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From: Mills, Cheryl D <MillsCD@state.gov>
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From: Hammer, Michael A
Sent: Friday, February 10, 2012 06:28 AM
To: Mills, Cheryl D
Cc: Nuland, Victoria J; Sullivan, Jacob J; Feldman, Daniel F
Subject: Re: SPR Talking Points

Here's the piece, UGH:

WSJ - ASIA NEWS

FEBRUARY 10, 2012

Roads to Nowhere: Program to Win Over Afghans Fails

Article

By DION NISSENBAUM

KABUL—U.S. taxpayers paid Afghan entrepreneur Ajmal Hasas millions of dollars as part of a plan to win over villages in the country's insurgent heartlands.

Instead, Mr. Hasas' seven-mile road construction project went so awry that his security guards opened fire on some of the very villagers he was trying to woo on behalf of his American funders.

Mr. Hasas was a point man in a \$400 million U.S. Agency for International Development campaign to build as much as 1,200 miles of roads in some of Afghanistan's most remote and turbulent places.

Three years and nearly \$270 million later, less than 100 miles of gravel road have been completed, according to American officials. More than 125 people were killed and 250 others were wounded in insurgent attacks aimed at derailing the project, USAID said. The agency shut down the road-building effort in December.

As the American involvement in Afghanistan is winding down ahead of the pullout of most forces in 2014, the USAID

roads saga stands as a reminder of the limited progress the U.S. and its allies have achieved here over the past decade—and at how high a cost.

"You can find programs and projects that have been successful, but for me it is quite obvious that huge amounts of money have been misspent," says Kai Eide, the Norwegian diplomat who headed United Nations operations in Afghanistan in 2008-2010. "There has been no clear strategic thinking on development assistance."

With USAID's road project cut short, special internal auditors from the agency have been trying to figure out what went wrong. Afghan construction companies are still seeking millions of dollars for unpaid bills from the American nonprofit, International Relief and Development, or IRD, that ran the program. And remote Afghan villages that were supposed to benefit from the U.S. initiative have been left with unfinished roads and unfulfilled promises. USAID officials say the program fell short of its goals, which is why they canceled it.

The road-building efforts began a decade ago, as Washington began transforming USAID into a tool in its military counterinsurgency campaigns in Afghanistan and Iraq, shifting the agency's focus from promoting long-term development to shorter-term initiatives meant to attract community support in insurgent-saturated areas.

"I call it hijacking," said one USAID official formerly stationed in Afghanistan. "Aid as a weapons system has never been tested—and they are putting it into the field with no evidence that it works."

J. Alex Thier, Washington-based director of USAID's Afghanistan and Pakistan program, disagrees. He said the strategy can help stabilize regions of the country—if used when security is improving and local leaders are cooperating.

"What USAID does in these districts can at best have an impact if the other things are also pulling in the right direction," he said.

USAID was established 50 years ago by President John F. Kennedy. It became America's key economic tool to help developing nations.

The Bush administration overhauled the agency's mission after the Sept. 11, 2001, terrorist attacks, aligning USAID more closely with military objectives as America invaded Afghanistan and Iraq.

In Iraq, U.S. officials embarked on the largest rebuilding project since the Marshall Plan that helped rebuild Europe after World War II. But the \$53 billion initiative was hobbled by the spreading insurgency, massive security costs that sometimes ate up more than half of contract costs, uncooperative government leaders and constantly shifting priorities,

according to Stuart Bowen, America's special inspector general for reconstruction in Iraq.

After concluding that at least \$4 billion in U.S. aid had been squandered in Iraq, Mr. Bowen warned American officials in 2009 that they were making the same mistakes in Afghanistan. State Department officials said at the time that they had learned lessons from Iraq and were working to better coordinate military and civilian efforts in Afghanistan.

A \$260 million effort to upgrade southern Afghanistan's Kajaki hydroelectric dam has repeatedly faltered and remains incomplete. Meanwhile, a \$300 million contract to build a major power plant outside Kabul cost more than twice the original estimate and remains largely idle as Afghanistan relies on cheaper power from its neighbors.

But road projects have received the single largest slice of USAID money—more than \$2 billion. One of the biggest beneficiaries has been IRD, founded in 1998 by Arthur Keys.

From the start, President Barack Obama's administration saw road construction as key for winning support from Afghans by making it easier to travel, by opening up new trade routes—and by connecting remote villages to Afghan government institutions and services.

Officials at USAID and IRD say that the Afghanistan Strategic Roads Project wasn't a roads program in the usual sense. They said building roads was, in many ways, a secondary goal; the main objective was spreading jobs and money to win over rural communities that harbor insurgents.

"As a grant, this was never intended to be a major road construction project," says Jeff Grieco, a former USAID official who now serves as communications director at IRD. "It was intended to be a capacity building program. We have dramatically improved Afghan capacity to build roads and to do community development work."

It certainly wasn't the cheapest way to get roads built. A typical gravel road in Afghanistan is supposed to cost about \$290,000 per mile, according to USAID. It cost American taxpayers about \$2.8 million for each mile of gravel road completed by IRD, making them the most expensive miles of road ever built by the U.S. government in Afghanistan.

Less than half the \$269 million spent on the project went to actual road construction, IRD officials say. A quarter of the funds were paid to IRD administration and staff. About 15% was spent on security, and 8% was allocated to the community-development projects IRD said were central to the success of the project.

As part of the Strategic Roads Project, USAID set aside millions of dollars in the contract to set up small soap factories, run reading programs for illiterate villagers, dig wells and teach sewing to Afghan women—all with the expectation that

it would win American troops good will.

