses in the banking sector addressed by promulgation of a new banking law that is consulted with IMF experts.
7. Civil service reform commenced.	- Government approves the Capacity Building for Results (CBR) scale for all project contract staff. <sup>3</sup>
8. Remaining items on Afghanistan's Financial Action Task Force Action Plan implemented.	- Preventive measure regulation by the Supreme Council of DAB <sup>4</sup> approved. - Customs Department effectively implements a cash courier regulation on airports.
9. Measures to ensure public declaration of assets by all Government officials implemented.	- 80% of senior Government officials declare their assets per Article 154 of the Afghanistan Constitution.
10. The working environment for women improved in the public sector.	- An antiharassment regulation prepared and issued by a Presidential Decree.
11. Multiyear IMF program in place.	- Multiyear program approved by the IMF.

<sup>3</sup> The CBR project established a salary scale for Afghan Government civil servants based on specific criteria.

<sup>4</sup> Da Afghanistan Bank (DAB) is the central bank of Afghanistan.

<b>Result</b>	<b>Indicator</b>
12. Ministry of Finance's Revenue Department compliance and revenue collection improved.	- Department implements a risk-based audit case selection process.
13. Domestic revenue increased.	- Share of nontax revenue in total domestic revenue increased from 16% in 2014 to 20% in 2015.
14. Tax collection methods and rights and obligations of taxpayers codified.	- Tax Administration Law signed by the President and implementation started.
15. Civil service reform extended.	- At least one-third (800) of the 2,400 positions planned for transfer to CBR completed.
16. Accuracy and efficiency of customs process improved.	- ASYCUDA WORLD Valuation Module implemented in 6 major customs locations. <sup>5</sup>
17. Financial authority delegated to provinces.	- Provincial Budgeting Policy approved. - Implementation of new Provincial Budgeting Policy piloted by at least one budgetary entity across all provinces.

Source: USAID/Afghanistan.

After the initial payment of \$100 million, the mission agreed to pay \$80 million in December 2015 for the reported achievement of three results and partial achievement of two other results. Later, the mission paid \$100 million after the Afghan Government reported completing four results and partially completing two other results. The three payments (the focus of this audit) totaled \$280 million.

Prior to the termination of the MoU, the mission made a final payment of \$100 million, bringing total NDP payments to \$380 million.<sup>6</sup>

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## **USAID DID NOT ADOPT EXISTING AGENCY PROCEDURES FOR GAUGING ACHIEVEMENT UNDER NDP, LEADING TO AMBIGUOUS MEASURES AND OUTCOMES**

For decades USAID has relied on some form of guidance to monitor, evaluate, and learn from its activities.<sup>7</sup> Yet it did not apply a key aspect of that guidance when entering into the NDP MoU between the Afghan and United States Governments that included USAID/Afghanistan. Specifically, the mission did not use performance indicator reference sheets, which were not required in the MoU and could have been used to help ensure agreement on expected outcomes. Reference sheets, which are included in USAID's

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<sup>5</sup> The ASYCUDA customs valuation module is a World Bank-funded project designed to automatically consolidate customs declarations to produce timely and accurate statistics.

<sup>6</sup> The focus of our audit was \$280 million paid to the Afghan Government for the reported results submitted between September 2015 and September 2016. The \$280 million was paid for 13 indicators at \$20 million each and parts of 2 indicators at \$10 million each. Some indicators were split into two parts—e.g., 8(a) and 8(b) and 17(a) and 17(b).

<sup>7</sup> The latest version, Automated Directives System (ADS) 201, spans the USAID program cycle.



internal policy applying to activities,<sup>8</sup> include definitions of the terms associated with each indicator to promote consistent interpretation and reliable measurements of achievement. One reason for not using performance indicator reference sheets may have been due to political sensitivity: According to a former senior mission official, reforms were supposed to be Afghan led whereby the U.S. Government would not tell the Afghan Government what it had to do to get NDP funds. Another reason may have been the lack of time to properly plan in light of the demands being placed on the United States leading up to the meeting of high-level Afghan and other international officials in early September 2015. As a result of not using reference sheets, the results reported between August 2015 and July 2016 were based on indicator results that were not clearly defined, leading to ambiguous measures and outcomes.

