

# The Department for International Development: Programme Controls and Assurance in Afghanistan







Independent  
Commission  
for Aid Impact

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The Independent Commission for Aid Impact (ICAI) is the independent body responsible for scrutinising UK aid. We focus on maximising the effectiveness of the UK aid budget for intended beneficiaries and on delivering value for money for UK taxpayers. We carry out independent reviews of aid programmes and of issues affecting the delivery of UK aid. We publish transparent, impartial and objective reports to provide evidence and clear recommendations to support UK Government decision-making and to strengthen the accountability of the aid programme. Our reports are written to be accessible to a general readership and we use a simple 'traffic light' system to report our judgement on each programme or topic we review.

	<b>Green:</b> The programme meets all or almost all of the criteria for effectiveness and value for money and is performing strongly. Very few or no improvements are needed.
	<b>Green-Amber:</b> The programme meets most of the criteria for effectiveness and value for money and is performing well. Some improvements should be made.
	<b>Amber-Red:</b> The programme meets some of the criteria for effectiveness and value for money but is not performing well. Significant improvements should be made.
	<b>Red:</b> The programme meets few of the criteria for effectiveness and value for money. It is performing poorly. Immediate and major changes need to be made.

# Executive Summary

DFID's planned expenditure on bilateral aid to Afghanistan is £178 million in 2011-12 and in each of the next three financial years. In Afghanistan, DFID spends its money in four areas: governance and security, education, wealth creation and humanitarian assistance. The purpose of this review is to assess DFID's systems of control and assurance over its expenditure in Afghanistan. These systems are important because they help to minimise the risk of theft, fraud and corruption (collectively known as leakage). This report covers DFID's systems and controls of assessment but not the value for money or effectiveness of the programmes themselves.

## Overall Findings

*Assessment: Amber-Red* 


DFID manages its programmes in Afghanistan in exceptionally difficult circumstances. It has a highly committed, respected and experienced senior team and a professional reputation amongst other organisations working in Afghanistan. We found, however, that DFID's financial management processes are insufficiently robust and that DFID does not give sufficient importance to identifying and managing risks in the design and delivery of its programmes.

## Objectives

*Assessment: Amber-Red* 

The objectives for programmes are clear and address the priorities for development in Afghanistan. In addition, DFID is a recognised leader in the donor community, providing technical support and influencing multi-donor programmes. At the programme design stage, however, DFID does not scrutinise sufficiently its managing agents' ability to spend and to deliver to plan. DFID is not sufficiently clear about how it is balancing the risk of leakage with delivering aid and achieving value for money. It does not perform thorough risk assessments at local and organisational levels.

## Delivery

*Assessment: Amber-Red* 

Even allowing for the considerable difficulties of operating in Afghanistan, DFID lacks visibility of financial management throughout its delivery chains. Also, DFID's financial systems and performance monitoring to manage its programmes are not sufficiently robust. As a result, DFID is exposed to a significant risk of leakage. DFID has enhanced its skills – for example by employing more economists – but lacks professional, financial and procurement support.

## Impact

*Assessment: Amber-Red* 

DFID's programme controls and assurance ought to minimise leakage. DFID has basic, mainly financial,

controls in place with its partners and managing agents and there are some examples of good controls to verify that aid is actually delivered.

Nevertheless, neither DFID nor its partners and managing agents have estimated methodically the extent of leakage in Afghanistan. Claims of little or no leakage therefore cannot be sustained. In common with findings in our anti-corruption report published in November 2011, DFID is not proactive enough in detecting fraud and corruption. DFID has now begun, however, to explore the scope for measuring leakage by investing in research.

## Learning

*Assessment: Green-Amber* 

DFID has learned lessons from aid models that it has applied in other countries and that other donors have applied in Afghanistan. There is, however, scope to follow through more rigorously previous National Audit Office (NAO) and Public Accounts Committee (PAC) recommendations with regard to preventing fraud and corruption.

## Recommendations

**Recommendation 1:** DFID should make explicit in its funding decisions how it is assessing and taking into account the risk of leakage and balancing that risk against the benefits the programmes are designed to deliver.

**Recommendation 2:** DFID needs to deploy people with more financial and procurement skills to improve its financial grip and reduce risk. It should focus its financial resources on improving its understanding and reporting of cost throughout the delivery chain.

**Recommendation 3:** DFID should strengthen its managing agent agreements by specifying the levels of controls and assurance that it expects to be in place and monitoring whether or not these standards are met.

**Recommendation 4:** DFID should ensure that its office in Afghanistan implements outstanding NAO and PAC recommendations regarding fraud and corruption.

# 1 Introduction

- 1.1 Afghanistan is a fragile state with a complex mix of political, social, economic, organisational and security challenges. There is much public and media interest in the UK's engagement in Afghanistan. It was voted the top priority country when we consulted on our work programme in 2011.<sup>1</sup>
- 1.2 In this investigation into the Department for International Development (DFID), we reviewed DFID's systems of controls and assurance that aim to minimise the risk of leakage in Afghanistan. Leakage is the loss or diversion of aid monies away from the intended beneficiaries as a result of theft, fraud or corruption. Our investigation was concerned exclusively with this issue, so we did not evaluate the effectiveness or value for money of DFID's programmes in Afghanistan. It is clear, however, that DFID's work to minimise leakage has a significant role to play in ensuring the value for money and effectiveness of UK aid spent in Afghanistan.
- 1.3 The results from this review will inform the scale and scope of future ICAI reviews of the Afghanistan programme. This report follows on from our assessment of DFID's approach to anti-corruption<sup>2</sup> published in November 2011.

## DFID's programme in Afghanistan

- 1.4 DFID's strategy for Afghanistan is set out in its Operational Plan for 2011-15.<sup>3</sup> It spends its money in four areas: governance and security, education, wealth creation and humanitarian assistance. It works closely with the Foreign and Commonwealth Office (FCO), the Ministry of Defence (MoD) and law enforcement agencies under an umbrella National Security Council strategy for Afghanistan. In line with the UK's responsibilities in Helmand Province, DFID takes the lead on social and economic development as part of the cross-government Provincial Reconstruction Team.
- 1.5 The UK provides aid to Afghanistan in different ways:

- **Bilateral aid:** in 2011-12, DFID's planned bilateral aid to Afghanistan is £178 million, accounting for about 4% of total UK bilateral aid and estimated to be around £6 per Afghan head of population.<sup>4</sup> DFID has pledged the same amount each year up to 2014-15. This aid is not given directly to the Government of Afghanistan and further detail is given in paragraph 1.7 below;
- **Multilateral aid:** these funds are channelled through organisations including the European Union and World Bank. The official statistics for 2009-10<sup>5</sup> – the latest years for which there are data – value this aid at £46 million; and
- **The Conflict Pool:** in 2011-12, the UK is providing £68.5 million to the tri-departmental Conflict Pool, a proportion of which qualifies as Official Development Assistance (which is not provided through UK armed forces).

1.6 This report focusses on DFID's bilateral aid in Afghanistan. Future ICAI work in Afghanistan may cover other areas of expenditure. Upcoming ICAI reviews are examining general UK aid (i.e. not Afghanistan-specific aid) channelled through the World Bank, the European Union and the Conflict Pool.

1.7 In recent years, DFID has earmarked around 50% of planned bilateral aid to the Afghanistan Reconstruction Trust Fund (ARTF).<sup>6</sup> The World Bank administers this multi-donor fund to support key public services and development projects across the country. Through the ARTF, DFID supports the salaries of key Afghan workers (for example, teachers) and invests in infrastructure programmes. Another 20% of funds go directly into programmes in Helmand Province, for example road schemes and agriculture and rural development. Helmand Province also benefits from other national DFID programmes including through the ARTF. Other major programmes with funding

<sup>1</sup> *Independent Commission for Aid Impact – Work Plan*, ICAI, May 2011, <http://icai.independent.gov.uk/wp-content/uploads/2010/11/ICAI-Work-Plan11.pdf>.

<sup>2</sup> *DFID's Approach to Anti-Corruption*, ICAI, November 2011, <http://icai.independent.gov.uk/wp-content/uploads/2010/11/DFIDs-Approach-to-Anti-Corruption.pdf>.

<sup>3</sup> *DFID Afghanistan Operational Plan 2011-2015*, DFID, April 2011, <http://www.dfid.gov.uk/Documents/publications1/op/afghanistan-2011.pdf>.

<sup>4</sup> Assuming an estimated population of 30 million.

<sup>5</sup> See *Statistics on International Development – Total DFID Expenditure and GPEX by Recipient Country (Asia) 2006/07-2010/11*, DFID, June 2011, [http://data.gov.uk/dataset/dfid\\_stats\\_on\\_international\\_dev\\_2011](http://data.gov.uk/dataset/dfid_stats_on_international_dev_2011) for the full list of statistics. The figures for Afghanistan are available from the worksheet shown in [https://sheet.zoho.com/view.do?url=http://www.dfid.gov.uk/Documents/publication\\_s1/sid2011/Tabl%2014.3%20-%20Asia\\_P1.xls](https://sheet.zoho.com/view.do?url=http://www.dfid.gov.uk/Documents/publication_s1/sid2011/Tabl%2014.3%20-%20Asia_P1.xls).

<sup>6</sup> We intend to examine trust funds in more detail: this could be carried out either as a separate review or as part of reviews already planned.

