

# Money is ammunition; don't put it in the wrong hands

## *A view on COIN contracting from Regional Command South*

**In the complex realities of Afghanistan everything influences everything. The well known terms of Security, Governance and Development are only rough lines of action. These approaches influence each other and meet old and new authorities, old traditions and new lines of thought, differences between cities and rural areas and other aspects of this country and its population. Money works in all lines. It is ammunition in Afghanistan, if it comes to the insurgents and their funding mechanisms as well as to the potential benefits and possible damaging consequences of ISAF's multi-billion dollar contracting activities. The author focuses on contracting in Regional Command South. He explains the difficulties, describes the course of action and reflects on the future.**

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**D**uring the course of the campaign in Afghanistan conducted by the International Security Assistance Force (ISAF), knowledge about the insurgency and their funding mechanisms has improved continuously.<sup>1</sup> It was only recently that the international community fully recognised the potentially damaging consequences of ISAF's multi-billion dollar contracting activities. In April 2010 NATO launched its Afghan First Policy, in June 2010 Regional Command South started to integrate contracting in its campaign planning and execution, and in September 2010 general D.H. Petraeus issued his counter insurgency (COIN) Contracting Guidance.

As a result of these developments, contracting has become a major 'Tier 2' operation<sup>2</sup> with contracting officers at the front line. This article

seeks to explain the complexity of the problem, the courses of action and some elements that are currently being implemented as part of the solution.

After a brief introduction on impunity, corruption and warlordism, this article addresses the dependency of ISAF's supply chain on contractors and explains how contracting undermines the campaign. Next, the actions taken by NATO are described, followed by an elaboration on the COIN contracting battle in the South. Finally, there will be a few words on contracting and transition, finishing with a conclusion.

### **Impunity permits corruption and warlordism**

#### **Corruption enables insurgency**

Corruption undermines public confidence in the institutions of any state, resulting in a deteriorating legitimacy of the government. Resources provided through corrupt practices are not only denied to (the development of) the state, but are also often transformed into

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*Afghan First Policy aims to increase ISAF's procurement of local goods and services in order to enable economic development of poor regions, like this suburb of Kandahar City*

economic and political influence, thus further weakening democratic institutions. In this way, the Afghan state remains disconnected from its democratic powerbase – the people – and the grievances that fuel the insurgency are maintained. Therefore, counterinsurgency warfare, which is in essence a battle for the hearts and minds of the people, must include an anti-corruption course of action.

Corruption can only flourish if there is a culture of impunity. A definition of 'culture of impunity' is the absence of consequences or punishment for criminal wrong-doing, injustice, unethical behaviour or corruption of government officials, criminals and wealthy businessmen.<sup>3</sup> Impunity is an important factor driving the population towards the insurgency and consequently distances the people from their legitimate government.

#### **Powerbrokers are the new warlords**

Contracting, narcotics, Private Security Companies (PSCs) and land title issues are interrelated and connected to the culture of impunity. Land

is a valuable asset in Afghanistan, especially in urban areas. It gives the owner control of a physical area that can be used as building plot for expensive real estate<sup>4</sup> or as farm land, and it may contain resources like oil, minerals and ground water supplies.<sup>5</sup>

During and after the Russian invasion, Mujahideen leaders redistributed much land with the twofold aim of disempowering their rivals and 'paying' their fighters. If needed, they intimidated the legitimate owners to hand over their land titles. The situation became even worse after the Taliban came into power and destroyed much of the cadastral land tenure records as part of a wider campaign to remove official governmental information. Nowadays, it is very difficult to determine land ownership, because fake deeds can be bought at will and there are many disputes between people claiming the same plot of land for a broad variety of reasons.

After ISAF came in, a new form of warlordism evolved. Warlords are now called 'power-

brokers' and they have further extended their power base by obtaining contracts from ISAF and its civilian counterparts, such as the United Nations Assistance Mission in Afghanistan (UNAMA) and the United States Agency for International Development (USAID). Many of them are former Mujahideen commanders and they still have their own militias, which are now called PSCs.



FOTO RAHMAT GUL/AP REPORTERS, 2009

An Afghan police official secures the road after one of the many attacks on ISAF fuel convoys

Those PSCs not only generate financial incomes for the powerbrokers that own them, but also openly demonstrate their power to the local people. In this way, powerbrokers can maintain their own independent source of authority through the force of arms, irrespective the efforts to expand and strengthen the reach of the Afghan government. Although PSCs should be licensed, this is rarely enforced and their behaviour, weapons and personnel are invariably unregulated.

There are strong indications that some of these companies drive up the security requirement by creating their own demand as well as paying off (which means: no attacks) the Taliban senior leadership in Quetta.<sup>6</sup> On 17 August 2010 president Karzai issued a decree ordering national and foreign PSCs – ‘*who are factors of irritant and tragic events*’ – to dissolve within four months, offering their employees to join the Afghan police force.<sup>7</sup> Given the current depen-

dence of ISAF's supply chain on PSCs, talks are ongoing with the Afghan government to persuade a phased approach in order to mitigate the risk.

Since opium is forbidden by the Islam, the Taliban initially destroyed poppy crops and narcotics laboratories, but later on they created their own drugs business and forced farmers to grow poppy instead of wheat in order to fund the insurgency campaign. They told the local people that exporting drugs to the West is an effective means of killing nonbelievers or ‘infidels’.<sup>8</sup>

Collaboration between anti-government elements and narcotics traffickers transforms the Taliban-led insurgency into narco cartels.<sup>9</sup> Although hard to prove, powerbrokers seem to have stakes in those cartels as well.

### ISAF's supply chain depends on contractors

The U.S. and their coalition partners have outsourced most of ISAF's supply chain to civilian contractors. To give an idea of the magnitude: just for the U.S. Army alone, the fourth iteration of the Logistics Civil Augmentation Program (LOGCAP IV) was competitively awarded in April 2008 to DynCorp International, Fluor Intercontinental, and KBR Services. Each contractor can receive up to \$5 billion of work under the contract in a given year, so total spending over the possible 10-year life of this multiple-award contract could be as high as \$150 billion.<sup>10</sup>

In order to fully understand the reasons and implications for this outsourcing, we need to take a closer look at the composition of ISAF's supply chain. ISAF's logistic demands can roughly be divided in three kinds of activities: moving cargo, constructing infrastructure and providing base support.

