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ECONOMIC AND SOCIAL DEVELOPMENT

As of March 31, 2012, the U.S. government had provided nearly \$23 billion to support governance and economic development in Afghanistan. Most of the funds flowed through four major programs and accounts: the United States Agency for International Development's (USAID) Economic Support Fund (ESF), the Department of Defense's (DOD) Commander's Emergency Response Program (CERP), the Task Force for Business Stability Operations (TFBSO), and the DOD-State Department jointly administered Afghanistan Infrastructure Program (AIP) supported by DOD's Afghanistan Infrastructure Fund (AIF).³²⁷

The services sector, led by telecommunications, transport, and government services, has been the most important driver of economic growth, while construction has propelled the industrial sector. According to the World Bank, legal agriculture is the second leading contributor to GDP, but it fluctuates with the weather. Mining production has been limited so far, but could eventually add 2–3% to GDP growth.³²⁸

Afghanistan's economy has grown 9% annually on average since 2002, fueled by international military spending and development assistance. This growth is projected to slow with the departure of most international forces after 2014. The decline in assistance will leave a large fiscal gap between government revenues and expenditures in a country that still suffers from high rates of poverty, unemployment, food insecurity, and poppy cultivation.³²⁹

This quarter, the United States and the international community sought to further prepare Afghanistan to take full control of its national security and to minimize economic contraction in what the Afghan government is calling the "Transformation Decade" following the drawdown of Coalition forces in 2014. However, U.S. government responses to SIGAR show that insecurity remains a formidable obstacle to the successful implementation of economic and social development programs in Afghanistan.

KEY EVENTS

This quarter saw three important developments. First, the Special Tribunal for Kabul Bank announced guilty verdicts for 21 individuals in the Kabul Bank scandal, including the main architects of the bank's near-collapse. However, critics said the sentences were not tough enough.³³⁰

Second, USAID reached a bilateral agreement with the Afghan government to provide on-budget assistance through the national utility company, Da Afghanistan Breshna Sherkat (DABS), to install a third turbine at Kajaki Dam in Helmand Province. Despite a costly, British-led operation to move the turbine to the dam site in 2008, it was never installed.³³¹ USAID said DABS could take responsibility for the installation, but a SIGAR audit earlier this year found that DABS lacked the capacity to install and manage equipment needed for commercialization.³³²

Third, the Joint Coordination and Monitoring Board (JCMB) endorsed four of the six outstanding National Priority Programs (NPPs), bringing the total number of approved NPPs to 20.³³³ The JCMB, a high-level decision-making body co-chaired by the Afghan Ministry of Finance (MOF) and the United Nations Assistance Mission to Afghanistan, is responsible for strategic coordination between Afghanistan and the international community of development programs. NPPs, an outgrowth of the Afghanistan National Development Strategy of 2008, consolidate hundreds of bilateral and multilateral development projects into a coherent suite of programs that can be absorbed into the Afghan budget to help ensure their sustainability.³³⁴ The four approved programs this quarter include National Water and Natural Resources Development, National Comprehensive Agriculture Production and Market Development, National Energy Supply, and Efficient and Effective Government. Two remaining NPPs are expected to be presented to the JCMB later this year.³³⁵

In other developments, the World Bank staff released a final report based on a series of their earlier transition studies that began before the Bonn Conference in 2011;³³⁶ the MOF rejected the one purchase bid it received for the New Kabul Bank;³³⁷ and the Council of Ministers gave approval to a revised draft mining law.³³⁸

WORLD BANK 'AFGHANISTAN IN TRANSITION, LOOKING BEYOND 2014'

The World Bank's comprehensive examination of Afghanistan's transition highlights several challenges facing the country. Afghanistan's rapid economic and social progress since 2002 has been aid-dependent. While government revenues have grown, they fall far short of requirements.³³⁹ The Bank estimates Afghanistan will need more than \$7 billion annually in on-budget assistance—\$5 billion of which will go toward security sustainment—through 2021/2022 to close its budget gap between domestic revenues and expenditures. Even with this assistance, Afghanistan's fiscal outlook will remain fragile and vulnerable.³⁴⁰

Fiscal projections from the government and international community alike assume production at the Aynak copper mine and Hajigak iron-ore mine will

start in 2017.³⁴¹ However, Afghanistan faces legislative, logistical, and security challenges that may lead to delays. These are discussed on pages 146–149.

The World Bank’s analysis of countries with similar experiences showed political consolidation and stability as a requisite for successful transition. Afghanistan, however, is regressing in these areas, according to the Bank’s report. The transition is likely to increase unemployment, currently estimated at 8%, because labor-intensive industries like services and construction have benefitted the most from foreign capital. Worse hit will be the 48% of the workforce who are underemployed (working less than 35 hours a week on average). Many of the jobs created by aid are “casual”: day labor, food, cash-for-work programs. These will be the first jobs lost once international forces and provincial reconstruction teams leave Afghanistan. Moreover, according to the World Bank, insecure provinces where most of the foreign assistance was concentrated will suffer more than the secure ones as foreign aid declines.³⁴²

The World Bank recommended that donors avoid sharp reductions in aid, which would force the Afghan government to make even more arduous budgetary choices between security and civilian spending. It could also lead to sudden economic disruptions like a rapid depreciation of Afghan currency and labor-market destabilization. A gradual reduction in aid will inject more predictability to aid flows in both timing and funding to assist in long-term economic planning.³⁴³

ECONOMIC PROFILE

Afghanistan’s economy has improved significantly since 2002. Its annual GDP growth rate has averaged 9% and is on par with or exceeds that of many neighboring countries.³⁴⁴ The World Bank estimated Afghanistan’s calendar-year 2012 real GDP growth at 10.3%, driven by a near-record breaking wheat and cereal harvest, while inflation should remain relatively low, as seen in Table 3.9.³⁴⁵ The table reveals some differences in the way analysts calculate economic growth in Afghanistan, but general agreement

TABLE 3.9

	ECONOMIC FIGURES, DIFFERENCES IN REPORTING											
	FY 2011				FY 2012*				FY 2013*			
	CIA	ADB	IMF	WB	CIA	ADB	IMF	WB	CIA	ADB	IMF	WB
Real GDP, % change	5.8	7.2	5.8	7.3	11	11.9	5.2	10.3	N/A	3.3	6.5	N/A
Inflation, %	13.8	11.8	11.8	11.3	N/A	6.2	6.6	6.5	N/A	6.1	6.7	N/A
Per Capita GDP, US\$	1,000	N/A	N/A	543	1,000	N/A	N/A	528	N/A	N/A	N/A	N/A

Note: * Projected

Sources: World Bank, e-mail message to SIGAR, 1/2013; World Bank, “Afghanistan in Transition: Looking Beyond 2014,” 2/28/2013, accessed 3/18/2013; World Bank, “GDP Per capita (current US\$),” accessed 4/10/2013. IMF, “World Economic Outlook,” 10/2012, accessed 4/9/2013; CIA, “World Factbook,” 3/27/2013, accessed 4/9/2013; ADB, “Asian Development Outlook 2013,” accessed 4/9/2013.

on trends. The World Bank projects GDP growth to fall to 6%, on average, through 2018, and to 5% in the longer term.³⁴⁶

The Afghan government's fiscal year had been the same as the solar year, but the most recent fiscal year (1391) ran only from March 21, 2012, to December 20, 2012, to better align with donors' fiscal calendars. This one-time, nine-month fiscal year bridged the change to a new Afghan fiscal year that now runs from December 21–December 20. The “12-month comparison” references in the text offer a normalized basis for comparison.

“Afghanistan will require substantial international assistance through the next decade to grow its private sector and promote its integration in greater South Asia’s thriving economy.”

Source: The White House “Fact Sheet: Afghanistan,” 2/12/2013.

BUDGET

The FY 1392 (December 2012–December 2013) budget totals \$7.04 billion, as compared to \$6.07 billion in FY 1391 (12-month comparison). The budget has two main parts: the operating budget (\$3.77 billion), which covers current government expenditures—security, salaries, operations and maintenance, capital, etc.—and the development budget (\$3.27 billion), which covers donor-financed projects and programs executed by the government.³⁴⁷

The FY 1392 development budget is 37% higher than FY 1391.³⁴⁸ Last quarter, SIGAR noted the government’s historically poor execution rate of the development budget—just 52% in FY 1390. DOD echoed this concern in its latest report to Congress on progress toward security and stability in Afghanistan.³⁴⁹ Poor budget execution is one of the concerns donors have about contributing more aid directly to the Afghan government. SIGAR has an ongoing audit to review USAID’s efforts to assess the ability of the Afghan government to manage and account for funds provided through direct or “on-budget” assistance. For more information about this audit, see Section 2, page 32.