For example, one indicator result required the Afghanistan customs department to pilot an e-payment system at a border crossing.<sup>9</sup> A mission official wrote that piloting an e-payment system meant the system had to be “in place/functional/working,” which he explained as “a pilot that is working” and whose “kinks were being worked out.” A senior mission official disagreed, suggesting that merely putting the pilot “in place” would be sufficient for approving payment, while functionality could be addressed “down the road.”

Similarly, an indicator result to measure compliance by senior Afghan Government officials with financial disclosure requirements did not make clear the meaning of a key term.<sup>10</sup> Rather than laying out precise requirements and defining terms, the indicator referred to the requirement in Article 154 of the Afghan Constitution that Afghan Government officials “declare their assets.” One mission official noted that Article 154 calls for the disclosures to be published; another mission official wrote that since the wording was “declare” and not “publicly declare,” officials who simply declared their assets to the High Office on Oversight should be considered compliant.<sup>11</sup>

A third indicator result that measured a percentage did not have a precisely defined numerator and denominator. It involved increasing the Afghan Government’s revenue from nontax sources from 16 percent in 2014 to 20 percent in 2015,<sup>12</sup> but did not tell which sources of revenue made up total domestic revenue (the denominator) and the sources of nontax revenue that made up the numerator.

A fourth indicator result reported as having been achieved was the signing of a civil airspace management contract between the Afghan Government and a U.S. contractor.<sup>13</sup> Mission officials said that the inclusion of this indicator result was done at the request of the U.S. Embassy in Kabul.

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<sup>8</sup> Performance Indicator Reference Sheets (PIRS) Guidance & Template, mandatory reference 201ADS chapter 201. While performance indicator reference sheets are mandatory under USAID’s internal policy for activities, the NDP MoU arrangement gave USAID flexibility in determining whether to adhere to this requirement.

<sup>9</sup> Table 1, item 3.

<sup>10</sup> Table 1, item 9.

<sup>11</sup> The High Office on Oversight was established by the Afghan Government to enforce Article 154.

<sup>12</sup> Table 1, item 13.

<sup>13</sup> Table 1, item 2.

A fifth indicator result reported as having been achieved was the approval of a plan by the President of Afghanistan to implement a United Nations resolution.<sup>14</sup> However, an embassy official questioned the inclusion of this indicator to incentivize the Afghan Government to approve the plan, because it had approved the plan prior to the signing of the MoU.

The mission had a procedure that required each reported NDP indicator result to be cleared by the relevant USAID offices and approved by mission management prior to payment. Despite the lack of clearly defined indicators and ambiguous assessments of outcomes, the mission paid the Afghan Government a total of \$100 million for the five reported results tied to these indicators.

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## **USAID PAID FOR ACHIEVEMENTS WITHOUT ADEQUATE VERIFICATION**

Indicator reference sheets require the names of the entities providing the data—government ministries, international organizations, or implementers—and confirmation of where and how those entities obtained and checked the data. By not using reference sheets for NDP indicators, the mission lacked a tool to help verify achievements before approving payments, as specified by the NDP MoU.

We identified several examples of paid results that lacked adequate verification. One indicator result required passage of a new banking law, in consultation with IMF.<sup>15</sup> The Ministry of Finance had submitted several documents announcing but not substantiating that the law had been passed:

- One document mentioned a resolution to ratify a bank law and gave an effective date. However, no copy of the ratified resolution with an effective date was provided.
- Another document was said to be a letter from Afghanistan’s central bank affirming that a new bank act had recently been signed into law, but the letter was to unspecified recipients, was not on official letterhead, and had no issuer signature.
- The final document was an email string between IMF and Afghan Government officials from July 2014 to April 2015, discussing a draft regulation. The emails did not specify which banking weaknesses the draft regulation would address and did not confirm passage of a final law.