#### Moving cargo

The supply chain to the ISAF troops in Afghanistan is complicated and faces many challenges. There are no seaports in this landlocked coun-

try, and there are only a few airports with sufficient handling and storage capacity to facilitate heavy airlift.<sup>11</sup> ISAF has a daily fuel consumption rate of about 6 million liters (F34 aircraft fuel and F54 diesel) which is brought in by fuel truck convoys.<sup>12</sup>

Fuel is the logistics center of gravity for the ISAF mission. Without sufficient fuel, ISAF would encounter a 'millennium' problem-like scenario: not only air and ground mobility would be impacted, but also everything that runs on electrical power.<sup>13</sup>

Bottled water consumption in the southern region is at a rate of about half a million liters a day. hier komt een nieuw nootje bij Most of this is trucked in from Karachi and Kabul, while about 10 per cent is flown in from abroad. Food consumption in the southern region<sup>14</sup> is at a rate of about 150 tons a day. Fresh food and vegetables are flown in from abroad, while the majority of dry food is trucked in from Karachi.

Last but not least, thousands of tons of equipment and construction materials are brought in by trucks. Especially the U.S. troop uplift saw a significant surge in the throughput of trucks near Spin Buldak.<sup>15</sup> Altogether, the majority of all supplies arrives by road. The rest arrives by air, but then most of it has to be moved further by road to the forward operating bases and combat outposts.<sup>16</sup> It is the roads that create the most significant challenge.

Generally speaking, truck drivers have to move through a non-permissive environment which is characterized by hot deserts with dusty sandstorms in the summer and muddy floods in the spring; bridges that are regularly damaged and made unusable by flooding or Improvised Explosive Devices (IEDs); roads that are in a bad condition and that are scattered with IEDs; driving behaviours of locals that match the middle east standard; mountain roads that leave no room for error; policemen and local nationals that fleece money at illegal checkpoints; and – last but not least – frequent insurgent attacks.

Because of these challenges, NATO, the U.S. and other troop contributing nations, have largely outsourced the responsibility for their supply chains by means of so called Host Nation Trucking (HNT) contracts. The HNT prime contractors are responsible for moving the cargo as well as for protecting that cargo. To that end most prime contractors and their trucking subcontractors hire PSCs for armed protection of their valuable trucking convoys.<sup>17</sup>

### **Constructing infrastructure**

ISAF's campaign in Afghanistan requires a vast majority of construction activities. There are three groups of activities. Firstly, the construction of ISAF facilities, like forward operating bases, combat outposts and checkpoints. Funding for this group of activities is mainly provided by the defense departments of the troop contributing nations (for example the U.S. funding mechanism is called Title 10). Much of this work is carried out by the military itself. Basic construction materials, like T-walls and Hesco-barriers, are provided by contractors.

The second group of activities is about construction of Afghan National Security Forces (ANSF) facilities, generally funded by U.S. Title 22, also known as Afghan Security Forces Funding (ASFF). Most of this work is carried out by contractors. They provide the construction materials and carry out the construction work itself. The third group of activities is about construction of public works, like roads, bridges, schools, water systems, sewage facilities, electric power generation, irrigation and agriculture projects, et cetera.

Funding is established by several nations, while the U.S. has established the Commander's Emergency Response Program (CERP), which enables local commanders to respond with a nonlethal weapon to urgent, small-scale locally sustainable humanitarian relief and reconstruction projects or services that immediately assist the population. Much of the construction work in all three groups is carried out by contractors who have to arrange their own protection, which is mostly provided by PSCs.<sup>18</sup>

### Providing base support

Base support contains a wide range of activities, such as cleaning services, linguist services, car rental services, dining facilities, latrine services, internet services, recreation services, maintenance services, security services, waste services, et cetera.<sup>19</sup>

These activities are generally outsourced by the national support elements of the troop contributing nations. Powerbrokers have managed to get control over a significant amount of those base support contracts and on several occasions biometric enrolment has revealed that insurgents had gained access to ISAF bases as local workers.

## Contracting undermines the campaign

In order to better understand the COIN contracting problem, we need to take a closer look at ISAF's sourcing process.

### The lowest bidder might be a malign actor

ISAF's procurement and contracting procedures are aimed at maximizing the cost-benefit equation and minimizing risks for the contracting agencies. According to most western acquisition procedures, maximizing cost-benefit translates to meeting product, time and budget requirements, whilst risk reduction is usually achieved by outsourcing to preferably one (prime) contractor.

In such way, the prime contractor can be held solely responsible for the risk of not meeting those product, time and/or budget requirements. ISAF contracting agencies follow national acquisition rules, which usually force them to award contracts according to 'lowest price technically acceptable' or – at its best – according to 'best value for money'. The definition of 'best value' is not always clear, usually resulting in contract award to the lowest bidder anyway.<sup>20</sup>

This also holds for prime contractors who are tendering contracts for subcontracting. While most contracting agencies maintain vetting databases of (potential) contractors, the tracked information does not contain information that

is related to the culture of impunity, and the available information is not readily shared amongst the contracting agencies.<sup>21</sup> This results in a situation where contracting agencies unintentionally award a stream of contracts to lowest bidders who might be potential malign actors.

### Fire and forget

Using a prime contractor to take care of the whole package implies that the contracting agency doesn't have visibility (and thus control) over activities that are taking place at the different subcontracting levels. This 'fire and forget' approach is precisely what contracting agencies have been aiming for, since they want to do business with one contractor and not with a whole range of different subcontractors.

Losing transparency of activities on subcontracting levels below the prime contractor is no problem in the western world. In Afghanistan however, using prime contractors with reduced visibility of subcontracting levels implies that bad contractor behaviour, such as not paying subcontractors or employees, probably will remain unnoticed to the contracting agency. Insurgents will capitalize on this kind of events by telling the people that ISAF is cheating them.

