Effects Through Acquisition

Leveraging the Power of Contingency Contracting

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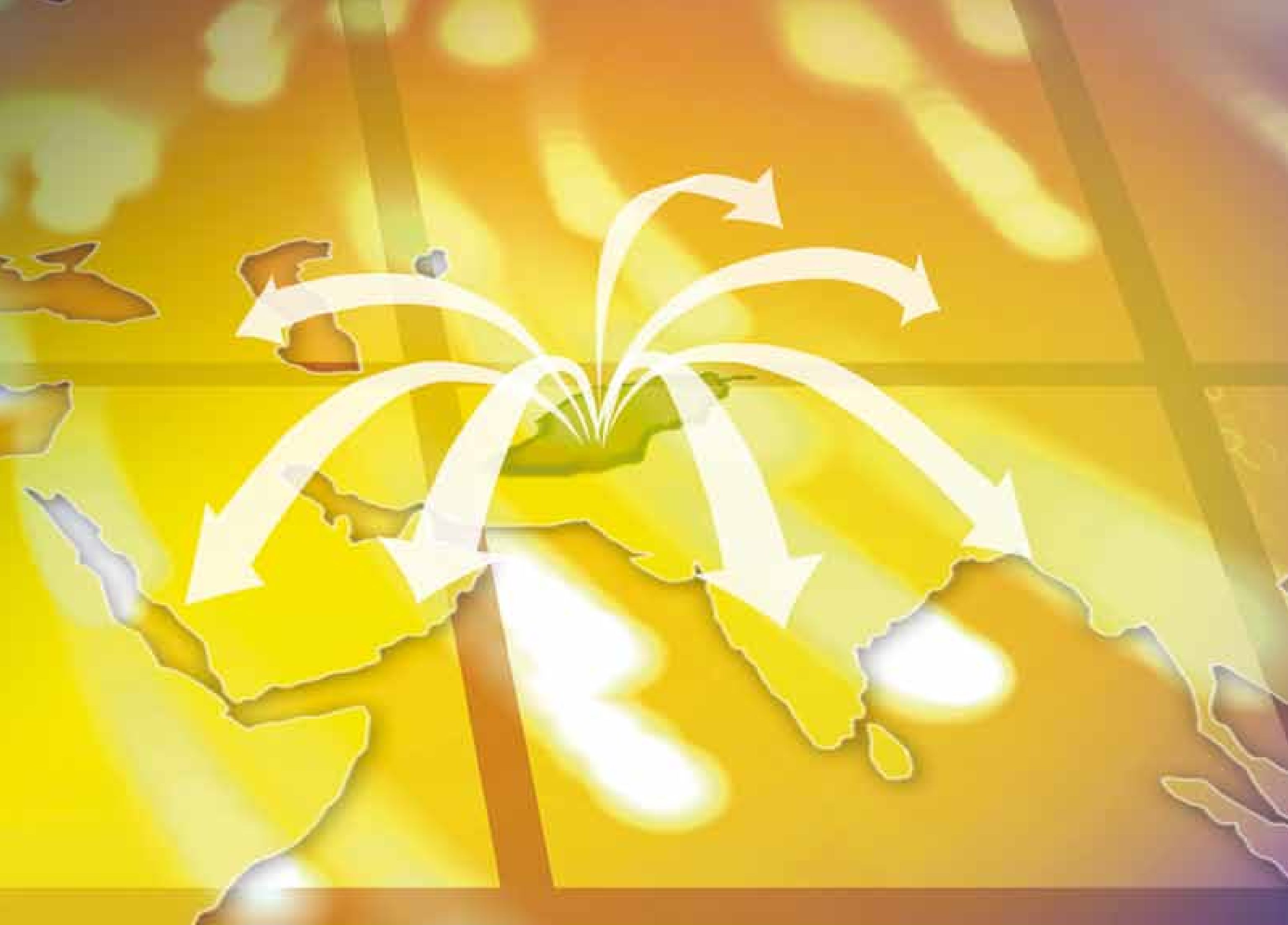
The scale of our contracting efforts in Afghanistan represents both an opportunity and a danger.