Fiscal Sustainability

Afghanistan’s fiscal sustainability ratio—domestic revenues versus operating expenditures—is one of the lowest in the world.³⁵⁰ Although Afghanistan’s annual domestic revenues grew from \$0.6 billion in 2006 to \$2 billion in 2011, mostly from customs and taxes, during this period, its total annual public expenditures grew from \$5.8 billion to \$17.4 billion. From 2006 through 2011, these expenditures totaled \$72.9 billion. Afghanistan’s domestic revenues covered only 10% of these expenditures (\$7.3 billion). The remaining 90% was covered by the United States (\$46.3 billion) and the rest of the international community (\$19.3 billion).³⁵¹

Revenue Collection

Taxes make up an estimated 68% of total revenue collections.³⁵² This quarter, the MOF saw sweeping leadership changes in the departments of customs, revenue, public properties, and internal audit and administration. This shakeup, in which all 10 provincial customs directors were replaced, was to improve revenue collection and fiscal sustainability across the country through the infusion of “more capable, energetic and trusted leadership.” The ministry expects this change to help curb corruption and achieve greater efficiencies.³⁵³

Despite the expected improvements in revenue collection, the United States and its Coalition partners recognize that under current and

medium-term economic conditions, the Afghan government cannot generate enough revenue to cover its current operating expenditures. The World Bank projects this fiscal gap to reach the equivalent of 25% of GDP by 2021/2022 and has said the international community will have to bridge that gap.³⁵⁴

This quarter, USAID and the U.S. Customs and Border Protection agency are helping the Afghan Customs Department inspect cargo shipments at Kabul International Airport more efficiently. Customs officials aim to reduce smuggling and corruption by non-compliant traders as well as facilitate legal trade. Through these efforts, State said that trade reported at the airport increased by 36%. Customs revenues are expected to rise to two billion Afghanis (\$36.9 million) in 2013, representing a 43% increase over 2012.³⁵⁵

U.S. ECONOMIC SUPPORT STRATEGY

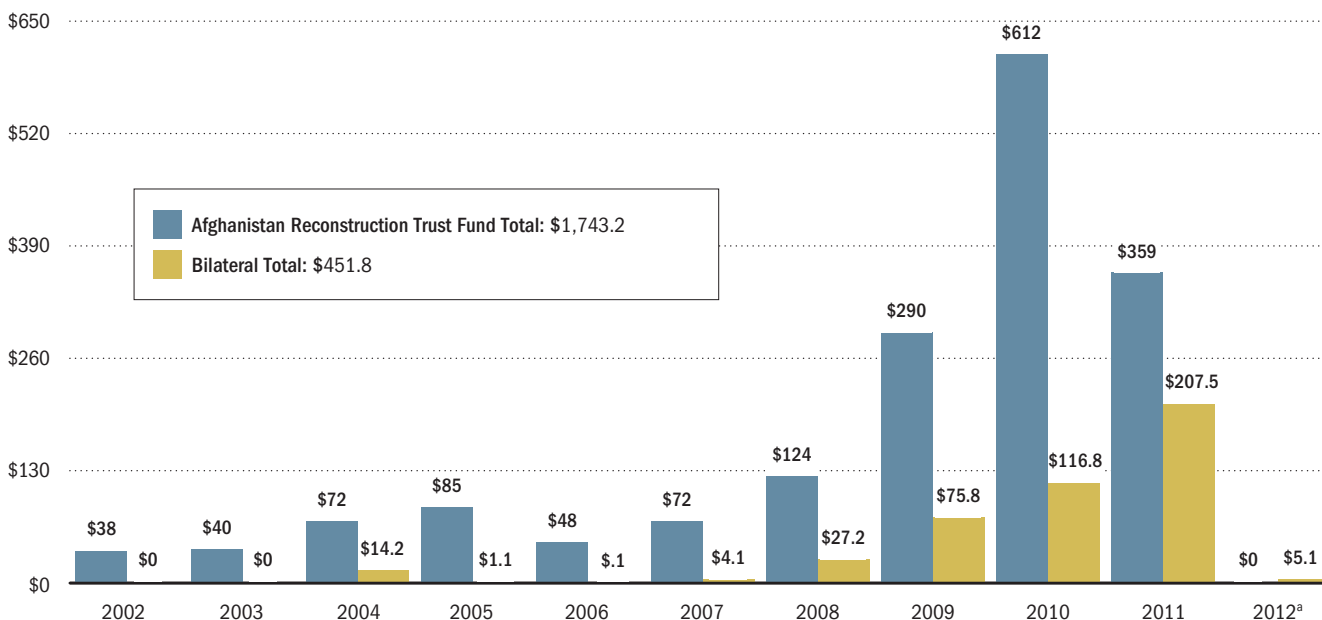
The U.S. economic transition strategy in Afghanistan seeks to mitigate the negative economic impact of the withdrawal of most international security forces by 2014 and the expected accompanying reduction in donor assistance. It also seeks to help Afghanistan develop its resources for sustainable growth.³⁵⁶ Through the Strategic Partnership Agreement signed in May 2012, the United States committed security and economic assistance to Afghanistan until 2024. Although the Afghan government requested \$2 billion per year in economic aid, the United States did not specify an amount in the agreement.³⁵⁷ After 2024, the United States expects the Afghan government to generate the revenues to pay for its operating expenses.

U.S. economic assistance focuses on supporting public and private-sector development, promoting private-sector investment, creating jobs, and improving food security. The United States has been gradually increasing the amount of development assistance it provides directly to the Afghan government as shown in Figure 3.36 on the following page. According to a Government Accountability Office (GAO) report, the United States intends to strengthen the capacity of the Afghan government at the central and sub-national levels to encourage better revenue generation, delivery of services, and a business-friendly regulatory environment. The United States is also advancing the New Silk Road initiative, a policy aimed at achieving sustainable, inclusive economic growth by helping Afghanistan to become increasingly integrated economically within the region.³⁵⁸

The following section describes developments and U.S.-funded efforts in the major economic sectors: banking and finance, natural resources, agriculture, and essential services, including electricity, transportation, health, and education.

FIGURE 3.36

USAID ON-BUDGET ASSISTANCE, 2002-2011 (\$ MILLIONS)



Notes: Numbers have been rounded.

^a Most FY 2012 USAID funding for On-Budget Assistance had not been obligated as of March 31, 2013.

Sources: USAID, responses to SIGAR data call, 4/18/2013 and 4/11/2013.

Land Reform in Afghanistan Project

USAID continued to promote land reform, highlighting the economic importance of legally recognized and enforceable property rights as a prerequisite for private-sector investment and job creation. In 2010, the Ministry of Agriculture, Irrigation and Livestock (MAIL) created the Afghan Land Authority to encourage investors to lease government land for agricultural use. To advance this goal, USAID started the Land Reform in Afghanistan (LARA) project in March 2011. As of March 31, 2013, \$30.6 million has been obligated for this effort.³⁵⁹

LARA has been working with the Jalalabad municipality to help design electronic title-deed and property-registration systems. USAID reported to SIGAR that a land-title software program has been completed and installed on LARA's Jalalabad office computers for testing, and over 2,000 parcels have been entered in and linked to the municipal tax map. USAID reported a boost in revenue from government-owned land after LARA began assistance to the Afghan Land Authority—from an average of 7 million Afghanis (Afs) (\$127,872) a year before 2011, to Afs 175 million (\$3.2 million) in 2012—with further gains expected.³⁶⁰

UPDATE ON TOKYO MUTUAL ACCOUNTABILITY FRAMEWORK

During this reporting period, SIGAR followed up with the State Department to see what actions had been taken to implement the Tokyo Mutual Accountability Framework, established by the Afghan government and the international community at the donors' conference in July 2012. SIGAR found that the Afghan government and the international community had made incremental progress.

The Framework was created to structure international development assistance to Afghanistan through 2015. Under the Framework, the international community pledged to improve aid effectiveness by, among other things, increasing direct government-to-government assistance to Afghanistan and aligning donor aid to Afghan National Priority Programs. However, the international community said its "ability to sustain support for Afghanistan depends upon the Afghan government delivering on its commitments described in the Tokyo Framework."³⁶¹

Those commitments included taking specific steps—which the Framework calls "indicators"—to achieve broad goals in five major areas of development and governance:

- Representational Democracy and Equitable Elections
- Governance, Rule of Law, and Human Rights
- Integrity of Public Finance and Commercial Banking
- Governmental Revenues, Budget Execution, and Sub-National Governance
- Inclusive and Sustained Growth and Development

For example, the goal for the first major area is to conduct credible, inclusive, and transparent presidential and parliamentary elections in 2014 and 2015 in line with the Afghan constitution. Indicators include developing by early 2013 a comprehensive election timeline

and ensuring "that a robust electoral architecture is developed in a secure, participatory, and transparent manner to enable successful and timely elections."³⁶²

The Framework required the Afghan government to develop work plans and timelines to achieve the governance and development indicators specified under each of the five major areas. The Framework also tasked the Afghan government and the international community to establish "a transparent and regular monitoring process" to hold each other accountable. The monitoring mechanism has three elements:

- The Standing Committees and the Joint Coordination and Monitoring Board (JCMB) to review progress on a regular basis
- A Senior Officials Meeting to be held in 2013 and every second year subsequently to review progress and update indicators where needed
- A Ministerial-level Meeting to be held in 2014, and every second year subsequently to review progress, update indicators, assess resource requirements, and renew international commitments

The Afghan government submitted its first draft "concept paper" for implementing the Tokyo Framework on July 31, 2012. The concept paper called for the Afghan government to complete an action plan for each of the five governance and development areas and identified coordination mechanisms within the Afghan government to monitor progress.

On October 14, 2012, the Afghan Ministry of Finance presented implementation plans at the first Tokyo Technical Committee meeting. These plans addressed three of the five areas: Democracy and Elections, Rule of Law and Human Rights, and Sustained Growth and Development. In February 2013, the Afghan government provided the remaining two action plans to the

international community for approval. According to the U.S. Embassy Kabul donors have responded to these action plans by identifying key priorities in each of them. The Afghan government has primary responsibility for monitoring its progress on the Tokyo reforms and for presenting its findings to the international community, according to State.³⁶³

The JCMB met in late February 2013 and reviewed the action plans. According to the JCMB report, the first three action plans submitted have been revised to incorporate the international donor community's concerns and comments. At the meeting the international community reached consensus with the Afghan government to focus on the critical, high-level indicators, rather than on a detailed technical dialogue. The international community will review Afghan progress at the senior-official level scheduled for July 3, 2013, and then again in 2014 at the ministerial level, after which changes to progress indicators, resource requirements, and Afghan and donor commitments, will be adjusted as necessary.³⁶⁴

In the meantime, the United States seeks to coax the Afghan government to live up to its reform commitments by increasing funding of "incentivized programs," including through multilateral mechanisms like the World Bank's ARTF.³⁶⁵ Incentives programs offer financing provided Afghanistan achieves agreed to benchmarks that are verified.³⁶⁶ For its part, the U.S. Embassy Kabul will monitor and assess all 16 Tokyo Mutual Accountability Framework indicators in the absence of detailed benchmarks agreed upon by the Afghan government and international donors.³⁶⁷

One important goal of the Tokyo Framework is to shift the relationship between the Afghan government and international community from that of recipient and donors to that of owner and partners.