# 1 Introduction

of over £5 million<sup>7</sup> in 2011-12 include the contributions to the Afghanistan Infrastructure Trust Fund (through the Asian Development Bank) and strengthening tax administration.

1.8 The United States is by far the largest donor to Afghanistan. The Organisation for Economic Co-operation and Development (OECD) reports that, between 2002 and 2010, the United States accounted for 41% of total aid to Afghanistan.<sup>8</sup> The UK was the next largest single country donor (accounting for 7% of total aid to Afghanistan), followed by Germany, Canada, Japan, the Netherlands and Norway. In 2011, the United States Agency for International Development's (USAID's) Afghanistan budget was US\$2.1 billion (£1.3 billion), over seven times DFID's contribution. The UK is now the fourth-largest contributor behind the US, Japan and the EU.

## The aid context in Afghanistan

1.9 The Secretary of State for International Development has said that 'corruption in Afghanistan is endemic'.<sup>13</sup> DFID can operate successfully in this environment only by using controls and safeguards which balance the risk of leakage with the intended impact of aid. We have examined these controls and safeguards in this review but have not looked at DFID's assessments of intended impact.

1.10 Our assessment of DFID's activity in Afghanistan takes account of the special circumstances involved in working there. Figure 1 sets out factors applying to Afghanistan that in combination present a unique set of circumstances and challenges to aid delivery.

**Figure 1: Factors affecting DFID's work in Afghanistan**

Factors applying to Afghanistan
The Government of Afghanistan's capacity to work efficiently and effectively is extremely limited and it cannot operate without large-scale international support.
In a large-scale conflict-affected zone, it is necessary to co-ordinate activity among multiple donors, the Government of Afghanistan and non-governmental organisations (NGOs) and also to harmonise with military initiatives.
Due to the severe security situation and separation of staff from their families, special measures are needed to encourage staff to live and work in Afghanistan, as well as to promote their welfare. Typically, staff spend 12-18 months in post and take a break for two weeks in every eight-week period.
Enhanced levels of security are required to deal with the threat to life. As a result, DFID has no access to particularly dangerous parts of the country. The UN considers that more than 40% of the country is high risk for humanitarian organisations. <sup>9</sup>
Fraud and corruption are endemic. A recent Integrity Watch Afghanistan survey reported that one Afghan in seven experiences direct bribery and that bribes make up 31% of the average income. <sup>10</sup>
Anti-corruption measures in Afghanistan are ineffective. There are multiple agencies with ill-defined roles and limited independence. Afghan agencies such as the Ministry of Justice and the police force have a history of reported corruption. <sup>11, 12</sup>

Source: ICAI assessment

<sup>7</sup> The total value of programmes greater than £5 million is £42.4 million for 2011-12. For 2011-12, this proportion of £5 million-plus programmes is high because several schemes have substituted for the commitment to the Afghanistan Reconstruction Trust Fund into which DFID suspended payments.

<sup>8</sup> Lydia Poole, *Afghanistan: tracking major resource flows 2002 - 2010*, Global Humanitarian Assistance, January 2011, <http://www.globalhumanitarianassistance.org/report/afghanistan-tracking-major-resource-flows-2002-2010>.

<sup>9</sup> *Daily Hansard - Written Answers*, 21 June 2011, <http://www.publications.parliament.uk/pa/cm201011/cmhansrd/cm110621/text/110621w0003.htm>.

<sup>10</sup> *Afghan Perceptions and Experiences of Corruption - A National Survey 2010*, Integrity Watch Afghanistan, July 2010, [http://www.iwaweb.org/corruptionsurvey2010/Main\\_findings\\_files/IWA%20National%20Corruption%20Survey%202010.pdf](http://www.iwaweb.org/corruptionsurvey2010/Main_findings_files/IWA%20National%20Corruption%20Survey%202010.pdf).

<sup>11</sup> *Country Programme Evaluation Afghanistan*, DFID, May 2009, <http://www.oecd.org/dataoecd/5/28/47107291.pdf>.

<sup>12</sup> *Operations in Afghanistan - Fourth Report of Session 2010-12*, House of Commons Defence Committee, July 2011, [http://www.publications.parliament.uk/pa/cm201012/cmselect/cmdfence/554/554\\_pcf](http://www.publications.parliament.uk/pa/cm201012/cmselect/cmdfence/554/554_pcf).

<sup>13</sup> *Daily Hansard - Written Answers*, 16 June 2011, <http://www.publications.parliament.uk/pa/cm201011/cmhansrd/cm110616/text/110616w0003.htm#1106165000003>.

# 1 Introduction

1.11 Compared with other countries to which DFID provides development assistance, this combination of factors requires a particularly robust approach to risk management and an even more rigorous application of safeguards and controls to minimise the risk of leakage.

## Our approach

1.12 We have focussed our review work on ten programmes in Afghanistan which are broadly representative of DFID's current aid portfolio. Figure 2 on page 5 shows these ten programmes, indicating their start and finish dates and total value. The Annex provides a brief description of these programmes, to which we refer throughout this report. We also provide a list of abbreviations used at the end of the report.

1.13 Our review looked at four key areas of DFID's work in Afghanistan, focussing on the risk of leakage:

- **Objectives** – how is DFID taking account of risk in designing its programmes and in planning for the future? (Section 2);
- **Delivery** – how effective is DFID in managing and monitoring its programmes from a financial risk perspective? (Section 3);
- **Impact** – to what extent is there leakage of DFID funds and how effective are DFID's

actions to prevent it and address it when it occurs? (Section 4); and

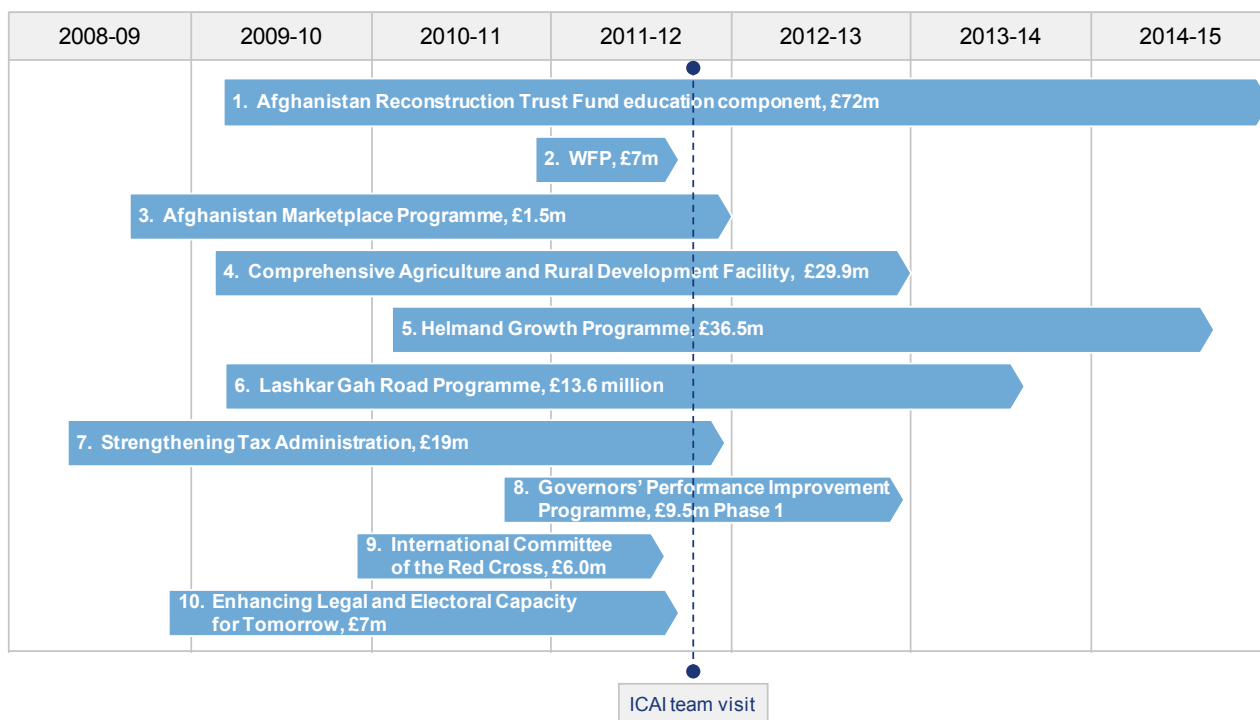
- **Learning** – how effective is DFID in applying lessons learned from its own experience, those of other donors and aid organisations and external reviews? (Section 5)

1.14 To answer these questions, we carried out desk-based research and visited Kabul for two weeks in November 2011. Our methodology included:

- interviews with DFID staff in the UK and Afghanistan, donors, partners, managing agents and non-governmental organisations (NGOs);
- interviews with Government of Afghanistan staff from the Ministry of Finance, as well as with technical advisers in the Ministry of Agriculture, Irrigation and Livestock and the Afghan Revenue Department;
- a UK workshop with NGOs working in Afghanistan;
- research on leakage issues; and
- a review of DFID programme documentation and supporting papers.

# 1 Introduction

Figure 2: Our ten sample programmes in Afghanistan



Source: DFID and ARIES system planned expenditures and timelines.