— Gen. David H. Petraeus, USA (Ret.), former commander, U.S. forces in Afghanistan/International Security Assistance Force, Afghanistan



Contingency contracting is a potent force available to commanders in Afghanistan. Acquisition efforts support the counterinsurgency (COIN) mission, using business and economic operations as a stabilization tool to bolster local development. Conversely, wasted or misused dollars can hinder long-term stabilization, fund the enemy, and fuel corruption. In fiscal year (FY) 2009, NATO and U.S. Forces–Afghanistan (USFOR-A) contracted for services and goods totaling approximately $14 billion—roughly equal to Afghanistan's GDP for the same year. This year, estimates are that combined contracting activities may exceed Afghanistan's GDP.

Given the scale of International Security Assistance Force (ISAF) contracting, the opportunities—and risks—are significant. Despite the stakes, there is still much to do to strategically leverage our economic power via contracting.

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Integrated processes drive every kinetic operation in a counterinsurgency environment, and equivalent effort is needed on the acquisition side. Unified standards and a streamlined approach to contingency contracting are needed; today, more than 70 disparate offices are involved in the process. We must have unity of effort, and we must find a means to translate strategy into joint execution. After nearly 10 years of operations in Afghanistan, we have not achieved this model; how can we do so?

The solution is to designate and empower a lead that is chartered to integrate efforts across the acquisition continuum, enabling synchronized effects in support of the COIN strategy. This lead must reach across the continuum in an end-to-end approach that establishes joint controls and helps ensure that business operations are integrated into the theater campaign plan and managed for maximum effect. The result will be an approach to contracting that achieves visibility and transparency of funds, spurs local development, and creates jobs while minimizing corruption.

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Opportunities and the Imperative to Action

The military contracting effort has two unique characteristics that enable it to function as a force multiplier and economic development tool. First is the inherent scale of the services and goods required to sustain the military effort. In this sense, contract dollars may function as a weapon system—enabling the operational mission and achieving critical non-kinetic effects on the battlefield. Second is the military's unique ability to operate effectively in initial post- or intra-conflict environments that can be a barrier to other governmental and non-governmental entities. This ability to execute the mission in spite of the environment provides an opportunity to spur immediate and long-term economic development, as well as activities that overlap both phases. Given this context, it is beneficial to create a strategy to build local Afghan capacity while doing the groundwork for long-term, sustainable economic development involving the local and international business communities and investment.

To support U.S. forces in Afghanistan this year, contracting officers will oversee more than 35,000 contracts for materiel, goods, and services. Thirteen regional contracting centers across the area of responsibility represent capacity-building opportunities in diverse regions across Afghanistan. These activities can galvanize and promote industries with immediate and long-term potential, such as agriculture and construction, which build upon each other to facilitate growth. In economic terms, this "economy of agglomeration" model can be jump-started by leveraging spending already in practice by governmental agencies. By procuring locally whenever and wherever possible, transactions by regional contracting centers have the potential to be the foundation of long-term employment opportunities and prompt industry growth for Afghan businesses. This "Afghan First" approach promotes economic stability, creates jobs for Afghans, and helps build a sustainable market economy open to foreign investment. The COIN guidance is unequivocal: "Hire Afghans first, buy Afghan products, and build Afghan capacity."

Our experiences in Iraq demonstrated how powerful the effects of policies like Afghan First can be in contingency environments. Many of the lessons from Iraq are applicable to Afghanistan. The primary lesson was that host-nation vendors can and will supply a significant portion of military requirements in theater. For instance, by 2007, all bottled water supplied to U.S. and Coalition forces in Baghdad was filtered, distilled, and bottled at an Iraqi-owned and -operated plant stood up after the fall of Saddam Hussein's regime. Making contracting accessible to host-nation vendors expanded the supplier base; vendor conferences, host-nation business advisors, and posting of all solicitations online in Arabic and English brought current and prospective suppliers under one tent. A single, common definition of what constitutes a host-nation vendor and thorough pre-bid vetting of vendors ensured that efforts had the intended effects. Theater-wide coordination of requirements ensured that the economic effects of contracting were strategically managed and could be synchronized with kinetic operations.

The Afghan First initiative is designed to function much like its predecessor in Iraq. Implementing Afghan First occurs through a variety of means, such as using local resources, encouraging responses from host-nation businesses on solicitations, contracting and paying in Afghan currency, and directly hiring Afghan nationals. To ensure an open, transparent process, all solicitations for contracts from the entire international community are posted to www.AfghanFirst.org in Dari, Pashto, and English. The emphasis remains on hiring locals, developing capacity and markets, using local sources, and rewarding/incentivizing contractors for adopting matching sourcing policies.