### We are who we fund

The fact that ISAF is largely unaware of (sub)contracts that are feeding powerbrokers or insurgents, doesn't mean that the local population is unaware of this as well. In Afghanistan, intelligence can be literally picked up on every street corner.<sup>22</sup> Facts and figures about powerbrokers and insurgents are common knowledge to the local people.

And this is exactly why the western way of contracting is potentially undermining ISAF's campaign. The counterinsurgency campaign is a battle for the hearts and minds of the people. As general Petraeus mentions in his Counterinsurgency Guidance: '*we are who we fund*'.<sup>23</sup>

In other words, awarding contracts to companies that are related to powerbrokers or insur-

gents will make the people conclude that ISAF is related to them as well. Since ISAF is supporting the Afghan government, the people will therefore question the legitimacy of their government, and subsequently become further disconnected from their leadership.

#### **ISAF contracts fail to spread out the wealth**

In the last eight years the vast majority of international contracts – such as logistics, construction, security, reconstruction and development – has benefitted only a small minority of Afghans. Moreover, these wealthy Afghans, whether malign actors or just millionaires, do not spend their money in Afghanistan but in places like Dubai where it is most often invested in real estate projects.

For several reasons the Afghan middle class market economy is an untapped resource for stability operations.<sup>24</sup> Firstly, Afghan middle class companies are not captured in databases of western contracting agencies and will therefore not be informed of any tender. Secondly, Afghan middle class business men don't easily get access to heavily guarded ISAF locations. Sometimes this has to do with a lengthy security clearance process, but more often with powerbrokers that are after specific contracts. They usually know that these contracts are going to be tendered and they intimidate the middle class business men not to make bids for those contracts.<sup>25</sup>

Thirdly, Afghan middle class companies lack the basic knowledge of western contracting procedures and western quality standards and they also lack the necessary quality certificates. Because of all the foregoing, the middle class business community gets frustrated and puts the blame on ISAF and thus on the Afghan government.

#### **ISAF contracts create an unsustainable economy**

Most of ISAF's contracts create labour in areas that are not self sustainable. For example, ISAF needs huge amounts of gravel to create its expeditionary forward operating bases and command out posts, but there is no Afghan quala<sup>26</sup> that has any gravel on its inner yard. Therefore,

after ISAF's withdrawal, the Afghan gravel business will almost certainly collapse.

The same applies to local people that work in all kinds of base support services as mentioned earlier. The issue would be less problematic if the troop contributing nations would purchase products and services against local market prices rather than creating price inflation as a result of competing each other for scarce resources.

FOTO ISAF, RC-SOUTH, 2009



*Traffic jams, like here on Highway 4 between Kandahar City and Spin Buldak, are just one of the many challenges that logistic convoys are facing in Afghanistan*

The fact that ISAF directly or indirectly employs many Afghan 'fighting age males' implies that the unemployment – which inevitably will result from ISAF's withdrawal – will increase the potential for insurgency.

## **NATO takes action**

### **Afghan First Policy**

In December 2009 NATO's Foreign Ministers agreed that NATO and ISAF should seek, to the maximum extent possible, the positive impact of their presence in Afghanistan. In following up this agreement, the Economic Committee delivered a report on the assessment of the impact of ISAF on the Afghan Economy.

Based upon this report, the North Atlantic Council tasked the Senior Resource Board to further assess NATO's practices and procedures with the aim of supporting Afghan economic development by means of ISAF-related common funded procurements, and consistent with the need for timely and cost effective delivery of military requirements.

As a result of this, NATO secretary general Rasmussen issued a letter in April 2010, launching the so called 'Afghan First Policy'.<sup>27</sup> This policy:

*aims at strengthening NATO's contribution to the economic development of Afghanistan by increasing procurement of local goods and services. Local procurement is considered the most important way for NATO to support the development of the Afghan private sector and the local economy in a sustainable manner. The changes foreseen as the policy is implemented will allow for fair and equal opportunities for Afghan companies and employees and increased support for local businesses.*

This Afghan First Policy primarily focuses on increasing procurement of local goods and services, but it also clearly addresses many of the problems mentioned earlier.

#### **Contract Management Action Plan**

On 25 June 2010 Supreme Headquarters Allied Powers Europe (SHAPE) released the ISAF Contract Management Action Plan<sup>28</sup>. This plan confirms that:

*[...] contractors play a critical role in supporting the ISAF coalition, not merely through the provision of goods and services, or their potential contribution to the Afghan economy; but also as coalition partners, by the image they present to the Afghan people. [...] the money the international community spends in Afghanistan does not benefit the Afghan economy but is directed to a few profiteers or malign actors and [...] most of the money leaves the country.*

SHAPE therefore encouraged NATO and nations to:

FOTO/ISAF, RC-SOUTH, 2010



*[...] ensure that money spent in Afghanistan benefits the Afghan people, not malign actors, and helps build a stable economy, providing jobs and skills that deliver long term benefits to local people and to [...] avoid creating an unsustainable parallel economy that inflates prices and crashes when the ISAF mission is complete and the force withdraws.*

SHAPE concluded that a robust and proactive in-theatre NATO contract management, coordination and monitoring capability is needed, including improved requirement definition, usage of flat and transparent contract networks, exchange of contract information, avoidance of overpayments leading to price inflation and enforcement of high service delivery standards.

On 27 August 2010, SHAPE issued further instruction on the technical implementation of the Afghan First Policy aiming to:

*increase the local procurement of goods and services that originate in Afghanistan from*



*British soldiers from Task Force Helmand retrieve ammunition that has just been delivered by a U.S. Blackhawk helicopter*

in forces being made available as part of the surge.

The essence of that campaign plan was the notion that Kandahar City in conjunction with Central Helmand captures about two-third of the three million strong population in the South of Afghanistan and these areas would therefore become the centre of gravity for the population-centric campaign in the South.