1.15 Given our focus on leakage in this review, we:

- analysed DFID documentation for evidence of leakage, for example financial management reports, programme monitoring reports and project completion reports;
- explored with DFID officers and their partners the areas of risk and the extent of work to assess leakage; and
- reviewed third party assessments of leakage in Afghanistan and similar contexts.<sup>14, 15, 16, 17</sup>

<sup>14</sup> *Transforming Wartime Contracting – Controlling Costs, Reducing Risks*, Commission on Wartime Contracting in Iraq and Afghanistan, August 2011, [http://www.whs.mil/library/Reports/CWC\\_FinalReport-lowres.pdf](http://www.whs.mil/library/Reports/CWC_FinalReport-lowres.pdf).

<sup>15</sup> Marie Chêne, *Corruption and Decentralisation in Afghanistan*, U4, <http://www.u4.no/publications/corruption-and-decentralisation-in-afghanistan/downloadasset/357>.

<sup>16</sup> Pete Ewins, Paul Harvey, Kevin Savage and Alex Jacobs, *Mapping the Risks of Corruption in Humanitarian Action*, July 2006, [http://www.transparency.org/content/download/8400/53941/file/Mapping\\_Risks\\_of\\_Corruption\\_in\\_Humanitarian\\_Action.pdf](http://www.transparency.org/content/download/8400/53941/file/Mapping_Risks_of_Corruption_in_Humanitarian_Action.pdf).

<sup>17</sup> Professor Rema Hanna, Sarah Bishop, Sara Nadel, Gabe Scheffler and Katherine Durlacher, *The effectiveness of anti-corruption policy - What has worked, what hasn't, and what we don't know*, July 2011, <http://eppi.ioe.ac.uk/cms/LinkClick.aspx?fileticket=9T7IIZ7LFw8%3d&tabid=3106&language=en-US>.

## 2 Objectives: Programme Design

### Assessment: Amber-Red



2.1 In this section, we look at how DFID considers risk when planning its programmes in Afghanistan. In this context, we have focussed on:

- how DFID designs its programmes; and
- what DFID needs to do to plan its programmes after 2014, when UK and other military resources are scheduled to withdraw.

2.2 We found that DFID's business cases do not provide sufficient detail on the risks of leakage. We also found that DFID does not sufficiently examine the risks of working with particular partners and through lengthy delivery chains in its processes. More detail on these risks will help DFID to balance the risk of leakage from programmes with their intended impact.

2.3 The UK Government signed an Enduring Strategic Partnership Agreement (on 28 January 2012) with the Government of Afghanistan, which includes broad development commitments. DFID now needs to complete the development of a plan for its programmes after 2014 which takes into account alternative scenarios and considers the options for an appropriate balance of programmes to mitigate future risks.

### Background

2.4 It is important to take full account of risks at the design stage, not only because the current political, economic and security situation is unstable but also due to the planned military withdrawal by the end of 2014.

2.5 Uncertainties are likely to intensify as the withdrawal of international combat troops, which has already started, completes by 2014 and:

- various Government of Afghanistan organisations prepare to take responsibility for security;
- Afghans vote in the 2014 presidential election and the 2015 parliamentary elections; and
- Government of Afghanistan efforts to close the predicted fiscal gap take effect. The

International Monetary Fund<sup>18</sup> estimates that in 2010-11 the fiscal deficit could be as high as 23% of Gross Domestic Product (GDP).

2.6 DFID's decisions about its post-2014 programmes will have implications for the UK's reputation as a partner in Afghanistan. It will also have implications for the stabilisation of some areas – principally Helmand – and for Afghan organisations' ability to run services and function with integrity.

### Designing the aid programme

2.7 We identified the following positive developments in DFID's approach to the design of its programmes:

- clear programme objectives in all ten programmes we reviewed;
- clear links to DFID's overarching strategies, the Government of Afghanistan's National Priority Programmes<sup>19</sup> and the wider international community;
- evidence of quality assurance in the design process;
- enhanced professional and technical support (although some gaps remain, for example in procurement); and
- a scaling-up of the staff training programme.

2.8 We recognise that DFID shows leadership within the international donor community. Organisations we interviewed described DFID as 'punching above its financial weight'. Examples of ways in which DFID demonstrates leadership include:

- the role it plays in influencing and providing technical support to multi-donor programmes. For example, DFID helped to negotiate improved governance arrangements for the Enhancing Legal and Electoral Capacity for Tomorrow (ELECT) programme support provided by the United Nations Development Programme (UNDP) in the run-up to the 2009 presidential elections;

<sup>18</sup> *IMF Country Report No. 11/330*, International Monetary Fund, November 2011, <http://www.imf.org/external/pubs/ft/scr/2011/cr11330.pdf>.

<sup>19</sup> The National Priority Programmes comprise 22 initiatives established by the Government of Afghanistan with multi-donor support, for example to develop national transparency and accountability.



## 2 Objectives: Programme Design

- the early contributions it makes to the appeals of humanitarian agencies which help to leverage other donors' contributions; and
- its focus on monitoring and evaluation and use of tools focussed on results.

2.9 Key to the effective management of leakage and the focus of our review is DFID's assessment of the different types of risk faced by its programmes. At the design stage, DFID does not complete a detailed risk assessment of leakage. We have the following concerns about DFID's approach to the design of programmes and to the assessment of risk:

- **Long delivery chains:** DFID and its managing agents have established long delivery chains involving several organisations. The micro-financing aid programme that forms part of the Helmand Growth Programme, for example, has at least four layers of governance between DFID and the Afghan borrower with oversight from the World Council of Credit Unions. Often, programmes involve working in remote provinces where there is significant conflict. In these areas, it is difficult and dangerous to carry out physical spot checks as to whether aid is passing through the delivery chain at each stage to reach its intended beneficiaries. DFID does not always clearly identify these risks in its case for funding or explain how it will manage them;
- **Assessment of managing agents:** some organisations which DFID funds lack the necessary capacity or capability to spend money effectively in the timescale envisaged. For example, DFID allocated £2 million in its 2011-12 expenditure plan for the Afghanistan Rural Enterprise Development Programme (AREDP). This involved a government body implementing a project in the Helmand Growth Programme. UNDP signed a letter of agreement with the Ministry of Rural Rehabilitation and Development in June 2011. At the end of November 2011, however, the AREDP was still in its start-up phase with much preparatory work to complete before the aid

would be received by the intended beneficiaries;

- **Independent risk assessments:** DFID has placed considerable reliance on the outcome of its *Multilateral Aid Review*<sup>20</sup> published in March 2011. The review rated the performance of 43 aid organisations but their global ratings are not necessarily indicative of their performance in a particular country. For example, UNDP received a 'good' rating but DFID's 2010 Annual Review of its ELECT programme identified many weaknesses. DFID completed a comprehensive Fiduciary Risk Assessment (FRA) for Afghanistan in 2008 and has since updated it annually. DFID recognises, however, that a country-wide FRA does not fully consider the specific risk environment for particular programmes. DFID therefore plans to undertake more detailed assessments of its partners, for example the Asian Development Bank. We support this initiative and recommend extending this approach to other institutions, provinces or sectors;
- **Planning with imperfect data:** DFID treats many of the data sources in Afghanistan with caution:
  - the Central Statistics Organisation in Afghanistan produces a range of statistical data but it will take time to strengthen its overall performance;<sup>21</sup>
  - the last population census was conducted in 1979;
  - the quality of data from other surveys, such as the National Risk and Vulnerability Assessment, is variable; and
  - research does not always capture women's perspectives and therefore their views are not fully reflected when planning programmes.

DFID does, however, have access to detailed statistical data relating to households' perceptions of organisational performance and

<sup>20</sup> *Multilateral Aid Review – Ensuring maximum value for money for UK aid through multilateral organisations*, DFID, March 2011, [http://www.dfid.gov.uk/Documents/publications1/mar/multilateral\\_aid\\_review.pdf](http://www.dfid.gov.uk/Documents/publications1/mar/multilateral_aid_review.pdf).

<sup>21</sup> ICAI review team interviews with DFID in Afghanistan.

## 2 Objectives: Programme Design

services where the UK presence is strong both militarily and in aid work in Helmand and its districts. DFID is also funding a project to improve the Central Statistics Organisation's data collection and publications. Although these new and improved data sources should provide more robust data, DFID's current plans do not sufficiently take into account the risks that flow from reliance on poor-quality data; and

- **Donor co-ordination:** DFID participates in structured and frequent meetings with donors, managing agents and the Government of Afghanistan, for example with regard to the ARTF and on the Government's National Priority Programmes. DFID does not have a consistent approach to co-ordinating its activities with other donors across its programmes. For example, while DFID reported good donor co-ordination for its Civilian Technical Assistance Programme, Performance Based Governance Fund and District Delivery Programme, we found instances where detailed co-ordination did not take place at programme level.

Any lack of co-ordination between donors at the programme level increases the risk that unscrupulous beneficiaries or suppliers or managing agents could obtain funds from multiple sources for the same purpose. We did not identify any instances of this kind of leakage as part of our work.

### Planning for the transition in 2014

2.10 The UK Government has joined the international community in committing to Afghanistan in the longer term. This includes the recent signing of an Enduring Strategic Partnership Agreement between the UK and Afghan governments which contains development commitments.<sup>22</sup> In order to fulfil this commitment successfully, DFID will have to consider and monitor the risks involved and construct a medium-term programme which it can modify as events unfold. DFID has discussed with us its plans to date.