BANKING AND FINANCE

Private-sector development requires solid financial institutions to provide capital and facilitate the exchange of money for goods and services. However, Afghanistan's financial sector remains largely underdeveloped. It makes limited capital investments in businesses, and contributes little to Afghanistan's private-sector activity.³⁶⁸ The banking sector still has not recovered from the 2010 near-collapse of Kabul Bank, and further reforms are needed, including stronger financial supervision, anticorruption measures, and reduced exposure to risk.³⁶⁹ DOD cautions that while a new banking law is planned to address these issues, a lack of leadership and professional capacity in the banking sector could hinder meaningful reform.³⁷⁰

Extended Credit Facility Arrangement

A second International Monetary Fund (IMF) Board review of its Extended Credit Facility (ECF) Arrangement with Afghanistan and an accompanying third disbursement of funding planned for December 2012 was deferred due to the Afghan government's poor performance, according to Treasury.³⁷¹ The three-year, \$129 million ECF loan agreement signed in November 2011 is conditions-based. Disbursements are contingent upon Afghanistan making progress on specific banking and financial structural reforms. Since the agreement was signed, the IMF has released two disbursements of \$18.2 million. The first was in November 2011, the second in June 2012, despite the IMF's review characterizing Afghan reform as weak and slow.³⁷²

IMF staff visited Kabul January 19–February 2, 2013, to discuss progress on the combined second and third reviews of the ECF scheduled for the spring. Given that the Afghan government has not achieved the required benchmarks, Treasury said the spring review and disbursement may be delayed.³⁷³

The Kabul Bank

On March 5, 2013, the Special Tribunal of the Supreme Court on Kabul Bank issued its judgment on 21 individuals charged in the Kabul Bank fraud. The two leaders of the fraud, ex-chairman Sherkhon Farnood and ex-CEO Khalilullah Ferozi, were convicted of breach of trust and sentenced to the maximum of five years' imprisonment. Farnood was ordered to return \$278 million and Ferozi \$530 million.³⁷⁴ They were acquitted of the more serious charges of embezzlement, forgery, and money-laundering, all of which carry longer prison terms.³⁷⁵ It is unclear if Farnood and Ferozi's loose house arrest since 2011, which reportedly included freedom of movement during the day and house detention at night, will count as time served toward their sentences.³⁷⁶

Masood Ghazi, CEO of the good-asset successor New Kabul Bank, was ordered to return \$5 million and sentenced to three years in prison. The former governor of Da Afghanistan Bank, Abdul Fitrat, who has since fled to

the United States, was convicted of a failure to enforce laws and sentenced in absentia to two and a half years in prison. Mustafa Masoudi, the former head of the government financial-transaction analysis and reporting agency, was fined a total of Afs 24,000 (\$500) for a failure to inform authorities when there is a duty to do so. Another 16 regulatory and banking officials received sentences ranging from three months to two years.³⁷⁷

The MOF boasted that the convictions demonstrate the government's commitment and ability to fight economic-financial crimes.³⁷⁸ But the Independent Joint Anti-Corruption Monitoring and Evaluation Committee (MEC) expressed concern over the disproportionately light sentences handed out to the bank leadership compared to rank-and-file perpetrators.³⁷⁹ The text of the verdict detailing the court's rationale has not yet been made public.³⁸⁰

The MEC also deemed the overall verdict and punishments to be inappropriate noting the judges failed to issue a confiscation order under Afghanistan's Anti-Money Laundering and Proceeds of Crime Law, making it harder for the government to recover stolen funds.³⁸¹ The Attorney General's Office concurred and filed an appeal on March 16, 2013. This reopens the case, giving the appellate court authority to uphold the Supreme Court judgment, overturn convictions, or impose tougher verdicts. An appellate court ruling is expected within 60 days of the filed appeal. Afterward, the Supreme Court has five months to undertake a final review and render a decision.³⁸²

Kabul Bank had been Afghanistan's largest banking service provider, distributing most civil salaries on behalf of the Afghan government.³⁸³ The bank's 2010 near-collapse brought to light the loss of \$935 million in stolen funds. Last quarter the Afghan government updated the total amount owed to \$982 million after adding "significant non-loan claims" like unauthorized cash disbursements and expense claims.³⁸⁴ Over 92% of the stolen funds went to 19 individuals and companies.³⁸⁵ Afghanistan's central bank—Da Afghanistan Bank—covered these losses, amounting to 5–6% of Afghanistan's total GDP.³⁸⁶ Under the IMF's ECF Arrangement, the government is required to recapitalize the central bank; recover assets and hold accountable those responsible for the Kabul Bank crisis; strengthen banking reforms and supervision through Afghanistan's central bank; improve the management and transparency of public funds; and combat money laundering and terrorist financing.³⁸⁷

As of March 31, 2013, cash recoveries totaled \$138 million, unchanged from last quarter. Additionally, the Financial Disputes Resolution Commission (FDRC), which was set up to help settle civil cases that cannot be resolved by the Kabul Bank Receivership, completed all nine civil cases it was given and ruled in the receivership's favor in every case. However, it has yet to finalize any repayment agreements, according to State. The Receivership is finalizing six more cases to hand over to the FDRC.³⁸⁸

Sale of New Kabul Bank to Private Investors

After the bailout of the Kabul Bank, the Afghan government created New Kabul Bank (NKB) as a temporary ‘bridge bank’ containing the good assets and deposits from Kabul Bank. Privatizing the NKB is an ECF benchmark; the MOF intends to sell NKB to private investors or liquidate it by the end of 2013. Expressions of interest were due November 27, 2012.³⁸⁹ Five expressions of interest were received, but only one bid was submitted, which the MOF reportedly rejected. The Ministry has not announced a new strategy.³⁹⁰

DEVELOPMENT OF NATURAL RESOURCES

The United States, the Afghan government, and the international donor community count on developing Afghanistan’s natural resources to underpin economic growth in the face of declining external aid. Although mining has contributed less than 1% to the country’s GDP to date, the Afghan government expects to receive significant revenues from large-scale investments in the Aynak (copper) and Hajigak (iron-ore) mines. However, SIGAR has consistently warned that the Afghan government may not be able to earn revenues from Afghanistan’s estimated \$1 trillion dollars worth of minerals, coal, petroleum, and natural gas resources any time soon because considerable infrastructure investment is required to develop them.³⁹¹ The Congressional Research Service reports that even if Afghanistan’s natural resources are successfully developed and its economy is integrated with others in the region, “Afghanistan will likely remain dependent on foreign aid indefinitely.”³⁹²

The United States, through DOD’s Task Force for Business Stability Operations (TFBSO), has supported the Afghan government’s efforts to attract investment in the mining sector. Contract negotiations have begun on several areas tendered last quarter with TFBSO assistance. That assistance is continuing as Afghanistan prepares for a new round of tenders in 2013. Out of \$6.8 million total for mining-sector development, TFBSO obligated \$4.8 million, and of that, committed \$2 million, as of March 31, 2013.³⁹³

New Minerals Law

This quarter, the Afghan Cabinet approved the latest draft of the revised minerals law, which is an IMF and Tokyo Mutual Accountability Framework benchmark.³⁹⁴ Updating the law is meant to better protect Afghan resources, encourage investors, and align regulations to international best practices.³⁹⁵ Its delay has significantly hindered private-sector investment, according to TFBSO, which said mining companies value political and legal stability over security.³⁹⁶

Cabinet members had rejected the previous iteration, expressing concerns over thresholds for the bidding/tendering process, conversion of exploration rights, and the role of international firms.³⁹⁷ In the latest draft, several issues that were initially agreed to were stripped out. For example,

the new draft no longer links exploration and extraction rights in all tenders—something international investors were demanding. Instead it says whether investors gain extraction rights along with exploration rights will be determined case-by-case. It also makes all assets, regardless of size, available for tender and requires artisanal mining projects to be tendered instead of application-based.³⁹⁸

The State Department said the minerals law will now be submitted to Parliament.³⁹⁹ TFBSO warned that without linking exploration and extraction rights, many companies will not bid on new tenders and will not sign contracts on existing awards. Final Parliamentary consideration has not yet been scheduled.⁴⁰⁰

Assistance to the Ministry of Mines and Afghanistan Geological Survey

This quarter, TFBSO continued its technical assistance to the Ministry of Mines and Petroleum (MOMP) and Afghan Geological Survey (AGS) for oil and gas data management, including geology reports, seismic data, well logs, and production logs. Additionally, TFBSO supported Afghanistan's North Aynak Drilling program in Logar province, which is designed to strengthen MOMP and AGS capacity and to provide results on a potential copper deposit. AGS employees were trained in ground geophysics, drilling, and sample preparation; the data results from the program can now be used in future tenders.⁴⁰¹

TFBSO and the U.S. Geological Survey are also assisting the MOMP and AGS with visits to U.S. mines, official meetings, and attendance at international conferences related to resource development.⁴⁰²

MIDAS

USAID's Mining Investment and Development for Afghan Sustainability (MIDAS) project was awarded on March 31, 2013. The \$45 million off-budget and \$45 million on-budget mechanisms will support comprehensive capacity building at the MOMP to improve government revenue generation as international donor support winds down. MIDAS's off-budget support will focus on three primary components: legal and regulatory reform, technical assistance to the MOMP, and Small and Medium Enterprise development. The on-budget activity will provide technical assistance in geo-science field investigation, and other areas as needed. No funds have yet been disbursed.⁴⁰³

Aynak Copper Mine: Update

China Metallurgical Group (MCC) was awarded extraction rights at the Mes Aynak copper mine in Logar province in 2007, but has not yet begun extraction. However, ancillary infrastructure facilities around the mine opened this quarter. These included a 512-plot resettlement township for Afghans displaced by the mine. The township includes an 1,800-capacity mosque,

schools, bridges, a health center, access road, and shopping area. Each family will be given a 450-square meter (about a ninth of an acre) plot of land.⁴⁰⁴

The development of the mine itself, however, continues to experience delays from discovery of cultural relics in the area, difficulties in land acquisition, lack of primary infrastructure, and security concerns. According to State, the Ministry of Interior and MOMP have failed to adequately address site security issues.⁴⁰⁵ State also cautions that further delays are possible. MCC has the option to renegotiate its contract in 2013, and may be deferring further investment until it evaluates the results of Afghanistan's 2014 presidential election and the post-transition security environment.⁴⁰⁶