Despite the inadequate documentation to verify passage of the law, the mission paid the Afghan Government \$20 million for this reported result.

Another indicator result required implementation of a new tax law, and the mission struggled to determine when that occurred.<sup>16</sup> At first, the mission confirmed the law

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<sup>14</sup> Table 1, item 5.

<sup>15</sup> Table 1, item 6.

<sup>16</sup> Table 1, item 14.

was enacted but could not confirm the Afghan Government's claim that implementation had started. One month later, the mission agreed that implementation had started after reviewing a draft document discussing the tax administration articles, a concept paper prepared by an unnamed party, and two draft documents prepared by a USAID implementer, discussing tax dispute resolution and tax accountant programs.<sup>17</sup> One document reported on steps taken in 9 of the law's 65 sections, without explaining why the steps taken in the 9 sections confirmed that implementation of the law had started. A mission official from USAID/Afghanistan's Office of Financial Management noted in internal documents that implementation was in its "very early stages" and that any reported accomplishment was "highly subjective." Still, the mission paid the Afghan Government \$20 million for this reported result.

The mission also determined that the Afghan Government had fully or partially met four other results, each with associated indicators, without the documentation needed to support the reported results.

- An indicator result required a procurement committee to meet regularly.<sup>18</sup> The information the mission used to verify the achievement was the word of a U.S. Government official from another Federal agency who attended meetings but offered no documentation to confirm what was discussed at the meeting. The mission paid \$20 million for the reported result.
- An indicator result required approval of a salary scale for contract workers for the Afghan Government,<sup>19</sup> but the documentation instead showed approval of a salary scale for civil servants in the Afghan Government. The mission paid the Afghan Government \$20 million for the reported result.
- Part of an indicator result required antilaundersing regulation for financial institutions.<sup>20</sup> The mission determined it had been met based on a draft copy of the regulation and two copies of a document from the Afghanistan Bank, one in Dari (not translated) and one in English. The document in English showed that prerequisites for financial institution regulations were approved and listed the names of the signatories. However, the document did not have the signatures of the listed officials. The mission paid the Afghan Government \$10 million for this partial reported result.
- Part of an indicator result required approval of a budgeting policy.<sup>21</sup> To verify approval of the policy, the mission reviewed three documents: a copy of the Afghan Government's 21-page "Provincial Budgeting Policy," which lacked both approval signatures and an effective date; a copy of minutes from a meeting of council ministers, written in Dari; and a copy of minutes from the Afghan Government's

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<sup>17</sup> Article 33, "Registration of Tax Accountants," and Article 55, "Establishment of the [Dispute Resolution] Board."

<sup>18</sup> Table 1, item 4.

<sup>19</sup> Table 1, item 7.

<sup>20</sup> Table 1, item 8.

<sup>21</sup> Table 1, item 17.

cabinet meeting, also written in Dari. The mission paid the Afghan Government \$10 million for this partial reported result.

The mission relied on an implementer's information to verify two reported results, each with one associated indicator that was customs-related, without knowing the source of the implementer's information.<sup>22</sup> To verify achievement of one indicator—that the customs department had piloted an e-payment system at one border crossing—the mission relied on an article in an implementer's newsletter dated July 2015. The audit team asked the implementer for documentation to support the newsletter article, and the implementer was unable to provide it. The mission paid the Afghan Government \$20 million for this reported result.

For the other indicator, the mission relied on a statement from the same implementer that the customs department had implemented a valuation module in six locations throughout Afghanistan. However, the only documentation the mission could provide to support the reported achievement was an email from the implementer saying an Afghan Government official had confirmed the implementation of the valuation module at the locations. The implementation of the valuation modules was part of a World Bank-funded project that had been underway for several years, but World Bank status reports did not mention completing the module at the six locations, and mission officials provided no record of contacting any World Bank counterpart for corroboration. The mission paid the Afghan Government \$20 million for this reported result.

