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Prepared Remarks: John F. Sopko, Special Inspector General for Afghanistan Reconstruction

John F. Sopko, Special Inspector General for Afghanistan Reconstruction, delivered on March 20, 2014 at an event hosted by the South Asia Center.

Thank you, Shuja, for that generous introduction.

Good afternoon.

It is a real privilege to be here with you today. For more than six decades the Atlantic Council has provided an important bipartisan forum to discuss the most challenging issues confronting the United States and its European allies. Nothing in recent memory has been more challenging or more costly than the military and civilian missions undertaken by the United States, NATO allies, and other Coalition partners to secure and stabilize Afghanistan.

I just returned from two weeks in Afghanistan. It was my sixth trip there since the President appointed me Special Inspector General for Afghanistan Reconstruction in 2012. As always, I visited reconstruction sites and met with Afghans and U.S. military and civilian officials implementing programs in what has become the largest reconstruction effort of a single country in U.S. history.

Reconstruction has been - and continues to be - a critical component of the overall U.S. strategy in Afghanistan. It is also extremely difficult and dangerous to our colleagues in USAID, the State Department, the military and the many contractors and NGO employees who are tirelessly attempting to carry out this effort.

Over the last 12 years, Congress has provided more than \$102 billion to build Afghan security forces, establish governing institutions, and foster economic development. Our military and civilian leaders have been committed to the idea that a stable Afghanistan - with a government able to defend itself as well as provide essential services and economic opportunities for its citizens - would be inhospitable terrain for terrorists.

At the end of this year, America's longest war will come to an end. The ongoing drawdown of U.S. troops will leave, at most, a few thousand for training and quick-response actions. The reconstruction mission, however, is far from over. The United States and its allies agree that Afghanistan will require significant international assistance to combat a tough and persistent insurgency and tackle serious economic and social problems for years and years to come. It is clear from my recent conversations with senior officials in our Kabul embassy and ISAF headquarters that the United States and the international coalition partners plan to continue support to the Afghan people for some time beyond the December 2014 drawdown.

My agency's job is to provide vigorous oversight of the assistance funds that will provide that ongoing support. Congress created SIGAR in 2008—six years after appropriating the first funds for Afghanistan's reconstruction. Congress empowered SIGAR with cross-agency jurisdiction to conduct audits and investigations to detect and deter waste, fraud, and abuse of the increased funding for reconstruction.

SIGAR has a staff of nearly 200 auditors, inspectors, investigators, analysts, and other personnel dedicated to protecting this enormous U.S. investment by identifying problems quickly and making recommendations to improve program effectiveness before funds have been completely spent.

We all know this is a pivotal year in Afghanistan. The uncertainties and risks have never been greater. The security, political, and economic transitions underway have generated three key issues:

- Will the Afghan security forces stand firm against a resilient and persistent insurgency without U.S. troop support?
- Will the Afghan government hold sufficiently open and honest elections to facilitate a peaceful political transition that leads to greater public support for the government? Simply put, can the state hold together after the elections, and
- Will the Afghan and U.S. governments reach a bilateral security agreement, paving the way for the international community to continue providing the needed assistance?

Underlying these questions is the nagging issue of corruption. The consensus among everyone I spoke with in Afghanistan over the last two weeks is this -- allowing corruption to continue unabated will likely jeopardize every gain we have made over the last 12 years. In other words, rampant corruption may be the spoiler for all three issues.

Corruption in Afghanistan is not a new problem. SIGAR has been highlighting concerns about corruption for a very long time. Every one of our quarterly reports to Congress has highlighted its threat—from the looting of the Kabul Bank and the failures of Afghanistan's Attorney General to prosecute senior officials, to the depredations caused by land seizures and endemic extortion of ordinary Afghans for everyday services.

Since 2009, SIGAR has conducted a number of audits of U.S. efforts to combat corruption; on the weaknesses of Afghanistan's anti-corruption bodies; and the challenges corruption poses to customs and revenue collection. We have also pointed out that the United States still does not have a unified anti-corruption strategy in Afghanistan. This is astonishing, but true. SIGAR has repeatedly recommended that the U.S. government develop and implement such a strategy.