Despite these pitfalls, the Afghan government is relying on Aynak's revenue stream in its future revenue predictions. The international donor community is also using the projected revenues in its calculations for future assistance levels. According to published summaries of the contract, the government is slated to receive royalty rates of up to 19.5%, or \$808 million in pre-royalty payments, a 400 MW coal-fired power plant, and an associated coal mine.⁴⁰⁷

Hajigak Iron-ore Mine: Update

Contract negotiations for the Hajigak iron-ore concessions continue. The MOMP awarded three blocks to a seven-member Indian consortium led by state-owned Steel Authority India Ltd. (SAIL) in November 2011, and one block to Canadian Kilo Goldmines. According to State, the Indians and Canadians made passage of the revised Minerals Law a condition for their investments.⁴⁰⁸

A mining-industry publication blamed the unfinished negotiations on strict conditions laid out by the Afghan government. The article said the government insisted that prospective firms start exploratory projects within six months of a contract signing or face contract termination. The government also demanded an export cap of six million tons per year and fixed six-month production targets. Missing the targets could also trigger contract termination.⁴⁰⁹ The same publication reported the Indian government denied the SAIL-led consortium financial grant support, making it more difficult for them to raise debt and make investments in infrastructure and logistics facilities at the mine.⁴¹⁰

Hydrocarbons

Afghanistan's efforts to develop its oil and gas reserves are focused on the Amu Darya Basin and Afghan-Tajik Basin, both in northern Afghanistan. This quarter, TFBSO continued its technical assistance to the MOMP and Afghan Geological Survey to develop this sector.

Amu Darya Basin Production: Update

The Amu Darya Basin is estimated to contain 87 million barrels of crude oil. The China National Petroleum Corporation Watan Energy Afghanistan

Ltd. (CNPCI-W) produced approximately 5,000 barrels of crude from three blocks in 2012. TFBSO reported that CNPCI-W produced 500 tons of crude in January/February 2013 (about 3,665 barrels), generating \$45,000 in royalties to the government. State reported that although CNPCI-W is able to continue production, it is currently producing no oil while it works to secure a buyer for its output. Afghanistan lacks refining capacity, prompting CNPCI-W to seek take-off agreements with regional refineries.⁴¹¹

Government revenues from Amu Darya will depend on future production rates and market values. CNPCI-W's planned production for FY 2013 is 1.75 million barrels. Contract terms calls for the government to receive 15% of production value, 20% in income tax revenues, and a 50–70% share of profits accrued after the royalty is deducted and CNPCI-W recovers its operating costs.⁴¹² TFBSO is providing technical support to Amu Darya Petroleum Authority, which is managing the Amu Darya contract. It is also helping develop a larger Afghan authority to manage existing and future hydrocarbon contracts.⁴¹³

Afghan-Tajik Basin (Phase I) Update

This quarter Afghanistan's Inter-Ministerial Commission authorized the MOMP Contract Evaluation Team (CET) to negotiate with the consortium of Dragon Oil, Turkish Petroleum Corporation, Kuwait Energy, and Ghazanfar Group to sign an exploration and production-sharing contract for the two blocks it was awarded in the Afghan Tajik Basin in November 2012. TFBSO advisors continue to provide technical, legal, and commercial support to the CET during negotiations. Financial details will be available upon the contract award.⁴¹⁴

AGRICULTURE

Agriculture is a major factor in the Afghan economy. Eighty percent of Afghans directly and indirectly earn a living from this sector.⁴¹⁵ The legal agricultural sector is the second-largest contributor to GDP. Given its importance to the labor force, agriculture could be a catalyst for GDP growth, improved food security, and more stable employment opportunities.⁴¹⁶ Since 2002, USAID has provided about 15% of its funds to agriculture programs, helping Afghanistan to double its legal agricultural output from 2007.⁴¹⁷

This quarter, the JCMB approved two agriculture-related NPPs—National Water and Natural Resources Development, and National Comprehensive Agriculture Production and Market Development.⁴¹⁸

The National Water and Natural Resources Development

One of four NPPs in the Agriculture and Rural Development cluster group, this program was developed to address the effects of drought and desertification on Afghanistan's agro-ecosystem. According to the government,

75% of land in the north, west, and south suffers from moderate to severe desertification. The program seeks to promote proper management and use of Afghanistan's water resources to improve agricultural productivity, increase access to safe drinking water, and provide rural energy. It aims to achieve these goals by strengthening ministerial and institutional capacity, expanding irrigation, protecting natural resources, and providing access to rural energy for agribusinesses. Afghanistan has budgeted \$1.87 billion over three years for this NPP. It has secured \$1.15 billion, leaving a \$714.6 million shortfall. Funding will be provided on-budget either through the Afghanistan Reconstruction Trust Fund or other special account.⁴¹⁹

National Comprehensive Agriculture Production and Market Development

The goal of the National Comprehensive Agriculture Production and Market Development program is to improve sustainable agricultural production to ensure food security, promote economic growth, reduce dependency on subsistence farming, and encourage production of legal crops. The government aims to create a better regulatory environment for farmers and commercial food producers through improved access to credit, land tenure, rural infrastructure, food storage and processing facilities, and other business development services. Government ministerial capacity will also be strengthened for better policy and regulatory formulation as well as program implementation.

Afghanistan has budgeted \$1.13 billion over three years for this NPP in three areas: Food For Life, Food Zone, and Market and Enterprise Development. The government has only secured \$270 million, leaving an \$859 million shortfall. USAID will provide \$10 million off-budget aid in 2013 and \$10 million on-budget in 2014 for the Food Zone program, which focuses on counternarcotics efforts beginning in Kandahar. On-budget funding for this NPP will go either through the ARTF or another special account.⁴²⁰

USAID provides assistance to the agriculture sector through several programs. The three highest priorities, worth more than \$350 million total, are:⁴²¹

- Agricultural Development Fund (ADF) and Agricultural Credit Enhancement (ACE)
- Incentives Driving Economic Alternatives—North, East, and West (IDEA-NEW)
- Commercial Horticulture and Agricultural Marketing Program (CHAMP)

Agricultural Development Fund and Agricultural Credit Enhancement

Agricultural Development Fund and Agricultural Credit Enhancement (ADF-ACE), a \$150 million agricultural-credit project, has two complementary activities that aim to support MAIL's efforts to provide loans and build

MAIL's capacity to manage them. ADF was established to provide loans across the agricultural value chain through banks, farm stores, leasing companies, and food processors, which in turn provide agricultural credits to farmers. ADF-ACE designed and launched nine innovative financial lending products, one exclusively for women. Of ADF's \$75 million total allocation, \$64.6 million has been obligated and \$53.7 million has been disbursed (\$9 million on-budget) as of March 30, 2013.⁴²²

ACE, the technical-assistance component, manages all ADF lending activities and helps build MAIL capacity. As of March 30, 2013, 16,000 farmers have benefitted from \$46 million in loans, 1,000 more than SIGAR reported last quarter. Despite these successes, USAID noted that Afghan political and legal obstacles delayed ADF legal registration and access to lending funds, which, in turn, reduced the number of loans approved and the number of beneficiaries.⁴²³

Incentives Driving Economic Alternatives—North, East, and West

Incentives Driving Economic Alternatives—North, East, and West (IDEA-NEW) is a five-year cooperative-agreement project that provides agricultural assistance and economic alternatives to growing poppies in select provinces in eastern Afghanistan and in poppy regions in the northern and western parts of the country. As of March 30, 2013, USAID has obligated \$127.1 million to the IDEA-NEW program and has disbursed \$118.2 million. IDEA-NEW helps farmers shift to legal agricultural production by increasing commercial opportunities, extending access to financial services, and promoting value-chain development for key regional industries and trade corridors. It also facilitates connections between producers, traders, and buyers through market information activities and sales promotion.⁴²⁴

After an extensive review, IDEA-NEW has shifted away from infrastructure activities, voucher programs, and production-level assistance to farmers. Instead, it is focusing its efforts further up the value chain and working with businesses, cooperatives, associations, farm service centers, and other intermediaries.⁴²⁵

USAID reported that more than 950,000 households have directly benefitted from IDEA-NEW, which resulted in over 46,000 full time jobs and \$4.35 million in agricultural exports. However, oversight remains a challenge. Site visits are a vital part of effective monitoring, but safety and site access are becoming more acute concerns as provincial reconstruction teams and foreign combat forces leave Afghanistan.⁴²⁶ SIGAR has consistently expressed concern about this constraint.

Commercial Horticulture and Agricultural Marketing Program

Commercial Horticulture and Agricultural Marketing Program (CHAMP), a \$40.3 million program begun in 2010, aims to help farmers plant and operate

more profitable orchards and vineyards. CHAMP works with farmers to improve crop quality and promotes export and trade corridors. The program also works with traders to improve harvesting, packing, cold storage, and shipping methods.⁴²⁷

Approximately 6,000 hectares of new commercial fruit orchards and vineyards have been established through CHAMP assistance, benefitting more than 18,000 farmers. As of March 30, 2013, USAID has obligated \$24.3 million and disbursed almost \$23.3 million. However, insecurity continues to be CHAMP's most acute challenge to full implementation and material distribution. Insurgent groups threaten both CHAMP staff and farmers, particularly in Kandahar, Helmand, Zabul, Wardak, Logar, and Ghazni provinces.⁴²⁸