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## CONCLUSION

NDP was intended to help Afghanistan overcome its fiscal crisis and move toward self-reliance by providing cash incentives for reforms that the Afghan Government had agreed with international donors to undertake. The mission was charged with verifying the reported results on behalf of the U.S. Government. Yet loosely defined indicator results and inadequate verification procedures resulted in NDP being primarily used as a way to pass cash from one entity (USAID) to another (Afghan Ministry of Finance). While we make no recommendations because the mission canceled the NDP MoU, our work shows what can happen when there is lack of agreement on how to define expected outcomes and measure achievements. The mission could have used performance indicator reference sheets to reduce ambiguity about the indicator results and what the U.S. Government was hoping to achieve through its investments in Afghanistan.

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<sup>22</sup> Table 1, items 3 and 16.

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## OIG RESPONSE TO AGENCY COMMENTS

The USAID/OIG Middle East and Eastern European Regional Office submitted the draft report on our audit of the New Development Partnership to USAID/Afghanistan on May 10, 2019, and USAID/Afghanistan provided management comments to OIG on June 9, 2019.

In its response, USAID/Afghanistan disagreed that the use of performance indicator reference sheets was required by USAID policies applicable to NDP. Prior mission management agreed with our use of this criterion, and USAID/Afghanistan said that it had used the reference sheets for indicators achieved in fiscal year (FY) 2017, which was outside the scope of this audit. While the MoU did not require the use of performance indicator reference sheets, these would have been a useful tool for verifying achievements before approving payments. We appreciate USAID applying this lesson to its future contributions to the World Bank-administered Afghanistan Reconstruction Trust Fund Incentive Program.

USAID/Afghanistan disagreed with referring to NDP as little more than a cash transfer mechanism. In our concluding remarks, we adjusted the language to clarify our conclusion that without clearly defined indicators and verification procedures, NDP was primarily used as a way to pass cash from USAID to the Afghan Ministry of Finance, without adequate verification that indicators had been achieved.

Where the payments for the results achieved are discussed in the first main report section, we added mention of clearances received from relevant USAID offices and mission approval. Finally, in the scope and methodology appendix, we added a brief description of the audit work done to review USAID/Afghanistan's verification process, including our reasons for not using this information in the report.

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## APPENDIX A. SCOPE AND METHODOLOGY

We conducted our work from February 2016 through May 2019 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Our audit objectives were to (1) determine if USAID/Afghanistan adopted internal policies and procedures to adequately verify indicator achievements and (2) determine if USAID/Afghanistan adequately verified reported achievements for paid-out indicators. The audit was conducted in Kabul, Afghanistan, at the offices of the Afghan ministries and focused on the NDP payments made to the Afghan Government for reported indicator results between August 2015 and July 2016. The audit also focused on the procedures the mission relied on to review supporting documentation provided by the Afghan Government for the reported results.

The Afghan Government reported 16 results consisting of 19 associated indicators. The mission disbursed payments for 13 of the 16 reported results as well as payments for 2 other partial reported results (i.e., for results with two associated indicators, reported achievement of one of the indicators). In total, \$280 million in NDP funds had been disbursed as of March 2017 for the reported results.

The mission disagreed with the reported results for one full remaining indicator result and two reported partial indicator results. Because the mission had not disbursed funds for these indicator results, they were not included in our testing.

We selected and reviewed the supporting documentation that the mission used to assess the 13 reported results consisting of 15 associated indicators and the 2 reported partial results associated with 2 indicators that resulted in the \$280 million cash disbursement to the Afghan Government.