We have been sounding the alarm for quite some time about a problem that has only grown worse with each passing year. Just how bad is corruption in Afghanistan?

Last year, General John Allen, outgoing commander of the International Security Assistance Force, ISAF, told the President that "Corruption is the existential, strategic threat to Afghanistan."¹ DOD repeated that judgment in its semi-annual "1230 Report" to Congress, saying corruption "threatens the sustainability of the Afghan state."²

Transparency International puts Afghanistan in the company of Somalia and North Korea as one of the three most corrupt countries in the world. In a number of internationally recognized surveys Afghans themselves identify corruption as one of the most serious challenges facing their country. In a 2013 ISAF survey, 80 percent of Afghans described corruption as a major problem; 65 percent of them said it was worse than the year before.

Integrity Watch Afghanistan - one of the best Afghan NGOs committed to improving governance - has confirmed that Afghans consider corruption the country's third biggest problem, after security and unemployment. The Integrity Watch 2012 survey of 7,500 people in all 34 provinces mirrored the rankings of its 2010 survey. While personal experiences with corruption had declined slightly, the total estimated value of bribes paid rose 16% to \$1.25 billion in 2012—an amazing number equivalent to about half of the government's domestic revenues. About one of every seven Afghans, or 15%, paid at least one bribe in 2012; the average number was four.³ Integrity Watch has just completed a new survey and they told me that most Afghans believe that there is more corruption today than four years ago, affecting not just the bureaucracy and the justice system, but education.

But what does that really mean in practical terms? Last month, the U.S. military published a study that answered that question in one sentence:

"Corruption directly threatens the viability and legitimacy of the Afghan state."⁴

The study, which was initiated by General Dunford, commander of U.S. Forces Afghanistan, went on to say:

"Corruption alienates key elements of the population, discredits the government and security forces, undermines international support, subverts state functions and rule of law, robs the state of revenue, and creates barriers to economic growth."⁵

I commend General Dunford for ordering this study. Like many of our SIGAR audits and reports, General Dunford pulls no punches, but takes a very hard look at the root causes of the pervasive corruption in Afghanistan—including decisions by the United States that have contributed to the problem.

I am going to spend a few minutes on just three of this study's observations because they echo what my auditors and investigators have found in their work over the last few years. In fact, some of General Dunford's findings draw directly from SIGAR's audits. They also succinctly illuminate three critical themes that are relevant to what we face today.

First, the initial U.S. strategy in Afghanistan not only failed to recognize the significance of corruption, but may even have fostered a political climate conducive to corruption.

Second, massive military and aid spending overwhelmed the Afghan government's ability to absorb the assistance. This, coupled with weak oversight, created opportunities for corruption.

Third, the lack of a comprehensive, coordinated anti-corruption strategy reduced the effectiveness of US anticorruption efforts.

Let me address the governance issues and the lack of Afghan political will to tackle corruption first. The U.S. military used a proxy force—composed largely of warlords associated with the Northern Alliance—to drive the Taliban and Al Qaeda from power. However, as several civilian and military analysts have pointed out and the military's latest study reiterates, these warlords often used U.S. support to operate with impunity and improve their political positions. Afghan political leaders have built allegiances by cutting political deals that put powerful figures in key government positions.

These figures have in turn used their government positions to entrench and expand patronage networks that have traditionally been an important feature of Afghanistan's politics. In some cases, these patronage networks have morphed into criminal networks involved in everything from extrajudicial land seizures and extortion, to narcotics trafficking and money laundering. This is something that the noted Afghan analyst, Sarah Chayes, calls a "vertically integrated criminal patronage network." These activities alienate the Afghan population and undermine one of our key reconstruction goals: creating a legitimate Afghan state that can deliver services for its people.

The Kabul Bank saga exemplifies how the patronage system and the failure to prosecute people guilty of gross fraud and abuse is undermining the Afghan economy and putting future development efforts at grave risk. Before its collapse in 2010, the Kabul Bank was Afghanistan's largest private bank. Individuals and companies associated with the bank stole about \$935 million, largely through fraudulent loans. About 92% of the funds went to 19 individuals and companies. Afghanistan's central bank covered the losses, which were equivalent to for more than half of the government's entire revenue in 2010 and represented about 5% of GDP at the time.