ESSENTIAL SERVICES/DEVELOPMENT

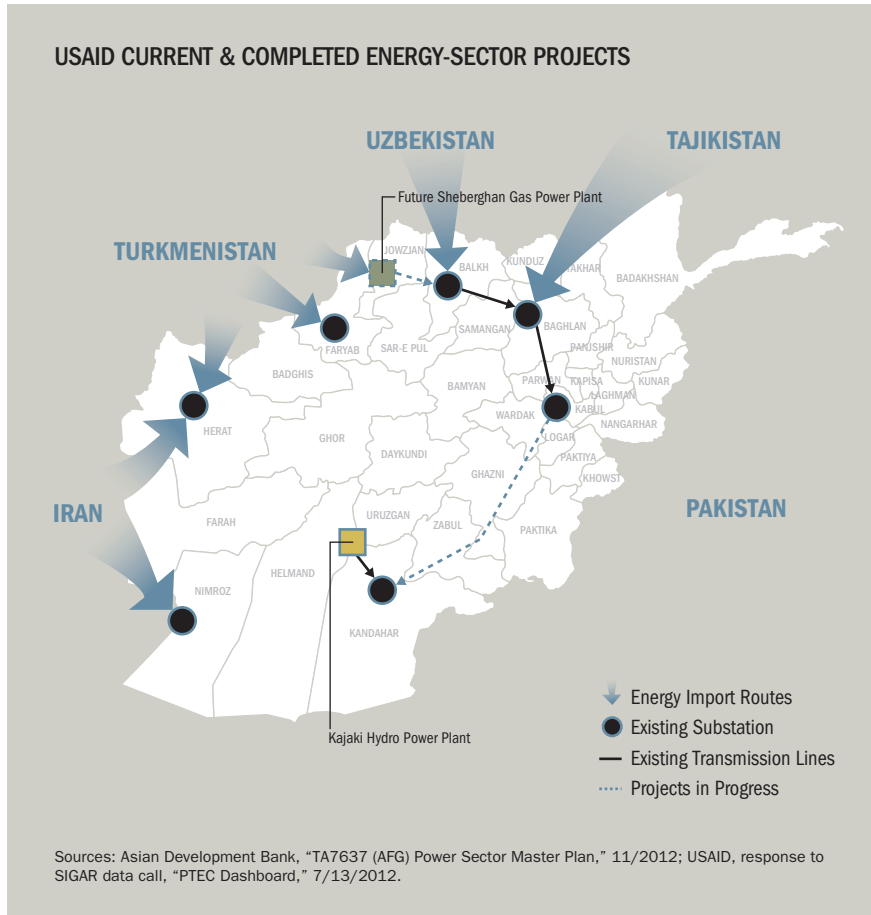
Since 2002, the United States has provided reconstruction funds to increase electricity, build roads and bridges, and improve health and education. This section addresses key developments in U.S. efforts to improve the government's ability to deliver essential services such as electricity, transportation, health, and education.

Energy

This quarter, one energy-related NPP was approved—the National Energy Supply Program (NESP). NESP is the third of four NPPs in the Infrastructure Development cluster, which is comprised of infrastructure investments, mineral resources development, and regional integration to drive economic growth. It will be implemented in conjunction with the Afghanistan Power Sector Master Plan. Through NESP, Afghanistan will make priority investments in the power-supply chain, encourage public-private partnerships and energy-sector reforms, and strengthen government capacity and accountability to support its goal to increase its energy supply by 10% annually. Its three-year budget, beginning in January 2013, is \$3.48 billion, of which Afghanistan has secured \$1.98 billion, leaving a shortfall of almost a \$1.49 billion. The portion of aid to be provided on-budget has not been decided.⁴²⁹

Electricity is critical to Afghanistan's development. In collaboration with the Afghan government and in alignment with their stated priorities, the United States has made developing an integrated energy sector one of its top reconstruction priorities since 2002. From 2002–2011, USAID alone has provided close to \$2 billion from the ESF to build generators, substations, and transmission lines, and provide technical assistance to the sector. It plans to spend at least \$900 million more over the next few years.⁴³⁰ In addition, DOD has provided \$292 million for electricity projects through CERP and \$530 million through the AIF, which is jointly managed by DOD and

FIGURE 3.37



State.⁴³¹ This assistance has lifted the number of Afghans with access to electricity from 5% of the population in 2001 to 30% in 2012.⁴³²

Afghanistan currently has nine separate power systems. The primary two are: the Northeast Power System (NEPS) and the Southeast Power System (SEPS). USAID has three projects to connect and increase the electricity supply in both systems, as shown in Figure 3.37.⁴³³

Sheberghan Program

USAID is implementing its part of the Sheberghan Program through two mechanisms: the \$90 million on-budget Sheberghan Gas Development Project (SGDP), and the \$35 million off-budget Sheberghan Gas Generation Activity.⁴³⁴ The Overseas Private Investment Corporation is backing financing of a \$300 million privately funded 200 MW gas-fired power plant; the Asian Development Bank (ADB) will support construction of the associated transmission lines.⁴³⁵

Bidding for the drilling and rehabilitation of SGDP opened this quarter; evaluations are in progress. The contract award is expected in June 2013. However, USAID noted the project scope is up to four wells. Drilling companies view that as a job with a small return on investment given the security and political risks.⁴³⁶

In other developments at Sheberghan, TFBSO is assisting the MOMP to tender operations of the compressed natural gas (CNG) station that TFBSO funded and handed over to the MOMP in 2012. Private investors are being sought for possible expansion of activities at the site. CNG is 50% cheaper than gasoline, as well as cleaner; if taken to a scalable level, use of CNG should reduce Afghanistan's reliance on imported fuel.⁴³⁷ As of March 31, 2013, TFBSO has obligated \$11.2 million and committed \$345,000 toward this effort.⁴³⁸

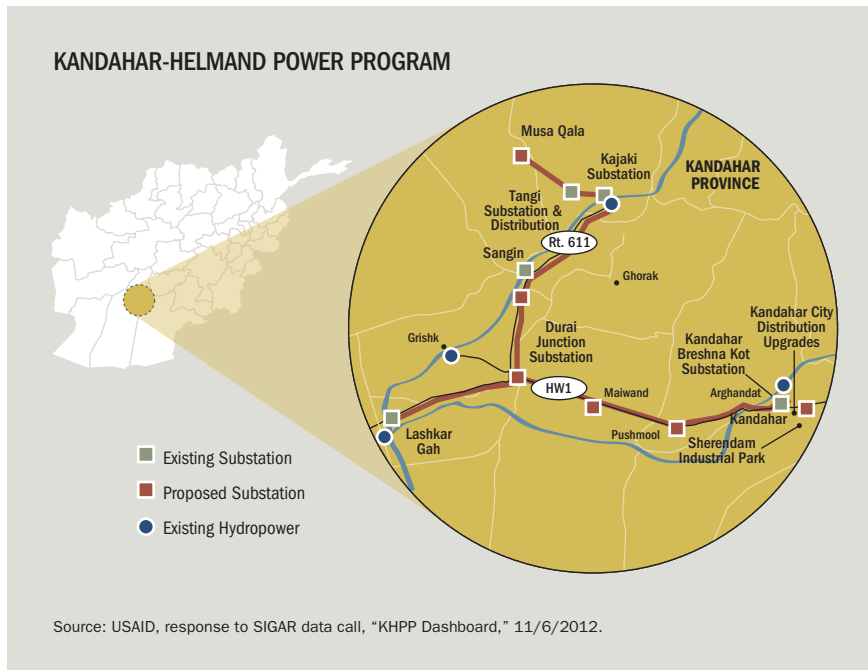
Kandahar-Helmand Power Project

The Kandahar-Helmand Power Project (KHPP), shown in Figure 3.38, considered an important element of the counterinsurgency strategy in southern Afghanistan, is intended to simultaneously increase the power supply in Kandahar and make it more accessible to the population. In 2010, USAID awarded a \$266 million contract to Black and Veatch to rehabilitate power substations, upgrade the medium-voltage distribution system in Kandahar City, install a third turbine at the Kajaki Dam, and design and install new diesel-powered generators. DOD is committed to funding the fuel for these and other U.S. Army Corps of Engineers-installed generators through 2014 using AIF. This fuel subsidy will be extended, but USAID expects it to decrease as Afghanistan's national utility, DABS, takes the required steps to secure the revenue needed to sustain the fuel costs.⁴³⁹ As of March 15, 2013, USAID had obligated \$229.6 million of ESF funds for the KHPP, an increase of \$90.1 million from last quarter. Of that, \$152.2 million had been disbursed.⁴⁴⁰



The turbine hall at the Kajaki hydroelectric station in Helmand Province currently has two turbines like the one visible at left. U.S. aid will provide for installation of a much-needed third turbine delivered in 2008. (State Department photo)

FIGURE 3.38



In response to a request by President Karzai to President Obama during a January 2013 visit to Washington, DC, installation of a third turbine at Kajaki Dam has been descoped from the KHPP contract. Instead, USAID will provide \$60–80 million of on-budget assistance through the MOF to DABS to install the turbine.⁴⁴¹ On April 9, 2013, SIGAR announced a review of USAID’s plans for providing this direct assistance, its assessments of DABS’ capacity to manage it, and its measures to support DABS in managing this money.⁴⁴²

USAID is helping DABS advertise and award a contract for the turbine installation. This new implementation strategy will shift the timeline for completion to late 2015. The Black and Veatch contract, which includes technical assistance, expires on September 30, 2013, leaving little time for DABS to make progress on the installation before the contractor departs.⁴⁴³ All other components of KHPP are expected to be completed by that date, according to USAID.⁴⁴⁴

U.S. Forces-Afghanistan, the U.S. Army Corps of Engineers, and USAID are working closely on related power-infrastructure efforts within SEPS. KHPP has continued to encounter logistical difficulties this quarter. USAID reported a three-month delay in getting more than 100 shipping containers of equipment and supplies across the Pakistani border due to new customs rules, protests, and strikes. On the Afghan side of the border, it took eight weeks to repair 14 transformers damaged by thieves who stole copper components. Additionally, DABS lacks capacity in quality control, causing delays

in upgrading Kandahar power distribution. USAID is helping DABS staff strengthen its capabilities by involving them directly in expanding and maintaining the distribution system.⁴⁴⁵ Other project components proceed on or ahead of schedule, such as the replacement of 10.5 MW of diesel generation at the Breshna Kot substation, which was 68 days ahead of schedule.⁴⁴⁶

SIGAR AUDIT

This quarter SIGAR published an audit of U.S.-funded projects to help commercialize DABS found that DABS-Kandahar, which is to assume responsibility for this portion of the grid, has little capacity to acquire, operate, install, or manage systems equipment independently. For more information see Section 2, page 26.