Challenges and the Risks of Inaction

Today's Afghanistan contingency contracting offices do not yet operate synergistically. Dozens of different offices operate independently, reducing opportunity for maximum strategic effect. The system needs visibility, and gaps remain in checks and balances to maintain order. Effective coordination across the acquisition continuum happens locally, rather than strategically. Without unified standards, contracting officers will always struggle to monitor payments, track and vet vendors, and gather intelligence on business operations to support the COIN strategy. Current technological difficulties compound the challenges: A lack of automation and a reliance on cash increase the risk of error and abuse. Systems in theater are often not optimized to function in an expeditionary environment and not designed to enable real-time decision-making at the strategic, operational, or even tactical levels. Understanding the risks and identifying existing gaps are a key step in improving the process. Meeting mission demands and the operational tempo is often accomplished at the sake of standards; we should be able to do both.

The process of planning, awarding, monitoring, and paying contracts for services carries challenges unique to the battlefield. The haste of activity on the battlefield and focus on mission execution create an environment where rules that apply in garrison are not enforced or are sporadically applied. The result is a theater process that differs from the garrison process and has a fidelity rate of only 60 percent, compared with 90 percent for actions retrograded or in garrison stateside. The most critical objective is to avoid situations in which we fail to separate entitlements from disbursements and create scenarios where the same person is awarding contracts and cutting the checks. While the lines are often blurred upon initial entry into a contingency, after the first phase of operations, the gaps should be closed and clear lines enforced.

Award of contracts to unvetted vendors is a significant concern with serious consequences. Moreover, lack of visibility on obligations and payments can result in vendors receiving duplicate or inaccurate payments. At any given time, some $2 million in overpayments is outstanding and pending recovery. Without a standard process to vet vendors, opportunity exists for companies to become shadow companies, padding criminal pockets or funding the insurgency.

Additionally, while Afghan First is the right approach, it has limitations. Not all awards to locals provide equal effects. Failure to "spread the wealth" limits the economic benefit to local communities. An analogous effort exists within CONUS as the federal government sets aside procurements for small businesses but also reserves contracts for subcategories of small business like small disadvantaged businesses or businesses in historically underutilized business zones, to achieve specific effects. Today, we do not yet reach that level of granularity for businesses within the Afghanistan business community. Thus far in FY11, the top 100 Afghan firms have received more than 75 percent of total dollars (versus roughly 50 percent stateside).

Immature processes and a lack of automation pose internal and external challenges. Manual operations both result from and perpetuate disaggregated approaches to business operations. Internal to contracting and financial shops, manual data entry is prone to errors, resulting in degraded reporting and weakened internal controls. If incorrect or conflicting contract information is entered into different systems of record, it becomes impossible to track obligations and disbursements from contracts. Extensive reliance on manual data processing also limits the amount of effort that critical military resources can devote to the mission-impacting aspects of theater business operations. Externally, within the host nation, lack of automated processes or electronic banking infrastructure drives a reliance on cash. In the early days of operations in Iraq and Afghanistan, large amounts of U.S. cash flooded the battlefield. This infusion of currency was a quick fix for immediate needs but led to untraceable funds and dollarized local economies. Reliance on cash is a primary indicator of insufficient processes and one of the largest impediments to visibility.

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Systems themselves also present a large challenge to unified business operations. Today's business systems are suboptimal for an expeditionary environment. They are not conducive to the integrated, interoperable approach COIN contracting requires. In the COIN environment, systems that were not designed to operate in a seamless, end-to-end fashion integrate poorly if at all. In addition to interoperability, DoD business systems face physical challenges operating in a contingency environment. Business systems are designed to satisfy requirements derived from organizational needs, usually identified in garrison environments with insufficient consideration of adaptation to the expeditionary environment. Network accessibility and connectivity are often limited in a contingency environment. Competing priorities for access to limited bandwidth may preempt business functions, which can be perceived as a lower priority. If unresolved, these challenges together could undermine or reverse contracting opportunities in theater.