2.11 We identified the following areas on which DFID needs to focus in preparing robust and detailed plans:

- **Security changes:** local security firms are likely to replace international private security contractors in 2012 (by edict of the Afghan President). Managing agents to whom we spoke reported a lack of confidence in these new arrangements. Although those interviewed represent a small sample, this change could have a negative impact on aid monitoring in particular;
- **Managing agents' willingness to work in Afghanistan:** DFID has not assessed which managing agents are willing to work in Afghanistan after 2014 or the implications of local security conditions for DFID's planned approach to monitoring and evaluating its programmes;
- **Afghan readiness to manage:** a successful exit strategy for each of the ten programmes we reviewed depends to some extent on building up the capacity of Afghan organisations currently working with DFID and its managing agents. These organisations include ministries, provincial governors' offices and NGOs such as the Independent Electoral Commission. DFID's aspiration is that in three years' time these organisations will be less dependent on technical assistance and will have increasingly begun to operate assurance and control systems which safeguard against fraud and corruption. DFID expects, however, that most institutions will require continuing assistance over the long term. Our assessment is that the low skill base of many Afghan organisations represents a major risk to achieving this aim. This conclusion applies especially to those large organisations which are overseeing complex change programmes, such as the tax regime in the case of the Afghan Revenue Department; and
- **The impact of donor commitments after 2014:** some aid programmes depend on the ongoing contribution of several donors. In certain cases, for example the ARTF Education

<sup>22</sup> Foreign Secretary William Hague, 9 February 2012, <http://www.publications.parliament.uk/pa/cm201212/cmhansrd/cm120209/debtext/120209-0002.htm>.

## 2 Objectives: Programme Design

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programme, the major donor (DANIDA, the Danish International Development Agency) shares DFID's level of commitment. In other cases, for example USAID's funding of the Governors' Performance Improvement Programme, the continued support of DFID's partners is more uncertain. Moreover, the Peace Dividend Trust (a non-profit organisation involved in peace building and humanitarian aid) has succeeded in developing the ability of Afghan suppliers to win international buyers and government contracts with local goods and services. This success may diminish after transition unless either or both the Government of Afghanistan and donors can identify new markets or finance more infrastructure development.

# 3 Delivery: Financial Grip

## Assessment: Amber-Red



3.1 In this section, we look at how DFID controls financial risks and leakage through its arrangements for financial management. We focus on:

- **Financial management and reporting:** to establish a robust approach that tackles leakage; and
- **Understanding cost in programmes:** to improve financial management.

3.2 DFID in Afghanistan has not yet established systematic, robust and detailed financial management systems to manage risks in the delivery of aid in the Afghan context. Our conclusion is that, while DFID has taken steps in the right direction, it remains exposed to the risk of leakage as a result of insufficient staff with financial skills, the lack of clear and detailed financial reporting and a deficiency in risk management procedures beyond the first managing agent in the delivery chain.

## Background

3.3 Previous external and internal reviews, for example by the National Audit Office (NAO) in February 2008, noted that DFID needs better financial management.<sup>23</sup> DFID has since developed a Finance Improvement Plan, Finance for All,<sup>24</sup> which aims to:

- develop finance capability;
- improve basic finance practices of budgeting, forecasting and reporting;
- improve value for money; and
- deal with the risks of fraud and corruption.

3.4 Implementation of the plan is underway in Afghanistan. We comment on measures that will help to complement and prioritise this plan.

## Financial management and reporting

3.5 Each DFID programme has a manager who is responsible for delivery and reporting on financial performance. Each programme also has one or more nominated advisors. The managing agents responsible for aid delivery treat the DFID programme manager and nominated advisors as their first point of contact for administrative and technical matters respectively. In addition, the DFID office in Afghanistan employs two economists. DFID uses these and other staff with statistical and other relevant expertise to help to monitor and evaluate progress.

3.6 In July 2011, DFID introduced weekly finance meetings led by the Deputy Head of Office with all relevant team leaders to review programme finances. DFID has held these meetings fortnightly since October 2011. The DFID office in Afghanistan contributes monthly to the financial reporting of the Western Asia and Stabilisation Division (WASD) based in London.

3.7 We identified the following areas where action is needed to strengthen the financial management of DFID's programmes:

- **Skills and experience:** in managing programmes, DFID staff in Afghanistan have a range of financial responsibilities. We found significant scope to improve the capacity of financial management support to these staff (few of whom hold a relevant accounting qualification) and to grasp fully each programme's financial risks and to quantify the leakage in delivery;
- **Financial reporting:** the office in Afghanistan maintains a schedule of programme finances for 2011-12 of 58 items split by capital (7 items) and resource (51 items) expenditure using information from ARIES,<sup>25</sup> DFID's accounting system. We found inconsistent financial data reported internally by DFID. For example:

<sup>23</sup> Department for International Development – Providing budget support to developing countries, National Audit Office, February 2008, <http://www.nao.org.uk/idoc.ashx?docId=211fc6ec-249c-4651-9da1-5b380344faf6&version=-1>.

<sup>24</sup> DFID's Finance Improvement Plan, Finance for All Version 1, DFID, September 2011, <http://www.dfid.gov.uk/Documents/publications1/finance-imp-plan.pdf>.

<sup>25</sup> 'DFID has two separate budget allocations within the total amount of public expenditure which are controlled through setting of Departmental Expenditure Limits (DEL). The two budgets are for net resource spending (including a ring-fenced amount for administration costs) and for net capital expenditure.' Source: Annual Report and Accounts 2010-11, DFID, July 2011, <http://www.dfid.gov.uk/Documents/publications1/departmental-report/2011/Annual-report-2011-volII.pdf>. On occasion, DFID refers to 'current' or 'revenue' for the term resource. For consistency we have used the term resource.

### 3 Delivery: Financial Grip

- the WASD report for October 2011 contained a full-year forecast for resource spending of £162.1 million versus the DFID schedule of £166.5 million;
- the WASD report for November 2011 reported a total project budget for resource spending of £205.2 million versus the DFID schedule of £73.4 million; and
- the WASD report for November 2011 reported a resource pipeline of £12.7 million versus the DFID schedule of £85.7 million.<sup>26</sup>

Repeated attempts by DFID during 2011 to resolve differences and achieve greater consistency with figures from DFID staff in Afghanistan have not succeeded to date;

- **Access to financial systems:** staff cannot always access DFID's financial systems online because of longstanding difficulties with IT connectivity in the Kabul office. This undermines staff confidence in the quality of reported data. DFID reports that these issues have been resolved since our visit;
- **Financial reporting by programme:** at the programme level, teams use a variety of systems to monitor and report expenditure. We understand that different programmes require different levels of detail but DFID would benefit from greater consistency and clarity in the format of summarised reports from managing agents and the frequency with which it expects updates. In addition, we saw no evidence that DFID's financial reporting included routine and frequent assessment of leakage;
- **Financial targets:** financial performance focusses heavily on achieving planned expenditure levels for the year. DFID has a history of increasing expenditure in the latter months of the financial year, i.e. up to March, as is illustrated in Figure 3 on page 12. In 2009-10 and 2010-11, the last month's expenditure on the programmes we examined (excluding ARTF), as a percentage of their total expenditure for the year, was 48% and 46%

respectively. Several DFID staff referred to pressure to use their allocation before the year-end.<sup>27</sup> Despite this expenditure profile, we found that, in the last month of the 2010-11 financial year, DFID complied with its procedures for authorising major payments; and

- **Financial rules:** We found payments made in advance of need for some DFID programmes. DFID's Guide to Rules and Tools (its '*Blue Book*') states that 'as a general rule, DFID should not make advance payments' and that 'an advance payment must not be paid until there is the need to use the funds'.<sup>28</sup> In March 2011, DFID transferred £23.6 million to the Asian Development Bank on the basis of information provided by the bank on a funding requirement. The funds remained unused, however, for over six months. The view of many NGOs is that accelerating donor expenditure in advance of need leads to an increased risk of leakage.<sup>29</sup> DFID has limited ability to hold unspent monies from one year to the next.

3.8 It is not easy for DFID to manage these issues and develop solutions to them. This is partly because DFID relationships with partners and managing agents are disrupted:

- in the long term, by staff being in post for a shorter time than most programmes; and
- in the short term, by the practice of a two-week break every eight weeks.

3.9 As a result, DFID staff in Afghanistan have to spend time managing handovers with each other. Since early 2011, DFID has increased its Afghan national staff complement to address continuity issues.

<sup>26</sup> DFID Western Asia Finance Report, DFID, October and November 2011 and DFID Afghanistan financial monitoring spreadsheets.