After an intense process of partnering with the Afghan National Army and Police followed by political engagements up to president Karzai, Regional Command South initiated phase 2 of Operation Moshtarak (which means 'together') to protect the people of Central Helmand.<sup>30</sup> This largest partnered operation in the history of ISAF commenced in the early morning of 13 February 2010 with an air assault of 100 helicopters injecting about 2,300 ISAF and ANSF troops into the districts of Marjeh and Nad e Ali, followed by additional ground troops moving in from different directions.<sup>31</sup>

Since then much progress has been made on all five lines of operation of the ISAF campaign.<sup>32</sup> The local bazaars now offer a rich variety of products and provincial governor Mangal exerts authority over the central area, directing economic development and enjoying a freedom of movement inconceivable in the past, when it was difficult for people to leave their compounds to visit markets and shuras.

The establishment of Regional Command South-West on 14 June 2010 provided Regional Command South the opportunity to speed up planning for Operation Moshtarak phase 3 in Kandahar Province. Under the Pashtun heading of 'Hamkari' (which means 'cooperation') this operation soon became the main effort of the ISAF-campaign.

The operations in and around Kandahar City are based upon a phased approach. The first

*qualified Afghan owned contractors who meet the NATO/ISAF acceptable standards for security, quality, price and reliable supply.*<sup>29</sup>

The instruction relates decision levels to financial contract volumes and provides guidance on how to determine qualified Afghan contractors according to the definition of an 'Afghan host nation business'. For each procurement, determination of contractor eligibility has to be documented, reported and tracked.

## Fighting the COIN contracting battle

**Operations in the South: Moshtarak and Hamkari**  
 Combined Joint Task Force 6, under the leadership of major general N.P. Carter, took command of Regional Command South on 1 November 2009. The command team initially focussed on the creation and execution of a campaign plan for the South that was needed to account for recent changes in ISAF's strategy, such as partnering and a more population-centric approach, as well as for the considerable increase

phase launched several activities with an Afghan police lead in support of a mainly non-military solution. A security ring around the city with police manned checkpoints on the entry roads was constructed and registration of weapons, vehicles, madrassas, hotels and their guests was initiated.

The subsequent phases aim to protect the city by creating effects in the contested environs of Arghandab (phase 2) and Zharay (phase 3A) in conjunction with western Panjwa'i (phase 3B). Phases 2 and 3 require primarily a military (more kinetic) solution with the Afghan army in the lead.

### Focussing on Kandahar

With a population of about one million people, Kandahar City is the second largest city in Afghanistan, which is located on a crossing of four important highways, formerly belonging to the ancient Silk Route.<sup>33</sup> Most of the cargo for the southern region, as well as transit traffic between Iran and Pakistan moves through the city, making this strategic metropolis and its connecting highways a suitable location to exert power and collect money.

Also, NATO's largest airbase in the vicinity of the city has become a lucrative source of contract money for local powerbrokers. Therefore, Kandahar not only suffered from an insurgency, but also faced the problem that the city and the surrounding region were in fact ruled by a handful of powerbrokers rather than by the legitimate government.<sup>34</sup> Moreover, 71 per cent of the population in Kandahar City perceived corruption in the local government to be a major problem.<sup>35</sup>

Because the Kandahar dynamics substantially differed from those in Central Helmand, the nature of the operations in and around Kandahar City had to be fundamentally different to the one conducted in Marjeh and Nad e Ali. Therefore, Moshtarak phase 3 saw no discrete operation to impose security in order to set the conditions for governance to take root. It was rather the opposite: a progressive squeeze in support of governance that would seek to diminish insurgent influence within the city and its environs, and thereby bring

security. The insurgents – realising the threat to their powerbase where Mullah Omar founded the Taliban and where the shrine containing the most holy cloak of the Prophet is located – started pursuing a campaign of intimidation against government and security officials, and against those who brought the means to deliver employment and economic opportunity.<sup>36</sup>

FOTO ISAF, RC-SOUTH, 2010



*Dr. Sibghat Ullah, head of the District Delivery Program in the Independent Directorate of Local Government, speaks at the Hamkari Conference in Kandahar on 21 June 2010. This event was focused on the Afghan led, ISAF supported operations to ultimately bring security, public services, job opportunities and economic development to the Kandahar region by means of a more stable and effective local governance*

The commander's intent for Hamkari spells out that:

*success will come through securing the population, mobilizing public support, connecting the government to the people, marginalizing parallel structures, defeating the enemy and forcing the Afghans to take the lead, particularly on the security line of operation. All actions influence the minds of the population and this is the decisive terrain that must be seized. We will not resolve the many complex problems of Kandahar, but we can turn heads and persuade people that there is a better alternative. All activity is to be planned with influence in mind.*

Due to the situation in Kandahar, contracting became an integral part of Hamkari:

*[...] contracting has created huge wealth for a few individuals, disillusioned the majority and has failed to grow the local economy.*

The commander Regional Command South felt that he should hold contracting agencies accountable for the campaign undermining effects they created in his battle space by means of contracting. He therefore directed the author of this article to analyze the full spectrum of the problem, to take action to distribute contract related wealth more equally amongst the Afghan population and to implement Afghan First Policy in order to encourage local economic growth.

#### **Regional Command South breaks new ground**

On 1 June 2010 Regional Command South established a COIN Contracting Management Board (CCMB).<sup>37</sup> This CCMB in conjunction with the Combined Joint Inter Agency Task Force (CJIATF), that was working the broader culture of impunity issues, quickly discovered that the set of problems for Hamkari was even more complex than anticipated.<sup>38</sup> Other problems, such as land grabs, PSCs and narcotics appeared to be multi-layered and interconnected with the contracting problem.<sup>39</sup>

It became more and more clear that ISAF is fighting a very complicated and quickly adapting network. With the help of Task Force 2010 (TF2010),<sup>40</sup> which was established on 1 July 2010, it was determined that a broad variety of military and civil contracting agencies run about 5,500 contracts with a yearly volume of approximately \$5.5 billion in the Regional Command South area of responsibility.

