

RELEASE IN
PART B6

From: Mills, Cheryl D <MillsCD@state.gov>
Sent: Sunday, May 1, 2011 1:05 AM
To: H
Subject: Fw: Update on NY Times

From: Klevorick, Caitlin B
Sent: Sunday, May 01, 2011 12:25 AM
To: Feldman, Daniel F; Mills, Cheryl D
Subject: Re: Update on NY Times

The below is in the boston globe. Not on nyt site yet.

Afghanistan road project a study in cost, corruption

Highway parable of good intentions gone bad for US

By Alissa J. Rubin and James Risen

New York Times / May 1, 2011

GARDEZ, Afghanistan — When construction crews faced attacks while working on a major US-financed highway here in southeastern Afghanistan, Western contractors turned to a powerful local figure named simply Arafat, who was suspected to have links to Afghanistan's insurgents.

Subcontractors, flush with US money, paid Arafat at least \$1 million a year to keep them safe, according to people involved in the project and Arafat himself.

The money paid to Arafat bought neither security nor the highway that US officials have long envisioned as a vital route to tie remote border areas to the Afghan government. Instead, it added to the staggering cost of the road, known as the Gardez-Khost Highway, one of the most expensive and troubled transportation projects in Afghanistan.

The 64-mile highway, which has yet to be completed, has cost about \$121 million so far, with the final price tag expected to reach \$176 million — or about \$2.8 million a mile — according to US officials. Security alone has cost \$43.5 million so far, USAID officials said.

The vast expenses and unsavory alliances surrounding the highway have become a parable of the corruption and mismanagement that turns so many well-intended development efforts in Afghanistan into sinkholes for the money of US taxpayers, even nine years into the war.

The road is one of the most expensive construction projects per mile undertaken by USAID, which has built or rehabilitated hundreds of miles of Afghan highways and has faced delays and cost overruns on similar projects, according to the special inspector general for Afghan reconstruction.

After years of warnings that Arafat was making a small fortune playing both sides in the war — and after recent queries by The New York Times about payments to him — US officials said they finally had moved to cut him off in April.

Despite the expense, a stretch of the highway completed just six months ago is already falling apart and remains treacherous. The unfinished portion runs through Taliban territory, raising questions about how it can be completed. Cost overruns are already more than 100 percent, all for a road where it was never certain that local Afghans wanted it as badly as the US officials who planned it.

At their worst, the failures have financed the very insurgents that NATO and Afghan forces are struggling to defeat. Some US officials and contractors involved in the project suspect that at least some of the money funneled through Arafat made its way to the Haqqani group, a particularly brutal offshoot of the Taliban.

Critics say that payoffs to insurgent groups, either directly or indirectly, by contractors working on highways and other large projects in Afghanistan are routine. Some officials say they are widely accepted in the field as a cost of doing business, especially in areas not fully under the control of the US military or the Afghan government. As a result, contracting companies and the US officials who supervise them often look the other way.

“Does it keep the peace?” asked one US military officer with experience in volatile eastern Afghanistan. “Definitely. If the bad guys have a stake in the project, attacks go way down.” The officer, like many of the people interviewed, did not want to be named for fear of retribution for criticizing a project that is considered a priority by the US and Afghan governments.

Some also suspected that Arafat had been staging attacks himself to extort more money for protection, a vicious cycle of blackmail that contractors and US officials acknowledged was a common risk. In an interview, Arafat confirmed that he had been fired, but he called assertions that he had funneled money to the Haqqani group a “lie and propaganda,” and he denied staging attacks.

The possibility that US taxpayers’ money has been going to someone with ties to an insurgency that has killed US

soldiers and Afghan civilians is just one of the many problems of the Gardez-Khost Highway.

From the beginning in 2007, no one thought that building the road would be easy. Traversing high, rugged terrain, the road rises to more than 9,000 feet. In winter, it is buried in deep snow. In summer, it is covered by a thick layer of chalky earth that engineers refer to as moon dust, which turns to mud in the rain.

But US officials judged the original price tag of \$69 million to be worth the cost. The highway was seen as an important way to connect two mountainous provinces in southeast Afghanistan — Paktia and Khost — and wrest from the insurgents a route that they had long used to move money, men, and guns into Afghanistan from Pakistan's tribal areas.

Development officials hoped that the road would better link Afghanistan's strategic border region to the central government in the capital, Kabul, and encourage commerce. The military hoped it would provide faster access for supplies and fresh troops.

However, interviews with more than 20 current and former US government officials, as well as military officers, private contractors, Afghan officials, and local Afghan tribal leaders, show that despite the lofty goals the highway project was troubled virtually from the start, and problems quickly mounted

From: Feldman, Daniel F
Sent: Saturday, April 30, 2011 08:02 PM
To: Mills, Cheryl D
Cc: Klevorick, Caitlin B
Subject: Fw: Update on NY Times