We reviewed the mission's "Document Verification Process for NDP Indicators" and tested the process for reviewing reported results. We found that the documented process was missing key elements—such as the author of the document, authorization signature(s) approving the verification process, and the effective date of the verification process—and there were no working group minutes of meetings to describe how decisions were made to confirm the reported results. Therefore we determined that the mission's verification process was inadequate to use as a criterion for determining whether USAID/Afghanistan adopted internal policies and procedures to adequately verify indicator achievements.

To answer the audit objectives we:

- Relied extensively on the computer-processed data contained in a document tracker maintained by the mission. We did not assess the system controls or the reliability of data from the document tracker because the mission stated it was in the process

of converting the document tracker from a State Department Open-Net system to an AID-Net system. However, by checking against other available evidence—such as confirmation from the Afghan Government that the information on the document it had was the same—we believe the opinions and conclusions in the report are valid.

- Relied extensively on the computer-processed data used to collect and report indicator performance data that is maintained by the Afghan Government. We did not establish the reliability of this data because we had no audit rights over the Afghan Government's systems. However, we were able to corroborate the number of results and associated indicators reported by the Afghan Government with the number of results and associated indicators reviewed by the mission and the payments made to the Afghan Government by the mission for achieving 13 full and 2 partial results. Based on this corroborating information we believe that the opinions and conclusions in the report are valid.
- Relied extensively on the computer-processed data contained in the Phoenix financial management system maintained by USAID. We did not assess the system controls or the reliability of data through the computer system. However, when the Phoenix data were viewed with other available evidence, such as the audit of USAID's financial statements for FY 2016 and 2015, as well as other internal and external documents, we believe the opinions and conclusions in the report are valid.

In planning and performing the audit, we evaluated the following internal controls that were significant to the audit objectives:

- USAID/Afghanistan's FY 2015 Federal Manager's Financial Integrity Act of 1982 Annual Certification, which included assessing internal control and compliance with laws, regulations, and fraud risks.
- Legal policy considerations in the design, negotiation, and implementation of the New Development Partnership with the Government of the Islamic Republic of Afghanistan.
- The New Development Partnership Memorandum of Understanding, dated August 3, 2015.
- The NDP Results Framework dated July 25, 2015.
- USAID/Afghanistan Plan for Transition 2015-2018.
- USAID/Afghanistan Draft Results Framework, July 2014.
- USAID's Policy Paper on Program Assistance, February 1996.
- Transparency International's Corruption Index by Country, April 2016.

To answer the objectives, we interviewed USAID officials from the mission and the Office of Afghanistan and Pakistan Affairs and senior officials from the Afghan Government to obtain an understanding of how the indicators results were selected and why a budget of \$800 million had been established.

We also interviewed officials from the World Bank to understand how NDP payments to the Afghan Government were transferred, disbursed, and monitored through the World Bank's Afghanistan Reconstruction Trust Fund ad hoc payment window.

In addition, we interviewed an official from the U.S. Department of State in Washington, DC, as well as an official from the Department of Treasury attaché's office located at the U.S. Embassy in Kabul to understand how the indicators were selected and the role of the Treasury attaché in determining if the indicators had been achieved.

We conducted 17 interviews with 30 officials throughout various Afghan Government offices to determine the extent of their involvement with achieving the reported results.

For a broader understanding of the NDP MoU's implementation, we used the following documents and other sources of information:

- The Government of Afghanistan's Self-Reliance Through Mutual Accountability Framework, September 5, 2015.
- Realizing Self Reliance, Commitments to Reforms and Renewed Partnerships, London Conference on Afghanistan, December 2014.
- Tokyo Conference on Afghanistan - The Tokyo Declaration Partnership for Self-Reliance in Afghanistan from Transition to Transformation, July 8, 2012.
- USAID/Afghanistan's Afghanistan Reconstruction Trust Fund Project Approval Document, September 27, 2016.
- Afghanistan Reconstruction Trust Fund Financing Strategy FYs 2015-17 (Afghan FYs 1394-96).
- The U.S. Department of the Treasury - Report to Congress on World Bank Administered Trust Funds, December 2015.