The CCMB developed a course of action that aimed for short term early gains, medium term trend reversal and long term freedom of commerce. Powerbrokers and malign actors would be tempted to engage in corruption as long as their perceived marginal benefits exceed their expected marginal costs. Aggregating individual returns over all those engaged in corruption results in a total cost of corruption for society. These costs are hidden in the total project costs and they negatively affect the cost-benefit equa-

tion. Solutions to the problem must increase the marginal costs and decrease the marginal benefits for the involved individual.<sup>41</sup> One way of decreasing marginal corruption benefits is the establishment of a code of conduct, i.e. a self-imposed corporate set of normative standards that is not part of the company's original core business but will nevertheless serve as a forcing function. The CCMB has started work on such code of conduct for (potential) contractors.

The advantage of a code of conduct, especially in the current Afghan culture of impunity, is the fact that it explicitly commits companies to certain do's and don'ts, without the necessity to change Afghan law. As a next step, a statement of intent is to be signed between the governor of Kandahar, the director of the Kandahar Chamber of Commerce and the commander Regional Command South.

In short, that document states that ISAF will implement Afghan First Policy, while the Afghan government will stimulate contractors to implement basic rules, like paying their employees the rightful salaries in a timely manner, paying taxes and duties to their government, refrain from dealing with insurgents, refrain from corrupt practices, bribery or trade in illicit substances, et cetera.

Another method of decreasing marginal corruption benefits is to split contracts into smaller contracts.<sup>42</sup> Better transparency and accountability increases the cost of corrupt activities. Therefore, the CCMB started work to bring contracting information from different troop contributing nations into ISAF's theatre-wide Combined Information Data Network Exchange (CIDNE) system.<sup>43</sup>

Traditionally separated domains, like Intelligence (CJ2), Logistics (CJ4) and Finance & Contracting (CJ8), thus became interconnected. Characteristics (name, location, contacts, etc.), past performance (quality, time, budget, contracts in portfolio) and relationships (with malign actors or insurgents) of each (potential) contractor are registered. The geospatial nature

of CIDNE makes it possible to plot the desired output of each contract on a geographical map in terms of effect for the battle space owner. The same can be done for the undesired campaign undermining effects following from certain suspicious relationships. In this way informed decisions can be made on contracting. In some cases immediate delivery is needed to support the security line of operation, while in other cases tactical patience will be applied in order to neutralize malign influence or to support socio-economic development.

A way to increase marginal corruption costs is adding more exit options into contracts in order to provide opportunities to easily break contracts that inadvertently empower power-brokers and the criminal patronage network. Enabled by TF2010, the U.S. Department of Defence is currently staffing new contracting paragraphs that will soon become mandatory in U.S. Defence contracts for Afghanistan and Iraq. In the meantime the CCMB is looking into options to re-contract expiring contracts from 'bad' to 'good'.<sup>44</sup> Task Forces and Provincial Reconstruction Teams in Regional Command South are connected to the CCMB and are establishing local contractor selection boards with participation of district government officials.

#### **Re-scoping best value business cases**

Full spectrum support of the campaign demands to use the acquisition process as an enabler rather than an undermining factor. This requires re-scoping of traditional western acquisition business cases which aim at meeting product, time and budget requirements whilst reducing risk by outsourcing to preferably one (prime) contractor.

Those business cases need to be broadened to capture other important elements, such as splitting big contracts into smaller contracts, exercise tactical patience, increase transparency of (sub)contractors and their contracts. All of these elements will not work as long as contracting agencies are stuck with the same set of (sub)contractors. In order to address this issue, the CCMB established a contractor

engagement strategy, resulting in a vendor outreach program within the Regional Command South area of responsibility. With the support of Peace Dividend Trust<sup>45</sup> and various contracting agencies, bidding opportunities for ISAF-contracts were offered to local companies that never before had access to ISAF-tenders. The outreach program consists of a series of engagements between contracting agencies and potential new contractors.

Each event hosts around 30 to 40 middle class business companies and is centered on a particular business sector, such as gravel, concrete, small construction, base support, security, etc. Each company has to provide sufficient information to feed the CIDNE-database. After filtering those companies on the basis of their past performance and their relationships – whether provided by the companies themselves or obtained from a variety of other sources – a common database of 'fresh, clean and capable' companies is developed.

#### **Strategic synchronization of buying power**

General Petraeus recently issued his COIN Contracting Guidance,<sup>46</sup> which puts SHAPE's Contract Management Action Plan into action:

*The scale of our contracting efforts in Afghanistan represents both an opportunity and a danger. With proper oversight, contracting can spur economic development and support the Afghan government's and ISAF's campaign objectives. If, however, we spend large quantities of international contracting funds quickly and with insufficient oversight, it is likely that some of those funds will unintentionally fuel corruption, finance insurgent organizations, strengthen criminal patronage networks, and undermine our efforts in Afghanistan. In view of these points, contracting has to be 'commander's business'. Indeed, I expect commanders to consider the effects of our contract spending and understand who benefits from it. We must use intelligence to inform our contracting and ensure those with whom we contract work for the best interests of the Afghan people. We must be better buyers and buy from better people.*

In broad terms, the document directs contracting agencies to ensure that contracting supports rather than undermines the mission by integrating contracting into intelligence, plans, and operations. Contracting agencies are to look beyond cost, schedule, and performance and to include contract award and termination criteria such as security, Afghan first, local power dynamics, and the enemy.

They also are to make sure to pay the right price avoiding market shock and inflation; to foster small and medium-sized enterprises; to ensure that contracting does not empower the wrong people; to keep track of money flows, to actively monitor (potential) (sub)contractors and their contracts; to hold prime contractors responsible for subcontractor performance and behaviour;<sup>47</sup> to enforce contract requirements; to share information and best practices, and to align policies and procedures.

Since contracting now has become commander's business, COIN contracting topics should be incorporated into training for commanders. In particular, commanders need to plan ahead, establish reasonable timelines, and ensure transparency and oversight such that contracting and procurement reinforce rather than detract from the campaign objectives.