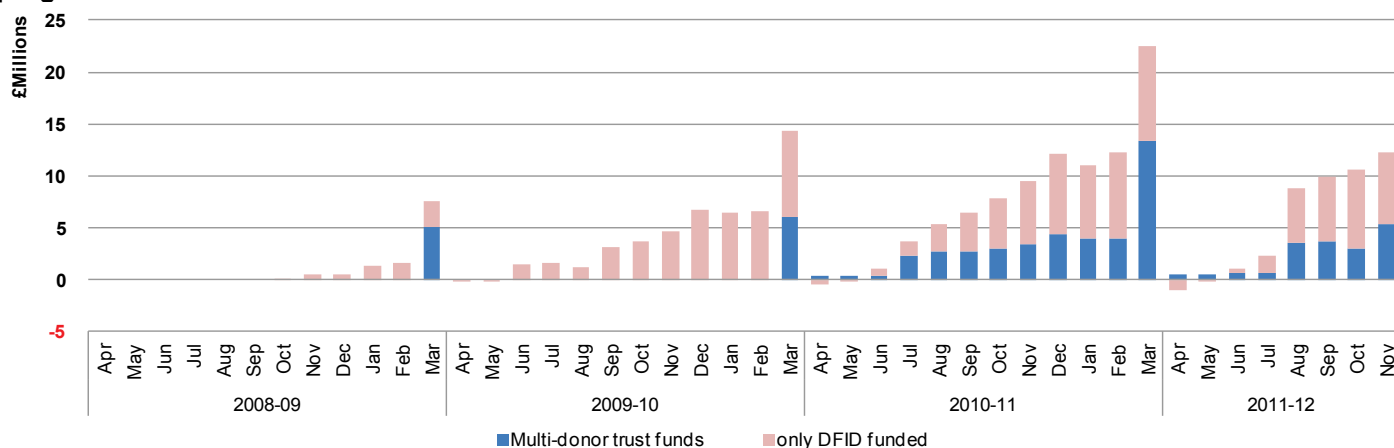
<sup>27</sup> ICAI review team interviews with DFID in Afghanistan.

<sup>28</sup> DFID's Guide to Rules and Tools, DFID, 2011, <http://www.dfid.gov.uk/About-us/Our-organisation/blue-book/Blue-Book-index-A-to-C/C2/>.

<sup>29</sup> Based on ICAI discussions with NGOs held in the UK and Afghanistan.

# 3 Delivery: Financial Grip

**Figure 3: Cumulative monthly DFID expenditure 2008-09 to 2011-12 (to November 2011) across nine programmes<sup>30</sup>**



Source: ARIES

3.10 DFID has not prioritised actions in its Finance Improvement Plan on those that focus on preventing and monitoring leakage. We support the actions that tackle leakage and these would benefit DFID if completed as early as possible. These actions and current dates are:

- an improved suite of ARIES financial and non-financial reports which can provide targeted core information, by March 2012;
- a strategy to manage the risk of financial loss, by March 2012;
- an evaluation tool to provide ongoing and longer-term monitoring of local financial management practice, by March 2013; and
- a strategic scenario-based forecasting tool, by June 2013.

3.11 DFID's Finance Improvement Plan also aims to establish a finance group able to control and support others by March 2012 with training policies, professional support and guidance for all those in finance and other relevant roles. Successful implementation will depend on the availability of adequate resources.

## Understanding cost in programmes

3.12 DFID must ensure that it understands costs in the delivery chain and the incentives and opportunities that exist to manipulate its investment. This information will help DFID to understand the risks of leakage and to commission preventative and mitigating actions across its programmes.

### *Understanding cost in the development of business cases*

3.13 In the development of its business cases for new programmes, DFID relies heavily on third parties for financial information. While DFID Afghanistan appraises value for money issues in its business case and tendering processes, DFID does not routinely:

- specify sources of information in its business cases to assure the reader of their reliability; or
- undertake further cost comparison work to verify the managing agent's figures. For example, security costs are a significant proportion of total programme costs.<sup>31</sup> DFID does not, however, use its financial systems to inform its business case appraisal or routinely provide an analysis of this area of expenditure.

3.14 Effective preventative actions and incentive-based interventions depend on a sound understanding of the cost throughout the delivery chain. Recent

<sup>30</sup> The Afghanistan Reconstruction Trust Fund programme is not included in the chart because the timing and size of its payments would lose the detail to the reader illustrated across the remaining nine programmes. The chart data from DFID's systems has not been adjusted for credits in some months which results in lower-than-expected payments.

<sup>31</sup> For example, the CARD-F programme was forecast to spend 13% of its funds on security in 2011.

## 3 Delivery: Financial Grip

research, partly sponsored by DFID, reports that these approaches (both financial and non-financial) have the potential to reduce corruption, at least in the short term.<sup>32</sup>

3.15 Of the ten programmes we selected, only two had incentive-based payments:

- the Governors' Performance Improvement Programme varied one-third of provincial governors' monthly allowances by 25% (up or down) based on their performance as assessed by The Asia Foundation (TAF); and
- the Comprehensive Agriculture and Rural Development Facility (CARD-F) programme had a staged incentive scheme for meeting certain objectives.

3.16 By increasing its use of financial benchmarks and cost comparisons, DFID can demonstrate value for money, devise further incentive-based schemes and share its wider experience with other donors in the economic delivery of aid.

### *Monitoring and reporting costs*

3.17 DFID receives information on cost from its managing agents' financial and performance reports. DFID relies on its managing agents for the format, content and justification of the figures provided. Our review of these schedules and narrative reports identified the following opportunities to strengthen DFID's financial management:

- **The link between activities undertaken and costs incurred:** managing agent reports contained limited information that directly linked non-financial activities to expenditure. For example, they provided tables of contractor days, unit costs and resulting total expenditure but not in the context of the activities carried out or progress against milestones for achieving results;
- **The format of financial reporting:** greater consistency and quality in reporting will help to improve understanding, transparency and

opportunities for challenge. For example: the year-to-date position should be shown separately from forecasts; tables, charts and shorter factual narratives should be used more frequently; and uniform expenditure categories should be used across programmes; and

- **Depth of financial reporting:** many reports concentrated on supporting invoices received from managing agents. Few reports explained in greater depth costs incurred further down the delivery chain.

3.18 Collecting and assessing this type of information should help to inform DFID's risk assessment for leakage and for fraud and corruption more generally. DFID will be better placed to scrutinise and challenge its managing agents on their assessment of future costs if it receives routine progress reports on a range of non-financial indicators.

<sup>32</sup> Professor Rema Hanna, Sarah Bishop, Sara Nadel, Gabe Scheffler and Katherine Durlacher, *The effectiveness of anti-corruption policy - What has worked, what hasn't, and what we don't know*, July 2011, <http://eppi.ioe.ac.uk/cms/LinkClick.aspx?fileticket=9T7IIZ7LFw8%3d&tabid=3106&language=en-US>.

# 4 Impact: Identifying and Addressing Leakage

## Assessment: Amber-Red



4.1 In this section, we consider the extent to which DFID aid to Afghanistan is subject to leakage by examining:

- how DFID and its managing agents have assessed the level of leakage;
- what measures DFID has put in place to prevent fraud and corruption and whether they are adequate; and
- how effective DFID is in dealing with fraud and corruption.

4.2 We conclude that there is a lack of understanding about the level of leakage and that DFID should be more proactive in taking both preventative and remedial action to deal with fraud and corruption. In common with other reviews conducted by governments, NGOs and academics,<sup>33</sup> we identified scope for DFID to:

- do more to calculate leakage, working with its partners and managing agents;
- strengthen the controls that are in place throughout aid delivery chains and ensure that its managing agents make these controls work effectively; and
- investigate robustly the causes of leakage when it does occur.

## Background

4.3 Many sources of evidence suggest that fraud and corruption are endemic in Afghanistan. For example:

- the Corruption Perceptions Index published annually by Transparency International shows Afghanistan to be in the bottom five countries (out of 180) for each year from 2007 to 2011;<sup>34</sup>

- an Integrity Watch Afghanistan survey in 2010 reported that the security and judiciary institutions were the most corrupt but that fraud and corruption affected all basic services including education and health;<sup>35</sup> and
- a United Nations Office on Drugs and Crime report in 2010 estimated that bribery consumes an amount equal to 23% of Afghanistan's GDP.<sup>36</sup>

## Assessing the extent of leakage

4.4 Neither DFID nor its managing agents have made a comprehensive assessment of the level of leakage. Managing agents we spoke to either did not provide us with an estimate of leakage levels or estimated them to be low. As a result, we were unable to review any estimate of leakage in the absence of DFID systems. We found that:

- fewer than 25% of organisations interviewed in the course of our investigation were willing to estimate the amount of leakage;
- partners' and managing agents' estimates are lower than comparators – estimates ranged from 0.5% to 2% of the value of aid. By contrast, the UK's National Fraud Authority estimates that UK public sector fraud accounts for 3% of total public sector expenditure.<sup>37</sup> The US Commission on Wartime Contracting in Iraq and Afghanistan estimated that fraud in the last ten financial years accounted for between 5% and 9% of the US\$206 billion expenditure,<sup>38</sup> and
- organisations in the delivery chain have a vested interest in reporting success and not focussing heavily on fraud and corruption. Most organisations we interviewed commented that

<sup>33</sup> Examples by government: *Transforming Wartime Contracting – Controlling costs, reducing risks*, Commission on Wartime Contracting in Iraq and Afghanistan, August 2011, [http://www.whs.mil/library/Reports/CWC\\_FinalReport-lowres.pdf](http://www.whs.mil/library/Reports/CWC_FinalReport-lowres.pdf).

NGO: *White paper: Being Smart about Development in Afghanistan*, International Rescue Committee, February 2008, [http://www.rescue.org/sites/default/files/resource-file/White\\_Paper\\_Smart\\_Development\\_Final.pdf](http://www.rescue.org/sites/default/files/resource-file/White_Paper_Smart_Development_Final.pdf).

Academic: *Corruption, Anti-Corruption Efforts and Aid: Do Donors Have the Right Approach?*, Ivar Kolstad, Verena Fritz and Tam O'Neil, January 2008, <http://www.odi.org.uk/resources/docs/2267.pdf>.