More than a year ago, the Joint Anti-Corruption Monitoring and Evaluation Committee - also known as the MEC - issued a full report on the Kabul Bank scandal. The MEC, which was established by the international community and the Afghan government to address donor concerns about corruption, reported that the Afghan Attorney General's Office deliberately slow-walked the Kabul Bank investigation and did little to recover funds or bring many of the main culprits to justice. Underscoring the difficulty of reducing corruption in Afghanistan is the fact that these culprits had ties to very powerful Afghan politicians.

The Kabul Bank crisis has had a profound impact on the entire financial sector. SIGAR recently issued an audit that found Afghanistan's banking system remains extremely fragile and poorly regulated. Our auditors concluded that Afghanistan is at risk of another banking crisis.

Afghanistan must have a reliable banking system that observes and enforces internationally accepted rules to attract foreign investment, as well as to keep international assistance flowing after 2014. Failure to sufficiently reform and regulate the banking sector is putting the country's immediate future development at risk.

For example, the IMF's Extended Credit Facility (ECF) provides medium-term assistance to low-income countries at little or no interest. The loan agreement with Afghanistan is contingent on the government making banking and financial reforms that would increase transparency and accountability. These include passing an internationally acceptable anti-money laundering law and facilitating information sharing between the central bank and Afghan law enforcement agencies as well as meeting macroeconomic targets.

The IMF will not disburse any ECF funds without a favorable board review. It has not disbursed any funds since 2012 because Afghanistan has not made enough progress on reform.

The Financial Action Task Force (FATF) is an inter-governmental body that sets the standards required to combat money laundering, terrorist financing, and other threats to the integrity of the international financial system. Just a few weeks ago, FATF downgraded Afghanistan's status due to continued failure to improve its anti-money laundering regime. If there is no sign of improvement, experts cautioned me that Afghanistan will be blacklisted. A blacklisting could be devastating to Afghanistan's financial sector and the overall economy.

This is serious, but the Afghan government has yet to take it seriously despite our Embassy's efforts to convince them of its consequences to their long-term need to attract investments to improve their economy.

What I have described in the banking and financial sectors is also true in other sectors. In response to a number of surveys, Afghan citizens have described the Afghan justice system and police force as particularly corrupt. SIGAR has expressed concern over the accuracy of police personnel numbers. We are currently looking into allegations of ghost workers on the police payroll.

Let me turn to the issue of Afghanistan's capacity to absorb aid and donors' ability to oversee that aid.

Consider our reconstruction assistance in fiscal year 2010. Congress appropriated President Obama's request for more than \$16 billion to rebuild Afghanistan. This did not include the tens of billions of dollars spent that year on military operations. According to the World Bank, Afghanistan's total GDP in 2010 amounted to about \$15.9 billion. Reconstruction assistance alone amounted to more than the country's entire estimated GDP. Since 2010, Congress has provided nearly \$63 billion for reconstruction programs.

How was Afghanistan, with its very poor economy, going to efficiently absorb this largesse, and why would corrupt officials and others looking at floods of poorly supervised cash and an uncertain future not take advantage of the opportunity to take a cut for themselves?

To compound the absorption problem, SIGAR has found that U.S. implementing agencies have exercised limited

oversight of their spending. SIGAR has catalogued a lack of planning, contract management, and quality control. Consequently, we have schools that have been built so badly they are in danger of collapsing, clinics with no patients or with patients but no supplies or clean water, Afghan police and army garrisons that are not usable, and roads that are disintegrating for lack of maintenance.

There are many excuses for the inadequate oversight: lack of security tops the list. Then there is the high turnover of U.S. military and civilian personnel and the lack of an integrated system to track reconstruction projects across agencies. Some have suggested that U.S. implementing agencies had no more capacity to oversee the assistance than Afghans had of effectively absorbing it.

The United States and its coalition allies were very slow to recognize the danger that corruption posed to the entire mission in Afghanistan. It was not until 2010 that the donor community specifically addressed corruption as a serious concern.