Building on Regional Command South's experience and enabled by TF2010, the COIN Contracting Guidance directs all regional commands in Afghanistan to set up CCMBs to support campaign goals by coordinating contracting efforts, organizing vendor outreach programs to advertise contract opportunities to local communities, and using CIDNE/INDURE databases for vetting vendors and contractors. COMISAF's guidance clearly demonstrates that contracting has become a major operation of the ISAF-campaign.<sup>48</sup>

## Contracting and transition

Over the last months, measurement of campaign success has evolved from an 'end state' to a 'transition tempo'. There is much to say about a transition strategy for Afghanistan. The ISAF-

FOTO: ISAF RC-SOUTH, 2010



*RC-South organized a series of vendor outreach events for local contractors in Kandahar City*

concept of 'transition of lead security responsibility' has been broadened to 'transition of lead responsibility', emphasizing that transition has to take place on all lines of operation. NATO's Afghan First Policy explicitly seeks to use ISAF contracts as a mechanism to stimulate the socio-economic, the governance and the malign influence lines of operation.

Apart from contracts themselves, there are three contracting-related topics that have the potential to further enable the transition tempo along those lines of operation.

### Sourcing revisited

Given the fact that about 95 percent of all ISAF logistics activities are outsourced and the problems this has caused in Afghanistan, the question raises whether outsourcing is the best solution to apply in COIN warfare. Decisions on logistical sourcing are merely driven by efficiency considerations from a supply chain point of view and do not necessarily take into account second and third order effects to the battle space. Neither do those decisions take into account the extent to which they support the lines of operation, especially neutralizing malign influence and supporting socio-economic development.

If the COIN contracting problem is brought into the equation it might very well be the case that the campaign undermining effects of ISAF's contracting activities ultimately will result in a substantial cost increase of ISAF's campaign in order to counter these effects.

Considering these two sides of the same coin might lead to the conclusion that the use of

in-house military solutions and public private partnerships should be increased at the expense of outsourcing (parts of) the supply chain. Such considerations require a decision support model that integrates all effects into a comprehensive business case based upon full spectrum support of the campaign.

### Stimulating Afghan exports

Because a decision support model will probably not be available in short term, we have to focus on pragmatic solutions to create some early gains. The key question is how contracting can be used as an enabler for creating a sustainable Afghan economy. To date, much of the Afghan First efforts have focused on contracting for basic commodities, such as concrete and gravel, and local unskilled labor for construction projects and base services. Notwithstanding the fact that these activities support the Afghan economy in the short term, they do not address the core driver of the economy in the South, which is agriculture.

Therefore, Regional Command South, in conjunction with USAID and others,<sup>49</sup> has initiated a program to export fruits and vegetables from the southern region. The core of the initiative is a model farm combined with a center of excellence and an education center, which will transfer best practices to local farmers. By design, 70 percent of the production capacity will be exported, while the other 30 percent will be sufficient to feed the ISAF- population on Kandahar Airfield.

In this way the NATO food supply chain is used as an enabler to reach the required export quality standards. This approach obviously creates efficiencies in NATO's supply chain. More importantly, this concept, which can be applied to other business sectors as well, will be sustainable after ISAF's withdrawal and will therefore support transition along the socio-economic line of operation.

### Dollars versus Afghanis

Upon delivery of contracted products and services, Afghan (sub)contractors are usually paid, either in U.S. dollars (USDs) or in Afghanis.

FOTO ISAF, RC-SOUTH, 2010



*ISAF's contract payments in USDs (right) reduce the population's confidence in their currency (left) and their government*

After the fall of the Taliban regime in 2001, concerns about the stability of the Afghani contributed to the preferred use of USDs throughout Afghanistan. In addition, the initial lack of Afghani banknotes in sufficient quantities to facilitate large payments for significant development projects also led to an increased use of USDs.

Since 2002 the Afghan currency has been fixed to the USD and the exchange rate has settled at around 50 Afghanis to 1 USD. While this facilitates international investment, there is a common view amongst Afghans that the Afghani is over-valued which impedes Afghan exports. The banking infrastructure is growing steadily within Kabul and the provincial capitals, but in the rural areas the 'Hawala' system is more common.<sup>50</sup>

In particular, the Central Bank of Afghanistan – Da Afghanistan Bank (DAB) – has proceeded with the distribution of new banknotes. While there are currently sufficient Afghanis in circulation to facilitate payments of ISAF contracts, most of these contracts are still being paid in USDs. This results in a large amount of USD banknotes saturating the country, thereby reducing the population's confidence in their own currency and – what is more – undermining the governance line of operation, since the USD is clearly not a symbol of the Afghan state. More study is needed on this topic, but there are indications that increased contract payments in Afghanis could be a potential campaign enabler.

## Conclusion

ISAF's contracting largely disregards COIN dynamics and predominantly ignores wider campaign effects in Afghanistan's culture of impunity that permits corruption and war-lordism. This further fuels insurgency and might increase ISAF's campaign costs. NATO's Afghan First Policy seeks to increase local procurement while addressing the problems of contracting in a COIN environment.

Contracting is now integrated in Regional Command South's population-centric operations

and contracts are managed on a regional scale in order to take informed contracting decisions that support rather than undermine the campaign. COMISAF's COIN Contracting Guidance directs strategic synchronization of buying power, which implies that contracting has become a major operation within the ISAF campaign. Potential contracting-related transition enablers along several lines of operation are: rebalancing the sourcing options for the supply chain (i.e. military solutions, public private partnerships and outsourcing), creating export potential for local products, and increasing contract payments in Afghanistan. ■