Power Transmission Expansion and Connectivity Program

Power Transmission Expansion and Connectivity (PTEC), a U.S.-funded program designed to strengthen and expand the power-generation, transmission, and distribution systems, directly supports the National Energy Supply Program of the Afghanistan National Development Strategy. The strategy calls for improving the collection rate against energy billings and increasing the supply of power.

A key component of PTEC is constructing a transmission line between Kabul and Kandahar to connect NEPS with SEPS. This 530 kilometer connection, together with the rehabilitation of the Kajaki Hydropower Plant, was identified in 2010 as the only viable, long-term solution to displace costly and unsustainable diesel-power generation in Kandahar with affordable and reliable power. PTEC will be implemented in stages. The ADB is responsible for the first 40 kilometer, Kabul–Arghandi substation connector. USAID will fund construction of the next 120 kilometer section from Arghandi to Ghazni through on-budget aid to DABS. USAID approved DABS's bid-package solicitation. Meanwhile, the U.S. Army Corps of Engineers is constructing the transmission line from Arghandi to Pul-e Alam and Gardez.⁴⁴⁷

Some \$417 million of PTEC's total estimated cost of \$814 million is being transferred on-budget to DABS through the multi-donor-funded Afghanistan Infrastructure Trust Fund (AITF), implemented by the ADB. The ADB established the AITF in December 2010, to allow bilateral, multilateral, and individual contributors to partner with the ADB in financing infrastructure investments. USAID is working on the transfer agreement. In other developments, USAID approved and DABS released bid-solicitation documents for the DABS Capacity Building and Commercialization project, which is expected to be awarded in May 2013. USAID also helped design and develop bid packages for the Salang Tunnel substation, a high-voltage transmission line from Jalalabad to Hisar-e Shahi Industrial Park, and improvements to existing NEPS infrastructure.⁴⁴⁸

DOD-Funded Programs

This quarter, DOD continued implementing several priority energy-sector projects using FY 2012 and FY 2013 AIF money. These included:

- the Kandahar Power Bridging Solution
- Kandahar–Durai Junction transmission lines
- Charikar–Bazirak and Charikar–Mahmood Raqi transmission lines and power substations

Kandahar Power Bridging Solution

This project provides fuel for the diesel power generators in Kandahar City until the KHPP has been completed. FY 2012 funding remains at \$79.8 million. The estimated FY 2013 cost is \$100 million, which includes \$90 million for fuel and \$10 million for operations and maintenance (O&M).⁴⁴⁹ DOD plans to continue purchasing fuel and providing O&M support through FY 2015.⁴⁵⁰ It sees this electricity as critical to the counterinsurgency strategy to help stabilize Kandahar by supporting economic development and improving citizens' quality of life. DOD said the Kandahar Bridging Solution is a central to the Afghanistan Electrification Plan and the State Department's development plan for Afghanistan.⁴⁵¹

A July 2012 SIGAR audit of FY 2011 AIF projects found, in part, that until alternative fuel sources can be found to replace the diesel generators or increase the amount of fuel going to Kandahar City, there is no indication that the costs of the bridging solution will decrease.⁴⁵²

Kandahar to Durai Junction Transmission Lines

Part of the effort to expand SEPS, this project continues earlier efforts to install or repair transmission lines from Kandahar City to Durai Junction and to construct or repair substations at Maiwand and Pashmul. The project cost remains \$40 million in FY 2012 funds, \$115,000 of which has been disbursed, according to DOD's FY 2012 End of Year AIF report to Congress. This transmission line will help address the need for reliable electricity in Afghanistan's south and southeast and constitutes a key element for the larger PTEC project linking SEPS and NEPS.⁴⁵³ DOD's goal is to promote economic growth, security, stability, and capacity-building efforts within DABS to improve the commercialization of power that will allow it to generate sufficient revenues to fund capital improvements to the grid.⁴⁵⁴ Completion of this project is essential to distribute power generated by the third turbine awaiting installation at Kajaki Dam, according to DOD.⁴⁵⁵

Charikar-Bazirak and Charikar-Mahmood Raqi Transmission Lines and Power Substations

This project will install 52 kilometers of transmission lines from Charikar to Bazirak and from Charikar to Mahmood Raqi, and will build three substations to expand NEPS. The \$48 million allocated for the project was moved to FY 2013 with another \$22 million added, for a total estimated cost of \$71 million, according to a DOD notification to Congress. Annual estimated costs are \$580,000.⁴⁵⁶ DOD told Congress the project will bring reliable electricity to 1.15 million Afghans across three provinces and help fuel private-sector growth, especially in the agriculture, processing, manufacturing, and mining sectors.

DOD assumes that DABS will take over responsibility for national-grid O&M as well as for completed infrastructure improvements, and will

be able to sustain them with improved revenue sources and capacity.⁴⁵⁷ However, as noted above, SIGAR has raised questions about DABS's capacity, and other audits have said Afghanistan lacks the resources necessary to fulfill O&M commitments.⁴⁵⁸

CERP Projects in the Electricity Sector

DOD also uses CERP funds to pay for small-scale electricity projects across the country, such as installing generators, solar panel systems, and utility poles. During the first quarter of FY 2013, funding for eight new CERP electricity projects was obligated (valued at \$56,312). The largest of these new projects (\$28,500) will repair power poles and power lines in Parwan that were damaged by military vehicles, causing outages to 18 homes and a mosque. This project will employ 45 citizens for 12 weeks.⁴⁵⁹

TRANSPORTATION

Afghanistan's lack of transportation infrastructure continues to hinder trade and economic growth.⁴⁶⁰ The country has one of the worst road systems in the world. It has less than 100 miles of railroad, and is 2,000 kilometers from the nearest seaport—one of the longest distances from a seaport among all landlocked developing countries.⁴⁶¹ In addition, neighboring countries often have incentives to make movement of Afghan goods across their borders difficult.⁴⁶²

Afghanistan's infrastructure shortcomings are especially problematic for the service and agriculture sectors, which currently contribute most to GDP. They also hold back the extractives industry, whose future revenues the Afghan government and international donor community are counting on to supplement declining aid.⁴⁶³ According to a World Bank analysis, restoring the transportation sector is imperative for economic recovery and development.⁴⁶⁴ This quarter, the United States continued its efforts to develop transportation laws, ministry capacity, and compliance with international standards.

Road

Most of Afghanistan's 39,000 kilometers of roads need repair, according to the World Bank, which said the country required an investment of \$3 billion to put Afghan roads in a maintainable state. The road network is scheduled to expand to 46,000 kilometers in 2014.⁴⁶⁵

The United States has funded road construction primarily through the ESF and CERP. Since 2002, USAID has provided \$2.1 billion to build roads and bridges, with road and bridge building accounting for approximately 25% of all USAID spending in Afghanistan.⁴⁶⁶ According to USAID, these projects have completed and helped maintain more than 2,000 kilometers of roads.⁴⁶⁷



Community members discuss street-widening plans. (USAID photo)

Donors have generally emphasized building and rehabilitating roads as opposed to carrying out O&M, according to the World Bank. Only \$28 million was allocated in Afghanistan's 2011/2012 core budget for O&M of roads and bridges, while an estimated \$290 million was needed. That figure is expected to rise to \$394 million in 2014. This severe underfunding of O&M threatens donor investments in the transportation sector.⁴⁶⁸

USAID is planning to phase out investments in new road construction. Instead the agency will focus on sustainability by improving O&M, and by strengthening Afghan government capacity and institutional reform so that it can manage construction quality and operate its transportation infrastructure. It will do so with the assistance of the U.S. Department of Transportation, under its forthcoming Road Sector Sustainability (RSS) project, which will include a combination of off-budget and multi-donor on-budget assistance to help key ministries develop construction plans, specifications, and standards; vehicle operations oversight and regulation standards; and priority institutions, such as a Road Authority, Road Fund, and Transportation Institute.⁴⁶⁹

RSS will address short-term needs through a \$5 million, off-budget, emergency O&M account. In the medium term, there will be a \$33 million, on-budget road O&M program to be implemented through the ADB's AITF, as well as a \$33 million effort to build the Ministry of Public Works' capacity for oversight and management. In the long term, RSS will provide \$35 million in technical assistance for the Road Authority, Road Fund, and Transportation Institute. The AITF will make funding for new road construction conditional on the Afghan government's ability to adequately maintain existing facilities.⁴⁷⁰

In addition, DOD uses CERP funds on road construction projects to support its mission. More than \$509 million of CERP had been spent on road projects in Afghanistan since 2005; 44 projects worth \$44 million are ongoing at this time.⁴⁷¹ During the first quarter of FY 2013, 11 new CERP-funded road construction projects were obligated (valued at \$830,249). The largest of these new projects was an emergency repair to a highway in Paktika that is critical to the flow of commerce in that province.⁴⁷²

In its January 2013 report to Congress on the implementation of the Afghanistan Infrastructure Program, DOD reported one ongoing road project using FY 2011 funds (valued at \$22 million) and two using FY 2012 funds (\$45.6 million).⁴⁷³ DOD relinquishes responsibility for inspecting and maintaining roads it has built once they are handed over to the Afghan government. If maintenance or reconstruction is required, the government can apply for CERP funds through the standard application process.⁴⁷⁴

Rail

The United States and its international partners have been helping Afghanistan develop its rail sector, with the goal of building a profitable and sustainable system. Currently, Afghanistan has no meaningful railroad development, operational experience, or capacity. Only one completed rail line exists—a 75 kilometer line from Hairatan, on the border with Uzbekistan, to Mazar-e-Sharif.⁴⁷⁵

U.S. assistance includes helping the Ministry of Public Works stand up the Afghan Rail Authority and develop a national railway plan. U.S. work has also included assessments of several railroad “ports” or cargo-handling areas with roads, ramps, equipment, and structures.⁴⁷⁶ A DOD-funded Afghanistan National Rail Plan (ANRP) feasibility study is ongoing. A U.S. government working group as well as officials from the Ministry of Public Works and Ministry of Mines and Petroleum reviewed drafts of the data, models, and analysis in the study. The final report is scheduled to be published in July 2013.⁴⁷⁷