Once it became a concern, the United States began establishing various task forces to try and understand the pervasive and interlinked nature of corruption. In 2010, the Defense Department established Task Force 2010 to ensure that U.S.-funded contracts did not support the insurgency. It also created Task Force Shafafiyat—the Dari word for transparency—to identify the intersection of corruption with the narcotics trade and the insurgency.

During this period, the U.S. Embassy in Kabul circulated a draft of a comprehensive anti-corruption strategy, but it was never formally approved. As I mentioned earlier, the United States still does not have a comprehensive, unified, anti-corruption strategy. This must change.

Although the U. S. government and its allies have been slow to address the challenge of corruption in Afghanistan, I do not believe it is too late. Next month's presidential and provincial council elections provide a new and unique opportunity to help Afghans tackle this problem. All the major candidates say they want to combat corruption. Let's help them.

To protect reconstruction assistance, the United States must make this a REAL priority. As SIGAR has been saying for some time, we must have a comprehensive civilian-military anti-corruption strategy backed by political as well as financial capital. Likewise, as a number of our coalition ambassadors cautioned on my recent trip, this approach must be unified and coordinated so that corrupt Afghan officials cannot play one donor off against another.

On my latest trip I was told we must also be tough. We must demand that the Afghan government become a true partner is all of this. The new government must begin by complying with its international agreements and undertake the reforms promised at previous international donor conferences.

We must also embrace conditionality and pragmatic incentives. The United States and other donors must set realistic, meaningful conditions or incentives in areas we are willing to enforce. In other words, the conditions must be achievable and worthwhile with incentives geared to incremental achievements. But ultimately, this means that we and our allies must have the courage to risk saying no to the Afghans.

My conversations with a wide range of public officials and private groups dedicated to making Afghanistan a safer country with more opportunity for its citizens have convinced me that the United States must consider the following to help fight corruption:

- We must hold our own contractors and government employees accountable.
- We must also insist that the Afghans hold their contractors and government employees accountable.
- We must continue to support U.S.-funded anti-corruption efforts such as Task Force 2010 and the Afghan Threat Finance Cell.
- We should care less about the burn rate and more about how funds are being spent.
- We need to recognize that too much money, spent too quickly, with too few safeguards, is a recipe for

disaster.

- We need to insist that Afghan ministries develop and maintain good internal controls to receive U.S. funds
- We must provide support for Afghan civil society groups fighting corruption such as the MEC, Integrity Watch, and the nascent independent Afghan media.

I come away from every visit to Afghanistan with concerns but also with hope. The hope comes from seeing the hard-working and extremely dedicated Americans-military, FSOs, civil servants, civilians, and contractors - who put their lives on the line every day to help build Afghanistan.

But this hope also comes from meeting with Afghans. And, before closing, I want to say something about Afghan civil society. Afghanistan has a growing number of organizations and individuals dedicated to exposing corruption and fostering the rule of law. It has a robust media that has highlighted and reflected Afghan dissatisfaction with corruption. Organizations such as the MEC and Integrity Watch Afghanistan are working to raise awareness and increase accountability of Afghan governing institutions. Likewise, SIGAR investigators and auditors have worked closely with many brave and dedicated Afghan law enforcement officials and public servants who are committed to the rule of law and to the economic and social development of their country. We should never forget them nor abandon them.

In conclusion, I believe we have a window of opportunity to tackle corruption. If the elections go well, Afghanistan will have a new government. The new government will be dealing with an international community that has far less patience for corruption. It must act quickly to prove to the international community that it is serious about attacking the problem.

The United States and its coalition allies must speak with one voice on the issue of corruption. We must set achievable conditions for our assistance. We must also carefully examine reconstruction programs to determine whether their objectives make sense and are realistically attainable.

The costs in Afghanistan - both in lives lost and money spent - have been enormous. If we don't take advantage of this opportunity and get serious about corruption right now, we are putting all of the fragile gains that we have achieved in this - our longest war - at risk of failure. If we get it right, we can create a model for future contingencies and help the Afghan people build a country that does not become another failed criminal state and a safe haven for terrorists.

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