- 1 This article captures the situation up to 21 October 2010 and reflects the personal view of the author, which does not necessarily represent a formal opinion of either NATO or the Netherlands Ministry of Defense. Due to security reasons, facts and figures in the main body and footnotes may differ from actual numbers. The title of this article refers to COMISAF's Counter-insurgency Guidance: *Money is ammunition; don't put it in the wrong hands. Institute COIN contracting. Pay close attention to the impact of our spending and understand who benefits from it. And remember, we are who we fund. How we spend is often more important than how much we spend.*
- 2 The distinction between Tier 1 and Tier 2 operations is about purpose: Tier 1 operations are framework operations in direct support of the population, whereas Tier 2 operations are mounted to extend the effect of Tier 1 operations.
- 3 Regional Command South Combined Joint Inter Agency Task Force, *Culture of Impunity Baseline*, 10 August 2010.
- 4 Speculating on expansion and development, powerbrokers generally try to acquire land surrounding ISAF and Afghan government locations and sell it to them for far above market price.
- 5 On 15 August 2010, [www.afghansun.com](http://www.afghansun.com) reported that a massive 1.8 billion barrel oilfield had been discovered in the North of Afghanistan between Balkh and Shiberghan. On 13 June 2010, [www.nytimes.com](http://www.nytimes.com) reported that U.S. geologists had discovered nearly 15 trillion in untapped mineral deposits, such as iron, copper, cobalt, gold and lithium. These discoveries obviously will stir up the land grab problem.
- 6 U.S. House of Representatives, Committee on Oversight and Government Reform, Subcommittee on National Security and Foreign Affairs, *Warlord, Inc.: Extortion and Corruption along the U.S. Supply Chain in Afghanistan*, June 2010, p. 1 - 3.
- 7 Afghanistan currently counts 52 licensed (legal) PSCs and 38 known unlicensed (illegal) PSCs, of which 28 are located in Kandahar. Karzai's presidential decree solves the problem that PSCs pay salaries that unfairly compete with ANSF salaries and therefore impedes ANSF growth. Replacing PSCs with ANSF will reduce financial support to the insurgency and criminal patronage networks, but will drain ANSF resources from current operations.
- 8 Worldwide, about 100,000 people die every year from overdoses of Afghan heroin, according to Nikolai Tsvetkov, Head of the Russian State Anti-Narcotics Committee in an interview with *Izvestia* on 9 June 2010: *The silk route of the Afghan poppy* (<http://rbth.ru/rubrics/drugwar.html>).
- 9 United Nations Office on Drugs and Crime (UNODC), *Afghanistan Opium Survey 2009*, September 2009.
- 10 Commission on Wartime Contracting in Iraq and Afghanistan, *At What Cost? Contingency Contracting in Iraq and Afghanistan*, Interim Report to Congress, June 2009, p. 39. Note: LOGCAP IV is for both Afghanistan and Iraq; however the vast majority of task orders under this program have been competed for work in Afghanistan.
- 11 In the southern region only Kandahar Airfield is able to sustain heavy airlift handling.
- 12 In November 2009, almost all fuel for the southern region (about 2.2 million litres per day) came in from the Port of Karachi in Pakistan and crossed the border at Wesh-Chaman. In order to mitigate the dependency risk of a single ground line of communication, Regional Command South worked together with the contractor to open up a second source from Turkmenistan. Since June 2010, about half of the daily consumption rate of the southern region comes in through the border crossing of Towraghundi. This second source proves to be extremely helpful to mitigate the fuel supply risk in relation with ongoing attacks on ISAF fuel convoys in Pakistan.
- 13 Electrical power for ISAF is mainly provided by diesel generators. Electrical power drives computer and communications systems, cold food storage facilities, sewage systems, lighting, water pumps, etc.
- 14 The southern region captures the provinces of Daykundi, Helmand, Kandahar, Nimruz, Uruzgan and Zabul, which established the area of responsibility of Regional Command South up to 14 June 2010. Since that date Helmand and Nimruz became the area of responsibility of Regional Command Southwest. Wherever facts and figures in this article and its footnotes refer to the southern region, this is meant to be the total of 6 aforementioned provinces.
- 15 The border crossing at Wesh-Chaman historically demonstrated a maximum capacity of about 400 trucks a day. This number contains about 130 trucks a day (about 4,000 trucks a month) for the ISAF supply chain. The projected U.S. troop increase would create a flow of about 12,000 ISAF trucks a month. In order to mitigate a serious threat to the U.S. uplift, Regional Command South in conjunction with USFOR-A and 135<sup>th</sup> Sustainment Brigade initiated, planned and executed a number of infrastructure projects in the first half of 2010. These projects have proven their value, since the border crossing has been able to facilitate the predicted truck numbers.
- 16 In order to support the ISAF and ANSF compounds in the southern region, Regional Command South has increased supply deliveries by means of air drops to a volume that exceeds 25,000 tons of supply in the course of 2010. In the same period, about 2.5 million tons of supply (of which roughly one third is fuel) is being moved by road towards and through the Regional Command South region. Taking into account the distances involved, this translates to about 50,000 billion ton kilometers. On top of that, rotary wing air transport has moved about 15,000 tons of cargo and about 150,000 passengers within the Regional Command South region.
- 17 A typical fuel convoy used to consist of 90 vehicles of which about 10 are