Looking Forward: Call to Action

Achieving the ISAF acquisition goals of job creation, minimized corruption, transparency, automation, and vendor accountability requires a new unity of effort. Today's environment demonstrates a divide between mission effectiveness and efficiency; we can and must achieve both. A single acquisition leader must be given the responsibility—and authority—to coordinate and manage end-to-end acquisition processes, systems, and controls. This lead should create joint standards across the business space, enabling cross-functional processes and leveraging existing capabilities more effectively. By looking across the acquisition continuum, this leader can connect economic strategy to execution, understanding that like combat operations, business operations at 30 days will look different than operations at 60 days or 6 months or a year.

In 2009, U.S. Central Command (CENTCOM) and U.S. Army Central (ARCENT) contracting and financial leadership began to tackle some of these issues aggressively. The CENTCOM Joint Theater Support Contracting Command (C-JTSCC), then Joint Contracting Command–Iraq/Afghanistan, with support from the deputy chief management officer's Expeditionary Business Operations Group (formerly the Warfighter Requirements Directorate of the Business Transformation Agency) began work to identify the primary process gaps, improve business operations and help reduce cash on the battlefield. Since 2009, this team has made progress on improving contract reporting and accuracy, financial management and reducing cash on the battlefield and contract sites have nearly doubled reporting percentages. Significant numbers of payments are made in retrograde. There remains a disparity between the theater and the garrison processes, so much remains to be done. Even so, the data reveals the potential from taking even preliminary steps to optimize existing processes: over the past fiscal year, Expeditionary Business Operations Group and deployed commanders established traceability for $4.7 billion in overseas contingency operations acquisition funds from requirement to disbursement.

Several noteworthy accomplishments include increased data integrity and availability, a new vetting process for vendors and cash off the battlefield. In fiscal year 2009, contract sites reporting to the electronic document access system increased from 51 percent to 92 percent. From a low point of 20 percent in 2009, contract availability in online systems of record reached 95 percent by the following fiscal year. Additionally, the percent of contract actions matched to entitlements and disbursements across the systems of record in theater rose from 7 percent in January to 59 percent in February 2011. Vendors are enrolling in systems that enable vetting and registration. Now efforts are focused on importing a vetting process developed in Iraq to Afghanistan. This process thoroughly reviews all non-U.S. entities that register to bid on contracts in Afghanistan and uses threat finance components to grade entities for approval or rejection. By using one process theater-wide, this information can be leveraged across the U.S. government and NATO partners to synchronize use of vendors and contracts.

The cash off the battlefield initiative has also gained momentum. A major strategic shift took place in July 2010, when ARCENT issued an order to reduce cash in the combined joint operations area. This order dictated that contracting personnel pay all contracts in Afghanistan over $3,000 via electronic funds transfers initiated in the United States. This requires that contractors in Afghanistan have or arrange bank accounts capable of receiving such transfers. It also retrograded contracts, invoices, and acceptance reports back to the United States. By paying remotely and electronically, retrograde payments remove cash from the battlefield. By October 2010, 90 percent of ARCENT payments were made in retrograde.

Way Ahead

A single lead organization chartered to integrate the acquisition continuum from requirement to disbursement is central to achieving COIN contracting goals. From an operational perspective, this single lead will serve three primary functions. First, provide the battlefield commander with daily business intelligence on where funds have been and will be spent, who is receiving the funds, and for what purpose. Second, the lead should act to establish controls and analysis across the acquisition continuum, gauging progress towards the ISAF goals of reduced corruption, economic revitalization and transparency. Third, this lead should bear responsibility for integrating the theater business plan into the campaign plan.

To accomplish this, we must establish an organization empowered with the resources and authorities to unify acquisition and business activities. At its helm, the leader chartered to integrate business operations will then shape its structure, including the command reporting structure and interagency coordination framework that will align ISAF, U.S. government, and partner efforts. This begins with a core team with experience working across the acquisition continuum. Not only is streamlined leadership essential to creating and implementing a unified strategy, but it is also necessary to ensure progress is institutionalized and lessons are noted. If this solution is implemented, and a leader is chartered to integrate efforts and create a coherent strategy, then contingency contracting will reach its full potential as a tool for commanders in Afghanistan. In this end state, the theater commander will have the same visibility on acquisition effects as on kinetic effects, making business operations a powerful force in the COIN strategy. Then the scale of our contracting dollars will become a force multiplier, mitigating challenges and achieving opportunities.

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