<sup>34</sup> *Corruption Perceptions Index*, Transparency International, published annually, [http://www.transparency.org/policy\\_research/surveys\\_indices/cpi](http://www.transparency.org/policy_research/surveys_indices/cpi).

<sup>35</sup> *Afghan Perceptions and Experiences of Corruption: a national survey 2010*, Integrity Watch Afghanistan, July 2010, [http://www.iwaweb.org/corruptionsurvey2010/Main\\_findings\\_files/IWA%20National%20Corruption%20Survey%202010.pdf](http://www.iwaweb.org/corruptionsurvey2010/Main_findings_files/IWA%20National%20Corruption%20Survey%202010.pdf).

<sup>36</sup> *Corruption in Afghanistan: Bribery as Reported by Victims*, United Nations Office on Drugs and Crime, January 2010, <http://www.unodc.org/documents/data-and-analysis/Afghanistan/Afghanistan-corruption-survey2010-Eng.pdf>.

<sup>37</sup> Based on the estimated UK public sector fraud cost of £21.2 billion published in the *Annual Fraud Indicator*, National Fraud Authority, January 2011, <http://www.homeoffice.gov.uk/publications/agencies-public-bodies/nfa/annual-fraud-indicator/annual-fraud-indicator-2011?View=Binary> divided by the UK total public spending of £692 billion for 2010-11 published in [http://www.hm-treasury.gov.uk/d/pesa\\_2011\\_chapter1.pdf](http://www.hm-treasury.gov.uk/d/pesa_2011_chapter1.pdf).

<sup>38</sup> *Transforming Wartime Contracting – Controlling Costs, Reducing Risks*, Commission on Wartime Contracting in Iraq and Afghanistan, August 2011, [http://www.whs.mil/library/Reports/CWC\\_FinalReport-lowres.pdf](http://www.whs.mil/library/Reports/CWC_FinalReport-lowres.pdf).



# 4 Impact: Identifying and Addressing Leakage

fraud and corruption were either non-existent or trivial within their programmes. Whilst they noted suspicions of fraud and corruption, they were unable to provide tangible evidence.

4.5 How can national and international perceptions of fraud and corruption be reconciled with the reported experiences within DFID's programmes? While DFID has implemented many basic controls, we found that it has not:

- verified the delivery to intended beneficiaries on the ground, because of limited programme design or security risks;
- developed a robust risk management system. Only two entries in DFID's Afghanistan risk register capture programme-specific risks. This document does not capture any financial impact on DFID's programmes, the impact of any mitigating actions on risk and details of, or references to, programme milestones where the effectiveness of actions could be further reviewed; or
- developed a proactive approach to identifying fraud and corruption – although work is underway corporately in response to ICAI's November report on corruption.<sup>39</sup> Between January and November 2011, DFID's Counter Fraud Unit received no reports of alleged fraud relating to Afghanistan. In the previous three years, it received 15 reports relating to Afghanistan, roughly one for every £30 million of aid. Of the 14 closed cases at the time of our review, seven were investigated and deemed unproven or resulted in no loss. Seven resulted in further actions including contract changes, asset recovery, arrests or staff dismissals from the organisations concerned.

4.6 With improved verification of delivery and more proactive risk management and fraud processes, DFID should be able to produce more reliable estimates of leakage. This information will also help DFID to inform and improve its option appraisal in business cases and the development of controls.

## Measures to prevent fraud and corruption

4.7 We found that basic safeguards were in place for all of the ten programmes we reviewed. For example:

- payments were made in arrears and only on the receipt of a validated invoice;
- there was a separation of duties, for example in cash handling; and
- money transfers such as salaries were wired directly into personal bank accounts with no cash handling and no intermediary agencies involved.

4.8 Examples of controls being applied effectively include:

- the Peace Dividend Trust (PDT) carries out business verification checks on firms before entering them onto their database for the Afghanistan Marketplace programme. PDT checks both that the firms' tax certificates and payments are up to date and that they have the capacity they claim to have;
- the International Committee of the Red Cross has introduced trackers onto vehicles and uses software to compare fuel consumption levels; and
- the ARTF uses organisations to carry out physical inspections to verify that schools have received equipment.

4.9 Despite these safeguards, DFID does not have a comprehensive approach to counter-fraud and anti-corruption initiatives in the management and monitoring of its programmes. As a result, DFID does not know, for the majority of programmes, what proportion of aid actually reaches its intended beneficiaries.

4.10 DFID can do more work with its partners and managing agents to recognise, to understand and to address the risks of leakage at each level in the delivery chain. It can also strengthen its management processes, for example by:

- carrying out more specific risk assessments. As stated in Section 2, DFID does not supplement the 2011 *Multilateral Aid Review* with its own in-country assessments of organisations' performance. It does not carry out more specific

<sup>39</sup> *The Department for International Development's (DFID) Approach to Anti-Corruption*, ICAI, November 2011, <http://icai.independent.gov.uk/wp-content/uploads/2010/11/DFIDs-Approach-to-Anti-Corruption.pdf>.

# 4 Impact: Identifying and Addressing Leakage

FRAs, for example of particular sectors, geographical areas or organisations. These assessments, incorporating local intelligence, have the potential to play an increasingly important role as transition approaches;

- addressing the potential risks of fraud and corruption prominently in all business cases, in quarterly and annual reviews of programmes and in the documents which record results against milestones and targets; and
- specifying the types of checks that should be carried out and requiring managing agents to report on the outcomes of those checks. We recognise that the security situation may impose constraints on some types of activity but we encourage DFID to explore the potential for greater use of technology.

4.11 We identified examples where DFID can build upon existing good practice to develop the risk awareness of its partners and managing agents. For example, the World Food Programme (WFP) adopts a proactive and robust approach through commercial contracts and documentation about the shipment of goods. In its microfinance programme (part of the Helmand Growth Programme), the World Council of Credit Unions has developed detailed control systems, including using local examiners to check loan applications and evidence that borrowers can repay their loans.

## Dealing with fraud and corruption

4.12 DFID needs to adopt a more rigorous approach to detecting and investigating fraud and corruption, to set out explicit and consistent strategies for its partners and managing agents and to feed lessons learned into the design and implementation of future programmes.

4.13 The Government of Afghanistan's anti-corruption initiatives are pursued by several organisations with ill-defined roles and responsibilities. They have to manage their way through a labyrinth of procedures and are largely ineffective. Moreover, there is evidence that some anti-corruption agencies are themselves corrupt.

4.14 We did, however, find examples of DFID and its partners and managing agents acting on some cases of alleged or proven fraud. For example:

- DFID terminated and re-started the procurement process for the Lashkar Gah to Gereshk road following allegations made to DFID and the design contractors;
- UNDP cancelled a fuel contract for vehicles transporting election equipment to polling stations;
- two teachers received prison sentences for fraud on WFP's high-energy biscuits programme; and
- PDT used independent auditors to investigate corruption allegations and immediately implemented their recommendations.

4.15 As noted earlier, DFID in Afghanistan has made few reports to the Counter Fraud Unit in the last three years and none in the first 11 months of 2011. It places reliance on its partners and managing agents to deal in the first instance with suspicions of fraud and corruption. Organisations in the delivery chain necessarily have a vested interest in reporting success and not focussing heavily on fraud and corruption.

4.16 The Memoranda of Understanding (or similar agreements) with managing agents do not adequately address their responsibilities on fraud and corruption. In addition, there is a lack of clarity about imposing contractual requirements to report suspicions or evidence of fraud. For example, Adam Smith International, which manages the Strengthening Tax Administration programme, is not required to report fraud and corruption other than when perpetrated by its own staff, its agents or sub-contractors. WFP, however, reports that it is legally obliged to inform DFID of fraud.

4.17 Finally, we recognise that prevention is better than cure. In the Afghanistan context, putting effective controls in place at the programme design stage is critically important because fraud may be undetectable, especially in long delivery chains. Even if it is detectable, establishing sufficient proof and applying effective remedies can be extremely difficult.

# 5 Learning

## Assessment: Green-Amber



- 5.1 In this section, we consider how DFID is learning and needs to learn from its experience in planning and managing risk in its programmes in Afghanistan.
- 5.2 Our assessment is that, while DFID shows that it is learning from other aid models and donors, it is not rigorously following up and implementing NAO and Public Accounts Committee (PAC) recommendations.

### Background

- 5.3 In justifying and designing its aid programmes, DFID's guidance specifies that lessons learned from DFID or other donor programmes must be considered. These lessons could include points from annual reviews, programme completion reviews or independent evaluations.
- 5.4 In recent years, NAO and PAC have made a series of recommendations to DFID about improving its risk management and addressing fraud and corruption.

### Learning from other aid programmes

- 5.5 Aid models in other conflict-affected and fragile states have helped to influence several DFID programmes, thus helping to mitigate risk. For example:
- PDT's programme to match international buyers with local suppliers in Helmand is based on a successful two-year Canadian International Development Agency programme in five other provinces;
  - experiences in Kosovo have influenced the ELECT programme to oversee free and fair elections; and

- the Governors' Performance Improvement Programme, which incentivises provincial governors to manage budgets efficiently and effectively, takes into account similar schemes in Nepal and Uganda.

- 5.6 The relatively new Joint Programme Results Team within DFID is helping to ensure that lessons are learned across programmes. An injection of some skill sets is required, however, principally around finance and procurement (as discussed in Section 3).