- fuel trucks and the rest are force protection vehicles that contain over 300 security guards. As a result of Karzai's PSC ban the ratio now has gone down to one security vehicle per fuel truck. The value of such a convoy of 40,000 liter trucks is about \$660,000 dollar against an all-inclusive fuel price of \$1.50 per liter.
- 18 The U.S. Army Corps of Engineers (USACE) applies a planning factor of about 30 per cent security costs for their construction projects.
- 19 The amount of waste produced by ISAF within the southern region is about 250 tons per day.
- 20 Best value is usually scoped around specific topics like past performance, energy savings, seismic requirements, et cetera.
- 21 This information was revealed during the course of the COIN contracting activities conducted in Regional Command South.
- 22 Intelligence is not the same as juridical evidence. Up till now, it has been very difficult (if not impossible) to obtain irrefutable proof of powerbroker activities, relationships and money streams.
- 23 *COMISAF's Counterinsurgency Guidance*, 1 August 2010.
- 24 Statement made by Dr. Don Ritter, former U.S. Congress member and currently President and CEO of the Afghan-American Chamber of Commerce (AAC).
- 25 It has also been reported that powerbrokers had instructed Afghan security guards to keep certain business men outside the gate in order to deny them access to an ISAF contracting fair.
- 26 A qala is an Afghan house with yard surrounded by a (mud) wall.
- 27 NATO secretary general, *Assessing the economic footprint of the international security assistance force (ISAF): policy advice for the possible adaptation of NATO procurement rules and practice in support of the Afghan economic development*, 21 April 2010.
- 28 ISAF Contract Management Action Plan, 25 June 2010.
- 29 ACO Afghanistan First Policy Instructions, 27 August 2010.
- 30 Operation Moshtarak Phase 1 was about adjusting battle spaces and troop densities and about creating Freedom of Movement on the main highways in the southern region.
- 31 Operation Moshtarak Phase 2 involved a total of 15,000 ISAF troops from Afghanistan, Australia, Britain, Canada, Denmark, Estonia, France and the United States.
- 32 The five lines of operation of the ISAF campaign are: protecting the population, enabling the ANSF, neutralizing malign influence, supporting the extension of governance and supporting socio-economic development.
- 33 The four highways are: Highway-1 East to Kabul, Highway-1 West through Central Helmand to Herat (at Delaram splitting off Highway-9 to the Iranian border crossing of Zaranj), Route Bear to Tarin Kowt and Highway-4 to the Pakistan border crossing of Wesh-Chaman (close to Spin Buldak).
- 34 The Kandahar based powerbrokers are mainly members of the mighty tribal related Karzai, Noorzai and Sherzai families.
- 35 Glevum Associates, *Human Terrain System: Kandahar Province Survey Report*, March 2010, p. 30.
- 36 For example, the Director of Information and Culture was killed on 23 February during an apparent kidnap attempt outside the Governor's Palace. And on 19 April the Deputy Mayor of Kandahar City, Haji Azizullah Jamal, was assassinated by insurgents while at prayer in the Shadivai Mosque in District 1 of Kandahar City. On 15 June the District Leader of Arghandab (Hajji Abdul Jabar) was killed by a Suicide Vehicle Borne Improvised Explosive Device (SVBIED) strike in the vicinity of the Governor's Palace. On 17 August Afghan police manning a checkpoint were attacked by insurgents after being incapacitated by food poison. The attack resulted in six policemen killed and two wounded. On 18 August the Daman District Chief of Police, Col Rassoul, and three of his policemen were killed by a SVBIED near Tarnak Bridge. On 1 September 2010, the Provincial Director of Haji and Religious Affairs (Mr. Hasan Temori) and his bodyguard were killed by a VBIED and on 14 October the Deputy Mayor of Kandahar City (Mr. Noor Ahmad) was shot by insurgents and died of his wounds in Mirwais Hospital.
- 37 Regional Command South's Director Support Division chairs the CCMB. Participants of the CCMB and its subordinate working group are all relevant contracting agencies and task forces that operate in the battle space of Regional Command South. As a linking pin to the Kabul-based anti-corruption related task forces, a member from TF2010 also participates in the CCMB.
- 38 The USFOR-A CJIAF-Nexus was established during the course of 2010 and was integrated with Regional Command South. On 23 August 2010, HQ ISAF issued an order to establish an umbrella task force CJIAF-Shafafiyat (which means 'transparency') to plan, implement and integrate all ISAF anti-corruption activities and to coordinate and synchronize those activities with the three related USFOR-A task forces: TF2010, TF Spotlight and CJIAF-Nexus.
- 39 Task Force Spotlight was established in June 2010 in order to drive programs and initiatives to improve PSC accountability and performance.
- 40 TF2010 has the following mission statement: *In order to better employ contracting in support of the counterinsurgency, TF2010 develops greater visibility of the flow of contracting funds below the prime contractor level. TF2010 fuses, augments, and drives existing efforts to provide the operational Commander with actionable information regarding key contracting networks, money flows, and linkages to malign actors within their operating space.*
- 41 Geneva Centre for the Democratic Control of Armed Forces, *Building integrity and reducing corruption in defense: a compendium of best practices*, Geneva, 2010, p. 14 - 19.
- 42 For their bases in Uruzgan the Dutch Ministry of Defense used to have contracts with individual linguists and security guards. From a COIN perspective this is a good approach to prevent brokerage of malign actors and to spread out the wealth amongst the Afghan people.
- 43 Access to CIDNE is restricted. In order to connect to civil contracting agencies and non-governmental organizations, the unclassified International Distributed Unified Reporting Environment (INDURE) password protected web-based reporting system is used in conjunction with CIDNE.
- 44 The use of balanced score cards (tailored to the lines of operation) as a contract award decision mechanism is currently being investigated.
- 45 Peace Dividend Trust is a non-profit, non-governmental organization dedicated to making peace and humanitarian operations more effective, efficient and equitable.
- 46 *COMISAF's Counterinsurgency (COIN) Contracting Guidance*, 8 September 2010.
- 47 Undesired behaviour should not be limited to non compliance with cost, schedule and quality, but should also include not adequately managing subcontractors and their behaviour, not paying subcontractors and employees, maintaining links to powerbrokers, criminals or insurgents, et cetera.
- 48 On 20 October 2010 HQ ISAF established a COIN Contracting Executive Steering Committee (C2ESC) with the aim of coordinating activities of the regional CCMB's and assessing progress on the implementation of COMISAF's Contracting Guidance.
- 49 Those others are NATO Maintenance and Supply Agency (NAMSA), the United States Department of Agriculture (USDA), Commander Kandahar Airfield (COMKAF), the U.S. Embassy Regional Platform South, USFOR-A, Sodexo Holding Ltd., Supreme Group – Global Services Solutions.
- 50 The Hawala system consists of a network of Hawala brokers. One can hand cash money to a local Hawala broker and ask him to transfer it to a recipient somewhere else. The Hawala broker then calls another Hawala broker in the recipients' vicinity and provides him with disposition instructions. That Hawala broker will then pay the cash sum to the recipient. Cost settlement of debts between Hawala brokers is dealt with separately and can take up many forms other than cash transactions. The Hawala system operates on the basis of honor and therefore can do without the need for legal enforceability of claims.