## APPENDIX B. NDP RESULTS AND INDICATORS

The following table lists the NDP results and indicators and their alignment to the three partnership objectives defined in the MoU: (1) fiscal sustainability, (2) better governance, and (3) reducing poverty.

Result	Indicator	Fulfills NDP Objective	Date
1. Fiscal and banking vulnerabilities addressed, revenue mobilization improved, and supervision of and enforcement in the financial sector strengthened.	- Staff Monitored Program (SMP) approved by the International Monetary Fund (IMF).	1	Immediate
2. Civil aviation services maintained.	- Civil airspace management contract signed.	1	Immediate
3. Revenue mobilization improved through customs reform.	- Customs Department pilots e-payment system at one border crossing.	1	Immediate
4. Procurement Reform program implemented.	- Establishment of the National Procurement Committee. - Committee meets and reviews procurements regularly.	2	Immediate
5. National Action Plan for Women, Peace, and Security implemented.	- Action Plan approved by the President.	3	Immediate
6. Key benchmarks under the IMF's SMP met.	- 2015 budget legal amendments completed to increase revenues (mobile phone top-ups and Business Receipt Tax). - Weaknesses in the banking sector addressed by promulgation of a new banking law that is consulted with IMF experts.	1	Dec. 31, 2015
7. Civil service reform commenced.	- Government approves the Capacity Building for Results (CBR) scale for all project contract staff.	2	Dec. 31, 2015
8. Remaining items on Afghanistan's Financial Action Task Force Action Plan implemented.	- Preventive measure regulation by the Supreme Council of DAB approved. - Customs Department effectively implements a cash courier regulation on airports.	2	Dec. 31, 2015

<b>Result</b>	<b>Indicator</b>	<b>Fulfills NDP Objective</b>	<b>Date</b>
9. Measures to ensure public declaration of assets by all Government officials implemented.	- 80% of senior Government officials declare their assets per Article 154 of the Afghanistan Constitution.	2	Dec. 31, 2015
10. The working environment for women improved in the public sector.	- An antiharassment regulation prepared and issued by a Presidential Decree.	3	Dec. 31, 2015
11. Multiyear IMF program in place.	- Multiyear program approved by the IMF.	1	Dec. 31, 2016
12. Ministry of Finance's Revenue Department compliance and revenue collection improved.	- Department implements a risk-based audit case selection process.	1	Dec. 31, 2016
13. Domestic revenue increased.	- Share of nontax revenue in total domestic revenue increased from 16% in 2014 to 20% in 2015.	1	Dec. 31, 2016
14. Tax collection methods and rights and obligations of taxpayers codified.	- Tax Administration Law signed by the President and implementation started.	1	Dec. 31, 2016
15. Civil service reform extended.	- At least one-third (800) of the 2,400 positions planned for transfer to CBR completed.	2	Dec. 31, 2016
16. Accuracy and efficiency of customs process improved.	- ASYCUDA WORLD Valuation Module implemented in 6 major customs locations.	2	Dec. 31, 2016
17. Financial authority delegated to provinces.	- Provincial Budgeting Policy approved. - Implementation of new Provincial Budgeting Policy piloted by at least one budgetary entity across all provinces.	3	Dec. 31, 2016
18. Implementation of the Citizen's Charter commenced.	- Citizen Charter National Priority Program approved by Cabinet and details of funding determined.	3	Dec. 31, 2016
19. Land governance strengthened.	- Land adjudication responsibilities transferred to the Independent Land Authority. - Land certification programs launched in Kabul.	3	Dec. 31, 2016
20. Women economically empowered.	- National Economic Empowerment Plan for Women National Priority Program approved by Cabinet and funding details determined.	3	Dec. 31, 2016
21. Domestic revenue increased.	- Domestic revenue up X% over base (2016).	1	Dec. 31, 2017