### Implementing recommendations of reviews

- 5.7 DFID has responded in part to recommendations raised by NA and PAC but in Afghanistan they have not always been followed through. DFID's progress is shown in Figure 4 on page 18.
- 5.8 Similarly, internal reviews at DFID have previously made recommendations to improve practice which have not always been addressed. Examples include:
- DFID's reliance on a few high-expenditure programmes. In 2007-08, one internal review pointed out that any interruption to the ARTF programme would pose a significant threat to DFID's ability to use its allocated budget. DFID suspended its funding of this programme in 2011 for seven months; and
  - DFID's ineffective monitoring of a US\$13.4 million unspent balance from one large advance payment in 2007-08 for the Afghan Stabilisation Programme. Subsequently, DFID made a payment of £23.6 million in March 2011 to the Asian Development Bank for the Afghanistan Infrastructure Trust Fund but the funds remained unused for over six months.

# 5 Learning

**Figure 4: DFID's actions following NAO and PAC recommendations**

Previous recommendations	DFID actions
<i>'DFID should ... strengthen its risk assessments ... make more explicit its judgement of the significance of system weaknesses for potential inefficiencies or leakage of aid ... use more quantified estimates of these factors where possible.'</i> <sup>40</sup>	At a high level, DFID has responded by updating policy on budget support and the use of FRAs and Annual Statements of Progress. DFID in Afghanistan does not quantify leakage.
<i>'Where it assesses financial risks to be high, DFID should disclose the scale and nature of these risks and offer its best estimate of the levels of corruption, waste and inefficiency.'</i> <sup>41</sup>	DFID in Afghanistan has not calculated or estimated the level of fraud and corruption associated with its programmes.
<i>'The Department is too reactive and cannot provide Parliament and the taxpayer with a clear picture of the extent, nature and impact of leakage... The Department should do more to establish the impact on its business, by corraling the knowledge it already has and through research... The Department recognises the need to continue to improve financial management. Plans should be firmed up urgently, with specified action points and milestones and clear accountabilities.'</i> <sup>42</sup>	DFID has developed a Financial Improvement Plan and updated FRA guidance. In Afghanistan, financial management still needs improvement.
<i>'Each ... business case should set out: how the Department has designed the project to reduce the risk of leakage; an assessment of any residual risk of leakage; and how this risk will be managed.'</i> <sup>43</sup>	DFID in Afghanistan has yet to adopt this practice consistently.

<sup>40</sup> Department for International Development – Providing Budget Support to Developing Countries, National Audit Office, February 2008, <http://www.nao.org.uk/idoc.ashx?docId=211fc6ec-249c-4651-9da1-5b380344faf6&version=-1>.

<sup>41</sup> Department for International Development: Providing Budget Support for Developing Countries – Twenty-seventh Report of Session 2007-08, House of Commons Committee of Public Accounts, May 2008, <http://www.publications.parliament.uk/pa/cm200708/cmselect/cmpubacc/395/395.pdf>.

<sup>42</sup> Department for International Development - Financial Management Report, Comptroller and Auditor General HC 820 Session 2010–2012, 6 April 2011, <http://www.official-documents.gov.uk/document/hc1011/hc08/0820/0820.pdf>.

<sup>43</sup> DFID Financial Management – Fifty-second Report of Session 2010–12, House of Commons Committee of Public Accounts, October 2011, <http://www.publications.parliament.uk/pa/cm201012/cmselect/cmpubacc/1398/1398.pdf>.

# 6 Conclusions and Recommendations

## Conclusions

6.1 DFID is working in an exceptionally complex and challenging environment in Afghanistan to secure improvements in the economic and social well-being of its population. It is playing an important role to help to build the capacity of the Government of Afghanistan so that it can take on more responsibility following the planned security withdrawal in 2014. It has a highly committed, respected and experienced senior team and a professional reputation amongst other aid organisations working in Afghanistan.

6.2 In the context of working in Afghanistan, DFID's risk management processes do not give sufficient prominence to and are not explicit about risk in the design, development and management of programmes. DFID relies heavily on its partners and managing agents to minimise the risks of fraud and corruption. While it carries out assessments of partners' systems and controls in all business cases, these need to be more thorough including how effectively they carry out this role.

6.3 DFID has set clear objectives for its programmes linked to the overall strategy of the Government of Afghanistan and the wider international community. DFID is also producing more rigorous business cases for aid but these do not adequately assess the risks of:

- delivering aid in more remote, insecure areas;
- long delivery chains; and
- managing agents' ability to deliver programmes at the pace DFID intends.

6.4 As a result, DFID does not fully document the risk of leakage against value for money and achieving the desired impact.

## Recommendations

**Recommendation 1: DFID should make explicit in its funding decisions how it is assessing and taking into account the risk of leakage and balancing that risk against the benefits the programmes are designed to deliver.**

6.5 Individual business cases need to set out:

- the factors potentially leading to leakage from aid and actions to mitigate; and
- the managing agents' ability to spend and to deliver to plan.

6.6 DFID lacks visibility of financial management throughout its delivery chains and relies on its partners' and managing agents' systems to monitor and report leakage. DFID has enhanced its skills – for example by employing more economists – but lacks professional, financial and procurement support for its work, including in developing robust business cases. DFID has plans to address this. DFID does not understand in depth the costs of delivering aid throughout the delivery chain and therefore it has an inadequate view of leakage in its financial monitoring and reporting of risk.

**Recommendation 2: DFID needs to deploy people with more financial and procurement skills to improve its financial grip and reduce risk. It should focus its financial resources on improving its understanding and reporting of cost throughout the delivery chain.**

6.7 Neither DFID nor its partners and managing agents have estimated the likely extent of leakage in Afghanistan, although work is underway corporately in response to ICAI's November report on corruption. DFID has basic controls in place for all its programmes. Whilst there are some examples of good verification practices in delivery chains, DFID does not have these in all programmes. We believe, therefore, that claims of little or no leakage cannot be sustained because in many cases there is no conclusive evidence regarding how much aid is reaching the intended beneficiaries.

6.8 DFID has no proactive approach to detecting fraud and corruption and places too much reliance on partners and managing agents to take appropriate action.

**Recommendation 3: DFID should strengthen its managing agent agreements by specifying the levels of controls and assurance that it expects to be in place and monitoring whether or not these standards are met.**

## 6 Conclusions and Recommendations

6.9 Enforcing more detail in its agreements with managing agents will help DFID to examine, assess and report:

- the controls it expects to be in place in the delivery chains;
- the verification activity that should take place and who should be responsible for ensuring that it happens; and
- reporting responsibilities throughout the delivery chain for actual and suspected cases of fraud and corruption.

6.10 DFID has learned lessons from aid models that it has applied in other countries and that other donors have applied in Afghanistan. There is, however, scope to follow through more rigorously previous NAO and PAC recommendations with regard to preventing fraud and corruption. These recommendations include more robust risk assessments, improving financial management and calculating the level of leakage.

**Recommendation 4: DFID should ensure that its office in Afghanistan implements outstanding NAO and PAC recommendations regarding fraud and corruption.**

# Annex

## Introduction

1. We have designed this annex to support the main report, providing descriptions of the sample of programmes we reviewed.
2. To meet the terms of reference, our review team selected ten programmes for closer examination. The programmes broadly represented five factors:
  - size and/or value distribution;
  - focus of aid, e.g. humanitarian, to a sector or institutional strengthening;
  - geographical coverage, i.e. country-wide or more locally-focussed;
  - type of aid, i.e. bilateral or multilateral (DFID does not provide budget support to the Government of Afghanistan); and
  - maturity of the programme in terms of duration to date in its life cycle.
3. Below we describe briefly each of these programmes – its aim, funding, the organisations involved and the expected outcomes.

## **Programme 1: Afghanistan Reconstruction Trust Fund (ARTF): Education component**

4. The ARTF is DFID's major funding instrument to deliver its 2011-15 Operational Plan. The ARTF delivers a range of programmes such as the building of schools, roads, bridges, sanitation facilities and irrigation canals. Through ARTF recurrent expenditure, DFID helps fund teachers' salaries. Through investment funds, it co-finances the World Bank's EQUIP programme which, amongst other activities, seeks to support school construction, improve the quality of education and train teachers. In funding these programmes, DFID's aims are to increase pupil enrolment rates, improve equity by reaching girls and those in insecure areas and improve learning outcomes. Contributions to the ARTF were suspended for over a year pending the Kabul Bank satisfying the International Monetary Fund on its recovery plan. DFID has recently resumed payments following the IMF Board's approval of a new IMF programme in November 2011.

## **Programme 2: World Food Programme (WFP): Humanitarian Assistance (Food Security)**

5. In 2010-11, DFID planned £7 million of expenditure towards the provision of high-energy biscuits to approximately 400,000 Afghan primary school children. The programme aimed to improve both the nutritional intake of children in some of the poorest regions and also their school attendance. WFP administered the programme and delivered the special biscuits to primary girls and boys at their schools between Spring and Autumn 2011. DFID aims to achieve 90% school enrolment rates for the schools where 24% or more of the population cannot rely on regular supplies of food and/or which have poor education indicators.

## **Programme 3: Peace Dividend Trust (PDT): Afghanistan Marketplace**

6. The NGO Peace Dividend Trust (PDT) established the Afghanistan Marketplace programme to encourage the local procurement of goods and services. It aims to create jobs and inspire long-term economic growth. DFID expanded the programme to Helmand province in 2008 and PDT's current partners include the Canadian International Development Agency and USAID. Organisations such as UNDP, UN-Habitat and Oxfam have facilitated the purchase of goods and services through the marketplace. From a baseline of 224 contracts (worth US\$54 million) in March 2010, DFID aims to facilitate an additional 100 contracts with a total value of US\$30 million by April 2012.