On March 20, 2013, Afghanistan signed a memorandum of understanding with Turkmenistan and Tajikistan to build an interlinking rail line, providing increased trade and export opportunities. The proposed 400 kilometers line will connect Atamurat-Yamnazar in Turkmenistan to Akina-Andkhoy in Afghanistan, then proceed to Pyandzh, Tajikistan, through Sher Khan rail port in Kunduz province. The memorandum calls for construction to begin in Turkmenistan by July 2013.⁴⁷⁸



A policeman patrols alongside a new railway track in northern Afghanistan. (AFP photo)

EDUCATION

Since 2002, USAID has supported education through aid for building schools, developing curricula, and conducting training. USAID’s ongoing priority programs in the Education sector funded through the ESF this quarter include:

- Basic Education, Literacy, and Technical-Vocational Education and Training (BELT)
- Higher Education Project (HEP)
- American University of Afghanistan (AUAF)

Basic Education, Literacy, and Technical-Vocational Education and Training

Basic Education, Literacy, and Technical-Vocational Education and Training (BELT) is a three-year (December 2011–October 2014), \$173 million on-budget program that aims to improve access to quality basic education in communities typically beyond the reach of the government. The program provides technical-vocational education and training, as well as literacy programs. As of March 31, 2013, USAID obligated \$20 million and of that, disbursed approximately \$4.7 million.⁴⁷⁹

Technical Vocational Education and Training (TVET) is a forthcoming component of BELT. Its objective will be to provide quality education and training to Afghan children and youth to make them more employable, especially girls in rural and remote areas. USAID and the Ministry of Education have agreed on a set of performance milestones that, if reached, will trigger on-budget disbursement of funds. USAID expects to sign an implementation letter for funding in May 2013, and identify TVET schools by the end of 2013.⁴⁸⁰ The implementation letter will spell out the performance milestones, means of verification, and the funding level associated with each milestone. USAID will establish the number and criteria for selecting participating schools in the program, but selection will be by the Ministry of Education.⁴⁸¹

BELT TVET is another on-budget component of this effort to build the quality and professionalism of TVET educators. It aims to provide graduate, secondary, and post-secondary students with accredited, certified skills, and will set up a national accreditation system for and equivalency for TVET in the Ministry of Education.⁴⁸²

Higher Education Project

Since the Higher Education Project (HEP) project began in 2006, it has successfully supported the Ministry of Higher Education execute its National Higher Education Strategic Plan, according to USAID. HEP's latest phase, scheduled to end in August 2013, provides technical assistance to increase ministry capacity through professional training, quality assurance and accreditation, curriculum review, university partnerships, academic policies, and regulation. USAID said that as it operates in an environment replete with logistical and security challenges, HEP does not have significant outcome data to quantify its impact. However, USAID is considering an evaluation design for the follow-on HEP (2013–2017) that will include greater attention to outcome measures and data collection.⁴⁸³ As



U.S. Ambassador James Cunningham speaks at an American University of Afghanistan convocation about U.S. support of higher education and the new International Center for Afghan Women's Economic Development. (State Department photo)

of March 31, 2013, USAID had obligated \$21.2 million toward HEP and disbursed \$12.4 million, representing no change since last quarter.⁴⁸⁴

American University of Afghanistan

This five-year (August 2008–July 2013), \$42 million program is designed to support development of American University of Afghanistan's (AUAF) English-language undergraduate and continuing-education programs, with a concentration on liberal arts. Undergraduate degrees include business administration, information technology and computer science, political science and public administration, and mass communication. AUAF also offers a master's degree in business administration. As of March 31, 2013, USAID had obligated \$39.6 million and disbursed \$37.6 million toward this effort, representing no change since last quarter.⁴⁸⁵

LABOR

Assessing the transition's impact on Afghanistan's labor market is difficult given the limited and inconclusive available data, according to the World Bank. 2009 figures showed just 6.8% of Afghans unemployed, but more than 48% were underemployed (working fewer than 35 hours a week, on average). Conflict-affected provinces faced less unemployment than non-conflict ones, but had higher underemployment. The World Bank surmised this was caused by short-term job opportunities created by provincial reconstruction teams in those areas.⁴⁸⁶

Labor Market Surveys

SIGAR has previously noted the generally poor quality of Afghanistan's higher-education curriculum. USAID is working with the Afghan government and others to help the country's public-sector technical schools provide training for the skills needed to meet business and industry requirements. In 2012, USAID started aligning Afghanistan's education goals with

industry needs through a series of labor-market surveys of small- and medium-sized enterprises in six urban areas. USAID planned to conduct four surveys over a two-year period; two were completed. USAID reported this quarter that the third survey did not occur because the contract was descope and a close-out letter was issued to the implementing partner.⁴⁸⁷

Afghanistan Workforce Development Program

USAID's Afghanistan Workforce Development Program (AWDP) aims to offer access for 25,000 Afghan men and women to labor-market-driven vocational education and training, business-development support, business-management training programs, financial credit, and job-placement services. AWDP is trying to mitigate high unemployment and the scarcity of technically skilled Afghan labor and trained Afghan business managers. The goal of the program is to facilitate job creation, develop a skilled workforce at mid-career and semi-professional levels, increase self-employment, and promote economic growth in Afghanistan.⁴⁸⁸

The AWDP is also supporting efforts to build the capacity of technical/vocational educators and trainers. AWDP seeks to both improve the quality of these training programs through public-private partnerships, and make them more accessible. As of January 31, 2013, the AWDP expended approximately \$3.7 million of the \$5 million originally obligated to the program. On March 10, 2013, an additional \$6.7 million was allocated to AWDP for a total of \$11.7 million.⁴⁸⁹

HEALTH

No sector has benefited more from Afghanistan's reconstruction than the health sector. Afghanistan has experienced extraordinary improvements in its health indicators since 2002. Although the country still has one of the highest mother-and-child mortality rates in the world, life expectancy has improved by as much as 15–20 years according to the USAID-funded Afghanistan Mortality Study 2010.⁴⁹⁰ Although National Public Radio reported that some experts who worked on the survey question the validity of its results, USAID remains confident in the data and has not revised it.⁴⁹¹

From FY 2002 through FY 2011, U.S. on-and-off budget assistance to Afghanistan's health sector totaled \$926 million, as shown in Figure 3.39 on the following page.⁴⁹² On-budget assistance to the MOPH includes salary payments to workers in U.S.-funded facilities, medical and non-medical supplies, in-service training, minor renovations of facilities, medical equipment, and monitoring and supervision. Off-budget assistance comprises pharmaceuticals and contraceptives.⁴⁹³

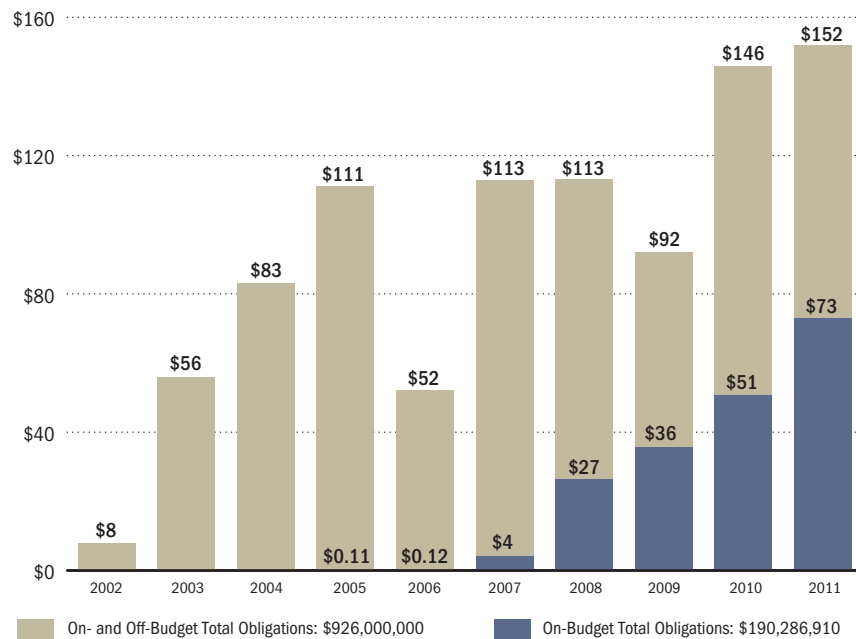
Out of the more than 1,970 primary health-care facilities in Afghanistan, the United States funds 545 across 13 provinces, including 27 non-provincial hospitals. The United States also funds tertiary care in

SIGAR AUDIT

A SIGAR audit released this quarter questioned Afghanistan's ability to financially sustain two new USAID-funded hospitals under construction and appropriately staff five existing USAID-funded provincial hospitals. For more information, see Section 2, page 28.

FIGURE 3.39

USAID FUNDING TO HEALTH SECTOR FY 2002–FY 2011, ON- AND OFF-BUDGET (\$ MILLIONS)



Note: Numbers have been rounded.