<b>Result</b>	<b>Indicator</b>	<b>Fulfills NDP Objective</b>	<b>Date</b>
22. Fiscal sustainability of the Pension Law improved.	- Amendments to Pension Law signed by President and implementation started.	1	Dec. 31, 2017
23. Ease of doing business in Afghanistan improved.	- One-stop shop for business registration and licensing re-established.	1	Dec. 31, 2017
24. Ministries' budget allocations reflect Government policy and priorities.	- An authoritative, Government-wide letter reflecting ministries' allocation as per Government policy and priorities issued.	2	Dec. 31, 2017
25. Policies and procedures related to citizens' land rights improved.	- At least X land certificates issued. - Community land maps completed and registered with the Independent Land Authority.	3	Dec. 31, 2017
26. Increased women's participation in local governance.	- X% increase in women's participation in village development bodies.	3	Dec. 31, 2017
27. Domestic revenue increased.	- Domestic revenue up X% over base (2017).	1	Dec. 31, 2018
28. Nationwide revenue mobilization through customs reform improved.	- E-payment system for the Customs Department established at eight (8) major inland customs.	1	Dec. 31, 2018
29. Afghanistan improves its ranking in Doing Business Index (DBI).	- Afghanistan improves its ranking on (a) starting a business (b) paying taxes by X and Y respectively under DBI.	1	Dec. 31, 2018
30. Citizen's Charter implemented.	- X% of villages in X districts will have access to basic package of services as defined by the Citizen's Charter.	3	Dec. 31, 2018
31. Policies and procedures related to citizens' land rights improved.	- At least X land certificates issued. <sup>a</sup>	3	Dec. 31, 2018

<sup>a</sup> When asked about the overlap between indicators for results 25 and 31, personnel in the Afghan Government office in Kabul responsible for achieving both indicators said they were still working on the wording.

Source: USAID/Afghanistan.

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## APPENDIX C. AGENCY COMMENTS



### MEMORANDUM

**TO:** David Thomanek, Assistant Director, USAID OIG Middle East and Eastern Europe Regional Office

**FROM:** Peter Natiello, Mission Director, USAID/Afghanistan /s/

**DATE:** June 9, 2019

**SUBJECT:** Management Comment to Respond to the Draft Audit Report Produced by the Office of Inspector General (OIG) titled, *USAID Had Challenges Verifying Achievements Under Afghanistan's New Development Partnership (X-XXX-XX-00X-X-P)* (Task No. FF1C0216)

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The U.S. Agency for International Development (USAID) would like to thank the Office of the Inspector General (OIG) for the opportunity to provide comments on the subject draft report. I would also like to thank you for the courtesy shown by your staff while conducting this engagement. I reiterate our appreciation for the valuable opportunity provided by OIG's audits to assess and improve upon USAID's policies, procedures, and programs.

As the report mentions, the New Development Partnership (NDP) was created in 2015, as Afghanistan's National Unity Government was coming into power, and on the tail-end of the country's economic recession, which resulted from the rapid closure of a significant number of U.S. and Coalition bases in 2014. In the interest of avoiding state collapse, the U.S. Government (USG) determined that budget support for the Afghan Government was a strategic imperative, and the Administration tasked USAID with providing it. Instead of a direct cash transfer, USAID expanded its existing incentive funding and constructed a performance-based mechanism meant to incentivize the achievement of priority reforms by the Government of Afghanistan.

In this context, USAID created the NDP as program assistance, intended to be a flexible implementation modality in furtherance of the U.S. Government's foreign-policy goals. Program assistance is based on the mutual agreement between the U.S. Government and another sovereign government, and is not subject to the same requirements as the project assistance described in Chapter 201 of USAID's Automated Directive System (ADS). Although it could be in the interests of the U.S. Government in some instances to use the tools and approaches of project assistance when engaging in program assistance, USAID

policies do not require it. The decision to negotiate terms of agreements, like the Memorandum of Understanding for the NDP, and the related implementation letters, was a policy call.