## **Programme 4: Comprehensive Agriculture and Rural Development Facility (CARD-F)**

7. CARD-F is a DFID-funded joint programme between the Ministry of Agriculture, Irrigation and Livestock (MAIL), the Ministry of Rural Rehabilitation and Development (MRRD) and the Ministry of Counter Narcotics. The programme aims to promote sustainable rural growth in selected provinces from legal income and employment in order to reduce dependence on poppy cultivation. CARD-F will develop institutional capacity to design, co-ordinate and fund high-impact interventions through integrated Economic Development Packages (EDPs) for targeted

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districts that build on and utilise as far as possible existing MAIL and MRRD programmes and programmes. Therefore CARD-F is a facilitating mechanism, not an implementing agency. In the longer term, CARD-F will enhance Afghan capacity to design and implement effective strategies for growth and development through the appropriate Afghan line ministry.

8. The programme has a budget of £30 million. The duration will initially be three years (April 2010 to March 2013), with the intention to extend this by another two years to provide management support over the life of the EDPs. To date, DFID has engaged ATOS Consulting to help establish a CARD-F team and provide technical assistance. CARD-F has designed nine EDPs of which the Inter-Ministerial Committee has approved four. These four EDPs have completed the procurement stage and have now entered the contracting stage.

## **Programme 5: Helmand Growth Programme**

9. The Helmand Growth Programme is a £36 million programme (extended from an initial £28 million) planned to run from July 2010 to September 2014 that supports economic growth in Central Helmand. The programme focusses on Lashkar Gah and Gereshk, as well as neighbouring, agriculturally-rich and secure districts. Improvements in these areas will strengthen the economic corridor from Gereshk via Lashkar Gah to Garmsir in the south, covering 45% of the population of Helmand. Programme components include:

- the development of an Agriculture Business Park;
- funding and capacity building for Afghan Government agencies seeking to support investors and provide advice to local enterprises;
- infrastructure development (power, roads and irrigation) that will improve productivity and market access for farmers;
- training and skills for farmers and youth; and
- sharia-compliant micro-credit.

10. DFID has appointed managing agents for each component, some of which have already commenced (youth training, business park design, agricultural training).

## **Programme 6: Lashkar Gah to Gereshk Road**

11. The Lashkar Gah to Gereshk Road Improvement Programme is a three-year programme to contribute to economic growth, improve livelihoods and reduce poverty in Helmand Province. Phase 1 is funded by DFID with the contract managed by UK military engineers; phase 2 will be managed by the Asian Development Bank. DFID is contributing £13.6 million over 2010-11 and 2011-12 to improve 12 kilometres of the 43 kilometre gravel road to a seven metre wide asphalted road and to provide ancillary structures in the form of two bus stations and markets. The Specialist Team Royal Engineers is responsible for contract management. DFID documentation states that the new highway is designed to provide the local population with better access to markets and to reduce the risk of Improvised Explosive Devices. DFID hopes that it will increase traffic flow by 25% and that the Ministry of Public Works will benefit through acquiring knowledge of roads management.

## **Programme 7: Strengthening Tax Administration Programme – Afghanistan Revenue Department (ARD)**

12. In tax administration, DFID's goal is to improve Afghanistan's domestic revenue collection. This will enable the Afghan Government to cover its operating costs better, improve service delivery and meet its National Development Strategy goals. Beginning in 2008, DFID planned to use £11 million over three years to support the Government of Afghanistan to improve its domestic revenue collection to a level of over 8% of GDP by 2011-12. To help Afghanistan achieve an effective, modern and broad-based tax system, DFID has engaged with a private sector firm to provide the technical assistance necessary to achieve this aim. Since 2008, a team of Adam Smith International (ASI) tax and programme management consultants have worked closely with ARD, a unit of the Ministry of Finance, to:



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- implement institutional and organisational reform in ARD;
- develop sustainable professional capacity in ARD;
- implement tax legislation; and
- improve taxpayer awareness and revenue transparency.

13. The Annual Review for 2009-10 reported that ARD achieved the target goal of US\$1.23 billion by an additional US\$0.12 billion. Total domestic revenue collection as a share of GDP increased from 10.4% in 2009-10 to 11.3% in 2010-11. As a result, DFID has agreed new milestones and targets with ASI. DFID has also extended its contract value three times with ASI (from £11 million to £15.5 million in June 2010, to £18.1 million in July 2011 and to £23.2 million in September 2011) and its duration for the period to February 2012. DFID's additional requirements include, for example, modernising the tax administration system and setting more stringent programme management arrangements.

## **Programme 8: Governors' Performance Improvement Programme (GPIP): Performance Based Governance Fund (PBGF)**

14. GPIP began in November 2009 with a planned contribution from DFID of £9.5 million for the aim of encouraging the 34 Provincial Governors in Afghanistan to manage their resources effectively by setting up systems for planning, budgeting and auditing. The programme has been co-funded by USAID (the lead donor) and DFID and managed and monitored by TAF, a non-profit NGO which supports Asian initiatives to improve governance, amongst other issues. In the pilot phase from March 2010 to March 2011, each Provincial Governor Office (PGO) was allocated US\$25,000 per month from the PBGF with the freedom to use it on predefined expenditure categories – transportation, equipment, building repairs and maintenance, ICT, capacity-building initiatives and community outreach. TAF has assessed PGO performance quarterly, with the top six receiving a 25% uplift in their monthly allocation and the bottom six a 25% reduction. The programme has continued with a second phase which runs to April 2013. TAF staff based in each province not only

continue to scrutinise the use of PBGF monies but also aim to build capacity and expertise of PGOs to manage the use of operational resources more effectively. Nationally, it is envisaged that the Afghan Government's Independent Directorate for Local Governance will have improved capacity to manage operating budgets in the future.

## **Programme 9: International Committee of the Red Cross (ICRC) – Humanitarian Aid in Afghanistan 2010**

15. During 2010, DFID Afghanistan provided ICRC with £6 million to assist with supporting the civilian population (especially women and children) who had suffered from increased hostilities (mainly in Helmand and Kandahar provinces) and/or who were internally displaced persons, particularly in conflict zones. DFID's contribution represented about 12% of the £52 million programme. The programme focussed on four areas: assisting families disrupted by conflict, e.g. tracing and reuniting family members; giving sick and wounded people better access to medical services; promoting the humane treatment of detainees and internees; and securing the government's agreement to implement various humanitarian treaties. In 2011, DFID provided funding of £10 million to this programme.

## **Programme 10: Support to the Afghanistan Elections – United Nations Development Programme (UNDP) – Enhancing Legal and Electoral Capacity for Tomorrow (ELECT)**

16. ELECT is a UNDP-implemented programme to support the 2009 and 2010 Afghan elections (provincial, presidential and parliamentary) through technical assistance to the Independent Election Commission (IEC) and Electoral Complaints Commission (ECC). The programme operated as a basket fund (total budget US\$377.5 million, with US\$358 million spent by September 2011) to which 25 donors contributed varying amounts. DFID's contribution was £7 million. ELECT was the main vehicle for the international community's support for the elections. It offered technical and operational assistance to IEC for a re-evaluation of the electoral register for the 2010 parliamentary elections, technical assistance to ECC and support for electoral reform and capacity building.

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17. The programme was scheduled for completion in December 2010 but, due to the delay in certification of the final results, UNDP activities continued into 2011. DFID's formal programme completion was June 2011.
18. ELECT is likely to continue into 2012 and beyond as ELECT-II, with DFID participation. Programme documents are currently being prepared.

# Abbreviations

ARD	Afghanistan Revenue Department	USAID	United States Agency for International Development
AREDP	Afghanistan Rural Enterprise Development Programme	WASD	Western Asia and Stabilisation Division
ARTF	Afghanistan Reconstruction Trust Fund	WFP	World Food Programme
ASI	Adam Smith International		
CARD-F	Comprehensive Agriculture and Rural Development Facility		
DANIDA	Danish International Development Agency		
DFID	Department for International Development		
ECC	Electoral Complaints Commission		
EDP	Economic Development Package		
ELECT	Enhancing Legal and Electoral Capacity for Tomorrow		
FCO	Foreign and Commonwealth Office		
FRA	Fiduciary Risk Assessment		
GDP	Gross Domestic Product		
GPIP	Governors' Performance Improvement Programme		
ICRC	International Committee of the Red Cross		
IEC	Independent Election Commission		
MAIL	Ministry of Agriculture, Irrigation and Livestock		
MoD	Ministry of Defence		
MRRD	Ministry of Rural Rehabilitation and Development		
NAO	National Audit Office		
NGO	Non-Governmental Organisation		
OECD	Organisation for Economic Co-operation and Development		
PAC	Public Accounts Committee		
PBGF	Performance Based Governance Fund (formerly Governors' Fund)		
PDT	Peace Dividend Trust		
PGO	Provincial Governor Office		
TAF	The Asia Foundation		
UN	United Nations		
UNDP	United Nations Development Programme		

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Any enquiries regarding this publication should be sent to us at [enquiries@icai.independent.gov.uk](mailto:enquiries@icai.independent.gov.uk).