But the community program was hobbled when IRD put a halt to awarding grants in southeastern Afghanistan for eight months after discovering that IRD staff were falsifying reports and exaggerating the impact of the development projects, according to former IRD workers. After revamping the staff and project, IRD resumed handing out grants for things like "flower literacy" programs that taught Afghan women how to make flower arrangements.

Then, after conferring with USAID, IRD tried to press ahead with construction without setting up new community projects, said U.S. officials.

"You had these villages with no community ownership or buy in and they just made the situation worse," said one USAID official. "That's when things really started going sour."

In Khost, the volatile eastern province along the Pakistani border where Mr. Hasas was paid \$3 million to build seven miles of gravel road, tensions flared soon after he began work in 2008.

Ajab Noor Mangal, a local construction-company owner hired to work on the project, said Mr. Hasas alienated the community by only hiring workers from two of the five local clans.

Afghans excluded from the project looted Mr. Hasas's construction sites and stripped them bare. At one point, Mr. Hasas said, four men affiliated with the project were kidnapped, killed and dumped in public with a warning note signed by insurgents. The deaths brought construction to a halt.

"We couldn't find a single person to work on the road," Mr. Hasas recalls.

Under the IRD contract, Mr. Hasas and the other Afghan firms working on their roads were responsible for providing their own security. So Mr. Hasas said he cobbled together nearly 100 gunmen and armed them with rented rocket-propelled grenades and heavy machine guns.

Things reached a nadir in the fall of 2010, when around 100 angry Afghans, including a small number of suspected insurgents, tried to storm the construction site, according to Messrs. Hasas and Mangal.

Mr. Mangal, who was in Kabul at the time, says he ordered the contractor's gunmen to open fire on the demonstrators,

including some armed protesters who he said shot at the security team. Mr. Mangal says he is still paying for the wounded villagers' medical treatment.

Villagers who took part in the demonstration told a different story. Two men involved in the protest said IRD security sparked a larger confrontation after opening fire on a dozen unarmed men protesting IRD's refusal to move staff from an office overlooking homes where outsiders could see into private family compounds—a major slight in the conservative culture.

"All the villagers criticize the construction company because they were just here to earn money and they did not care about the quality of the road," said Najib, a local resident who worked on the road project and had two relatives injured during the protest.

IRD officials say they never heard about the conflict between the contractor and the villagers.

The project was part of the ongoing "Afghan First" initiative meant to support Afghan companies instead of the international firms that have received the lion's share of the billions in aid that have flooded Afghanistan.

But IRD is still embroiled in payment disputes with Afghan subcontractors who say that the company has failed to pay its bills. Now that the project is shut down, IRD said it has told contractors final payment decisions rest with USAID. USAID said it couldn't comment on the question of payments.

The animosity escalated in 2010 when embittered Afghan subcontractors secured arrest warrants for two IRD officials. Afghan police briefly detained one of the Westerners in Kabul who oversaw the project, according to officials familiar with the incident.

Faced with more arrest threats during the spring, IRD hid another top manager in the back of an SUV, flew her to Kandahar and quietly spirited her out of the country before she, too, could be detained, according to former IRD employees familiar with the controversy. IRD declined to comment on the incident.

USAID officials say the agency moved swiftly to scale back and shut down the IRD roads project as it became clear in 2010 that it was foundering. "How quickly can you stop a dump truck?" said one USAID official. "You get the momentum going and one thing we committed to doing isn't stopping it and creating a wreck."

Mr. Thier said his agency has learned important lessons from the problems in the IRD project and has changed the way it operates. USAID tripled its Afghanistan-based staff, beefed up its screening of Afghan partners, established new

independent monitoring procedures and added more people to directly oversee such programs, he said.

The steep drop-off in U.S. reconstruction funds for Afghanistan has also prompted USAID to shift its focus from big ticket stabilization projects to more modest proposals, including agricultural development programs, that can be successfully taken over by Afghan officials.

In November, as part of a wider shift at the State Department, USAID established a new Bureau of Conflict and Stabilization Operations that is meant to address some of the long-standing coordination and strategic problems with America's reconstruction missions abroad.

Still, the project's failures appeared to have no impact on USAID's confidence in IRD. Last year, as construction delays mounted and American officials moved to shut the program down, USAID awarded IRD nearly \$140 million to launch three new projects in Afghanistan, though none involved roads. USAID officials said they still had confidence in IRD's ability to carry out big projects in Afghanistan.

Afghan entrepreneur Delawar Faizan, meanwhile, says that IRD still owes him nearly \$4 million for his work in constructing roads in eastern Afghanistan's Nangarhar Province. He said that IRD gave him a check last fall to settle some of his claims, but it bounced because the company's bank account was frozen. Now, he said, IRD has told him he has to wait for approval from USAID to get paid.

"Where has the money gone?" he asked.

—Ziaulhaq Sultani, Habib Khan Totakhil and Mali Khan Yaqubi contributed to this article.

From: Mills, Cheryl D
Sent: Friday, February 10, 2012 05:27 AM
To: Hammer, Michael A
Cc: Nuland, Victoria J; Sullivan, Jacob J; Feldman, Daniel F
Subject: Fw: SPR Talking Points

From: Sullivan, Margie (AID/A) [mailto:msullivan@usaid.gov]
Sent: Thursday, February 09, 2012 06:08 PM
To: Mills, Cheryl D
Cc: Shah, Rajiv (AID/A)
Subject: SPR Talking Points

WSJ is going to run a tough article on our Strategic Provincial Roads program tomorrow. Lars Anderson is coordinating with Mike and team. Attached are our talking points.