In addition, some examples cited in the OIG's draft report mischaracterize policy decisions related to meeting an NDP benchmark. For example, OIG's conclusion that the NDP was "little more than a cash transfer mechanism" (page 8), is inaccurate because policy and law support USAID's use of a cash transfer mechanism under appropriate circumstances (ADS 201). This is especially true when financing assistance using the Economic Support Fund (ESF) account in a country like Afghanistan, because the stated purpose of ESF funding is very broad: "to promote economic or political stability" (Section 531 of the Foreign Assistance Act, Sec. 531).

While the draft report does not contain any recommendations for improvement or action, below are areas that require further context.

1. The OIG states, "USAID did not apply a key aspect of Agency guidance on monitoring, evaluating, and learning from its activities. Specifically, USAID did not use Performance Indicator Reference Sheets (PIRS), which are mandatory under the Agency's internal policy . . . (page 1)." USAID disagrees with this finding. The OIG is interpreting guidance applicable to project assistance as equivalent to guidance applicable to program assistance. The NDP was considered program assistance, and USAID policy did not, and does not require PIRS for program assistance. Chapter ADS 201, titled, "Program Cycle Operational Policy," defines program assistance as "a generalized resource transfer . . . to the recipient government based on meeting defined benchmarks or performance indicators that are not based on cost," and states that guidance on PIRS is applicable to performance indicators used under project-based assistance. ADS 201 does not state that PIRS are required for program assistance, which is also defined as "non-project assistance." In addition, ADS 201 exempts certain kinds of program assistance, such as "cash transfers designed to encourage policy reforms," from the project-design process set forth in the rest of the Chapter. Further, the reference to "benchmarks" in ADS 201, as well as the explanation of conditionality in the USAID Program-Assistance Policy Paper from 1996, makes it clear that PIRS are not required for program assistance. The kind of external factors (whether they are called "benchmarks," performance indicators, or something else) that would trigger a resource transfer for program assistance are not subject to the ADS 201 guidance on project assistance.

The draft report characterizes the opinions of several USAID staff members that appear to illustrate disagreement with the Agency's decision to make payments with respect to several NDP benchmarks (pages 5 and 7) in a way that gives the opinions disproportionate prominence. Each NDP benchmark payment received clearance from the relevant offices at USAID, and Mission leadership in Kabul approved them. Further, the report does not mention the process and system of verification that the USAID Mission established for the NDP's indicators.

Overall, USAID recognized the challenges within the NDP and ended the initiative early, to hold the Government of Afghanistan accountable to its own self-reliance reform agenda. USAID learned from the NDP experience, and has applied this lesson to our contributions to the World Bank-administered Afghanistan Reconstruction Trust Fund (ARTF) Incentive Program (IP), which now uses a PIRS for each of its annual policy reforms agreed upon by the Government of Afghanistan. USAID has committed to support the ARTF from calendar year (CY) 2018 to CY 2020, following USAID's advocacy that the World Bank develop and use PIRS. While it took over a year to negotiate, the World Bank implemented Policy Action Datasheets for the ARTF IP, which include the name of the policy action; a summary description of, and rationale for, the desired policy action; a detailed narrative of the policy action; results and results indicators; and a verification process with specific document(s) required as evidence of completion. From USAID's perspective, this provides greater clarity of expectations from the Government of Afghanistan and transparency between the parties (World Bank and the Afghan Government) prior to disbursing any funding from the ARTF IP. Even though the ARTF IP is deemed a type of program assistance, USAID has made a policy decision in this instance to borrow and apply relevant guidance for project assistance as described in ADS 201. USAID will not be creating another instrument like the NDP in the future.

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## **APPENDIX D. MAJOR CONTRIBUTORS TO THIS REPORT**

The following people were major contributors to this report: David Thomanek, director; Robert Mason, director; Laura Pirocanac, writer-editor; Brian Smith, auditor; and Allison Tarmann, writer-editor.