From: Anderson, Lars (LPA/AA) [mailto:]
Sent: Saturday, April 30, 2011 07:40 PM
To: ; Ruzica, Nadja (OAPA/TS); Thier, Alex (OAPA/OD); Schimpp, Michele J (OAPA/OD); Pryor, Jeanne Marie (OAPA/AF); Ray, Diane (OAPA/AF); 'jcarey < >; Carey, James (OAPA/SPME); Feldman, Daniel F; Ruggiero, Frank J; 'george <george@ >; 'marieel <marieel >; 'jennyb <jennyb >; Albert, Joshua (LPA/CL); Feinstein, Barbara (LPA/AA); Steinberg, Donald (AID/A); Harper, Ryan (AID/A); Hubbard, Benjamin (AID.A); Shah, Rajiv (AID/A)
Cc: Byers, Stan ; Bommer, Ashley F; Schwemlein, James C; Whelan, Moira (LPA/AA); Haq, Nayyera; Hall, Caitlin G; George, Brian J; Darcy, Shannon M; Klevorick, Caitlin B; Singh, Vikram J; < >

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Subject: Update on NY Times

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Team - wanted to let you know that I heard from Jim Risen and the story may run in tomorrow's paper ... We will keep an eye out for it and send it around. Attached and below are the latest points. Again, will keep everyone posted.

Lars

From: Carey, James (OAPA/SPME)
To: Anderson, Lars (LPA/AA)
Sent: Sat Apr 30 14:27:13 2011
Subject: Fw: NYT Talking Points FINAL

From: Carey, James (OAPA/SPME)
Sent: Friday, April 29, 2011 05:51 PM
To: Carey, James (OAPA/SPME)
Subject: FW: NYT Talking Points FINAL

Press Guidance
 Gardez – Khost Road (Final)
 April 29, 2011

- In 2009, USAID asked our Office of Inspector General (OIG) to look into allegations of assistance funds being diverted to benefit the Taliban. We made this request after allegations began to emerge in late 2009, and made the request to OIG as the investigative body with responsibility for handling allegations of fraud, waste, abuse, and violations of law.
- In 2010, the OIG briefed high level USAID officials on allegations of assistance funds being diverted to benefit the Taliban. The OIG subsequently informally communicated to USAID officials in the spring of 2010 that their investigation had not definitively identified any actionable information on this matter, but that work was ongoing.
- Nevertheless, USAID remained concerned about the risks associated with implementing assistance projects in non-permissive areas. USAID joined our USG partners, including the US military, in participating in Task Force 2010. Moreover, we recognized the need to put in place USAID's own systems to protect against assistance dollars being diverted from their development purpose by terrorists or corruption.
- In the fall of 2010, USAID launched the Accountable Assistance for Afghanistan (A3) initiative. This initiative entails reducing layers of subcontracts, tightening financial controls, enhancing project oversight, and establishing a vetting system.
- USAID established the Vetting Support Unit (VSU) in February of 2011, and it is now vetting new, non-U.S. awardees and sub-awardees working for USAID, as well as existing awards on an as-needed basis.
- It was this new capacity that USAID used to initiate vetting based on allegations that came to our attention in late February 2011 regarding security subcontractors for The Louis Berger Group/Black & Veatch, the USAID contractors responsible for building the Khost-Gardez road.
- The allegations concerned ISS-SafeNet and an individual providing security services in Paktia province. While vetting of ISS-SafeNet is ongoing, vetting of the security service provider is complete.
- USAID has informed The Louis Berger Group/Black & Veatch that the individual security service provider is no longer eligible to receive USAID funds. We understand that The Louis Berger Group/Black & Veatch has taken action and that the individual has been terminated.

- USAID's new vetting capacity will continue to be important as we vet existing awards any time USAID receives information about possible allegations and new awards granted to non-U.S. persons.
- Background – USG internal
- The Khost-Gardez road is a top GIRoA priority, and has been for several years. It is also a significant USG foreign policy interest. Once completed, it will be a high-speed, all-weather connector and will provide the provinces with economic and public access to the rest of Afghanistan.
- The task order for the rehabilitation of the Khost-Gardez road, a 101 kilometer (km) highway was awarded in 2007, under the Afghanistan Infrastructure Rehabilitation Program (AIRP), held by the Joint Venture of The Louis Berger Group and Black & Veatch (LBG/B&V).
- Due to increasing security costs and expanded project work, the task order has been modified twice to date, with another increase approved but not yet executed. The task order cost, initially at \$68.5 million, is now at the approved and to be executed cost of \$175.9 million.
- The project is divided into three sections; sections 1 (km 0 – 27) and 3 (km 65-101) have been completed, leaving Section 2 (38km) to be completed.

From: Ruzica, Nadja (OAPA/TS)

Sent: Friday, April 29, 2011 3:08 PM

To: Thier, Alex (OAPA/OD); Schimpp, Michele J (OAPA/OD); Carey, James (OAPA/SPME); Pryor, Jeanne Marie (OAPA/AF); Weynand, Gordon W (OAPA/TS); Ray, Diane (OAPA/AF)

Subject: NYT Talking Points FINAL

All,

We have reached agreement with the IG on the first 2 bullets. The IG clears off on bullet #2 but not #1. They are fine with us including the first bullet but note that they will not be able to corroborate that if asked.

As a reminder: we've had many iterations of the talking points, this latest version includes changes suggested over last weekend as well as GC's edits from two days ago. I think that they are in good shape. We will of course have to tailor them when the story comes out.

Who should send them to the 6th floor? We'll send to SRAP as well, of course.

I'll be circulating the broader background shortly.

Nadja Ruzica

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