Source: USAID, responses to SIGAR data call, 4/11/2013 and 4/1/2013.

five provincial hospitals and one national hospital, as shown in Figure 3.40.⁴⁹⁴ According to USAID, 60% of Afghans are now within one hour’s walk from a health-care facility.⁴⁹⁵

In 2002, the MOPH, with the help of the international community, devised a strategy to deliver a basic package of health services (BPHS) that encompasses cost-effective interventions aimed at vulnerable populations. It does so, in part, by contracting out the delivery of local health services to nongovernmental organizations (NGOs) so that the ministry can focus on Afghanistan’s national healthcare system. NGOs are currently working in 31 of Afghanistan’s 34 provinces. MOPH staff provides services in the remaining three.⁴⁹⁶

Under the BPHS, Afghanistan’s primary health care system comprises six types of facilities, described here from most basic to most extensive:

Health Posts are community extensions of primary health care facilities, ideally staffed by three volunteer community health workers—two male and one female—who deliver limited services out of their homes to an area of 1,000–1,500 people. Services include diagnosis and treatment of malaria, family planning, and nutrition supplements and counseling. The workers also treat minor illnesses and identify disabilities and mental

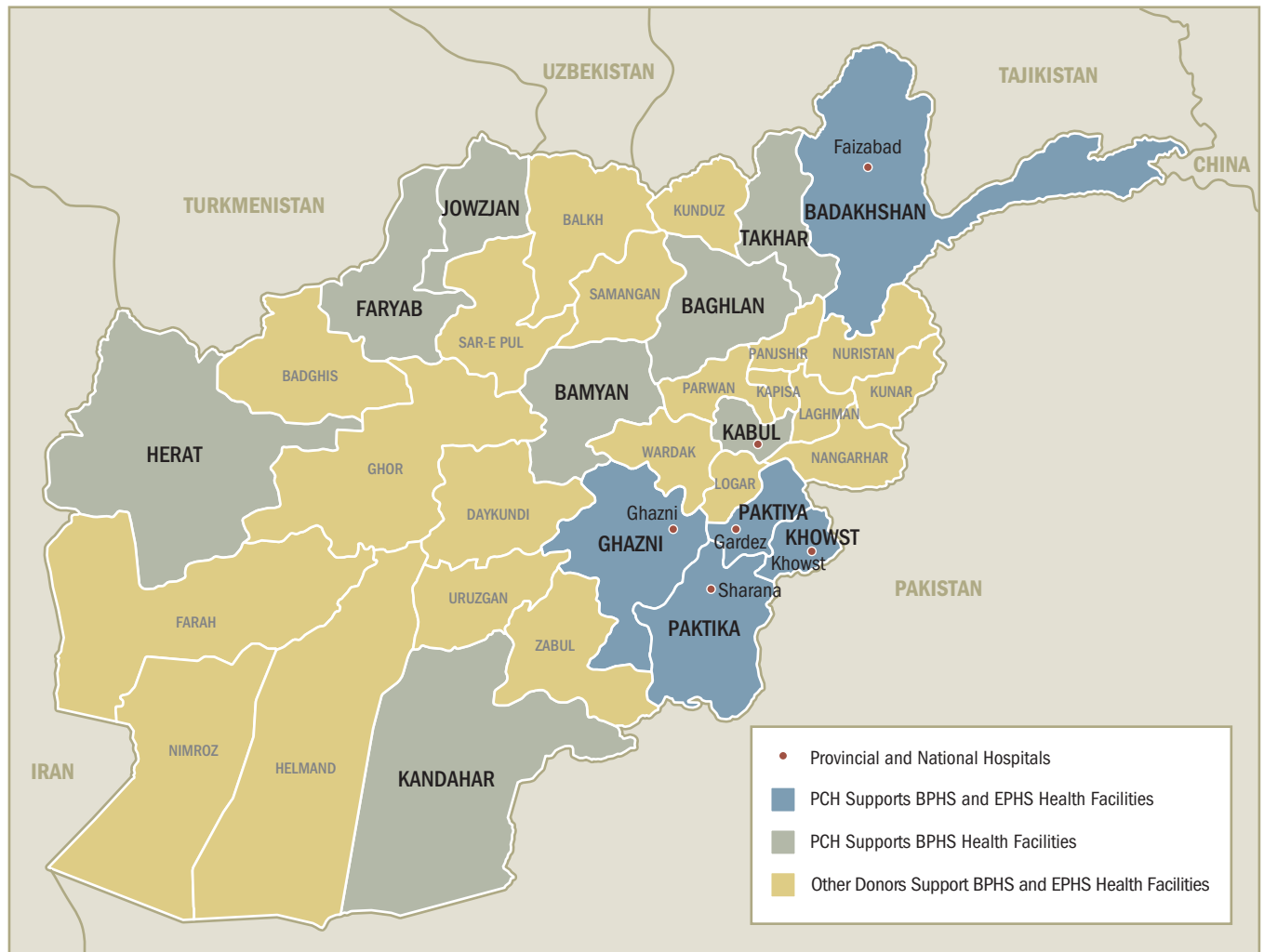
SIGAR INSPECTION

A SIGAR inspection this quarter found the CERP-funded Qala-I-Muslim Medical Clinic in Kabul to be well-sustained and serving its 4,000-member community effectively. More than 1,500 patients have been treated since opening in 2011. For more information, see Section 2, page 38.

ECONOMIC AND SOCIAL DEVELOPMENT

FIGURE 3.40

U.S.-FUNDED TERTIARY CARE HOSPITALS



Note: Tertiary care is specialized consultative care in a center that has personnel and facilities for special investigation and treatment.

Sources: USAID, response to SIGAR data call, 4/11/2013; USAID, "Partnership for Contract Health, Fact Sheet," 1/2013, accessed 4/16/2013; Johns Hopkins Medicine, "Tertiary Care Definition," accessed 4/19/2013.

conditions. Female community-health workers promote pregnancy and birth preparedness and basic essential newborn care.⁴⁹⁷

Health Sub-Centers are temporary health centers that offer services at levels between health posts and other BPHS facilities. Health Sub-Centers (HSC) provide care to underserved, rural populations of 3,000–7,000 people. They are run out of private houses and should be no more than a two-hour

walk for patients. HSCs are potential precursors for more permanent facilities depending on established need and community commitments. Services include health education, immunization, antenatal care, family planning, tuberculosis detection, referral and follow up, and diarrhea and pneumonia treatment. HSCs are staffed by a male nurse and a community midwife, as well as a cleaner/guard.⁴⁹⁸

Basic Health Centers provide primary outpatient care, including immunizations, antenatal, delivery, postpartum and newborn care, nonpermanent contraception, integrated management of childhood illnesses, malaria and tuberculosis treatment, identification of disabilities and mental conditions, and issues referrals and follow-up care. Basic Health Centers (BHC) supervise the activities of the health posts in their area of responsibility, comprising 15,000–30,000 people, depending on location. Minimum staffing requirements are one nurse, one community midwife, and two vaccinators.⁴⁹⁹

Mobile Health Teams are extensions of BHCs that provide the same services to small, remote communities. Mobile Health Teams are comprised of one male doctor or nurse, one female community midwife or nurse, a vaccinator, and a driver.⁵⁰⁰

Comprehensive Health Centers offer a greater range of services than BHCs. They can handle complications during childbirth, serious childhood disease, difficult cases of malaria, and outpatient mental health care. Comprehensive Health Centers have a larger staff than a BHC, including male and female doctors and nurses, midwives, one psychosocial counselor, as well as laboratory and pharmacy technicians. Physiotherapists from the district hospital visit on an outreach basis.⁵⁰¹

District Hospitals handle all BPHS services, including major surgery, x-rays, emergency obstetric care, sterilizations, comprehensive mental-health care, and physiotherapy rehabilitation. District hospitals offer a wider range of essential drugs, treatment of severe malnutrition, and laboratory services. They are staffed with female obstetricians/gynecologists, a surgeon, a pediatrician, an anesthetist, a mental-health doctor, psychosocial counselors/supervisors, midwives, laboratory and X-ray technicians, a pharmacist, a dentist and dental technician, and two physiotherapists (male and female). Each district hospital accommodates between 100,000 and 300,000 people.⁵⁰²

USAID's highest-priority programs in the health sector this quarter include:

- Partnership Contracts for Health (PCH) Services
- Health Policy Project (HPP)
- Leadership, Management, Governance Project (LMG)

Partnership Contracts for Health Services

A five-year (2008–2013), \$218 million on-budget program, Partnership Contracts for Health (PCH) supports the MOPH's efforts to provide the BPHS and the Essential Package of Hospital Services across Afghanistan.

As noted on page 163, the United States is supporting 545 of these health facilities. A SIGAR audit this quarter assessed Afghanistan's ability to sustain two PCH hospitals under construction and staff the five provincial ones funded by USAID. The audit found that USAID did not assess the MOPH's ability to operate and maintain these facilities once completed, and some provincial hospitals are experiencing staffing shortages in key medical positions. As of March 30, 2013, USAID had obligated \$190.3 million to this program and disbursed \$121.3 million.⁵⁰³

PCH delivers health care ranging from basic to highly specialized diagnostic and treatment services. It also supports Community Midwifery Education (CME) contracts, which help reduce both maternal and child mortality. This quarter, 136 CME students graduated and most deployed to health facilities, 17 non-governmental organization contracts were extended to December 20, 2013, and a second round of CME contracts are being procured. USAID reported several challenges to better program implementation, including insecurity, an increasing unavailability of air transportation to monitor activities in kinetic areas, political interference in PCH priorities, and shortages of female health staff at all levels.⁵⁰⁴

Health Policy Project

The Health Policy Project (HPP), an 18-month (June 2012–November 2013), \$18 million program, is building MOPH capacity to address basic health needs through public-private partnerships. As of March 31, 2013, USAID had obligated \$8.8 million to the program. HPP works to expand private-sector capacity to deliver high-quality services, improve HIV care and prevention policies, and promote behavioral change through social media marketing. Accomplishments of the HPP include fully staffing a Public Private Partnership Unit within the MOPH, completing an assessment of Jumhoriat Hospital's commercial viability and value, and providing technical assistance to the Afghanistan Social Marketing Organization's board of directors. Challenges to implementation include insecurity in provinces, the lack of a legal framework governing public-private partnerships, and private industry's difficulty in navigating the bureaucratic morass of the Afghan government.⁵⁰⁵

Leadership, Management, Governance Project

The 18-month (September 2012–February 2014), \$25 million Leadership, Management, Governance (LMG) Project works with the MOPH and the Ministry of Education, at both the provincial and central level to build leadership, management, and governance capacity within Afghanistan's health and education systems. It also aims to improve transparency and accountability within the MOPH and helps both ministries manage on-budget assistance. As of March 31, 2013, USAID had obligated \$16.3 million and disbursed \$2.5 million for the program.⁵⁰⁶

USAID reported this quarter that all 14 LMG participatory hospitals have gone from controlling no part of their budgets to managing 76–100%. The agency also said these facilities established management committees and formed four provincial maternal and child health committees. The MOPH developed governance guides and an assessment tool for provincial and district health coordination, and trained all 74 departments at the ministry on standardized reporting techniques. USAID reported no specific security threats to the program on a provincial level, but stressed the need to monitor potential security vacuums in some communities once U.S. forces withdraw.⁵⁰⁷

PRIVATE SECTOR DEVELOPMENT

The United States is supporting private-sector development through the ESF, TFBSO, and CERP. USAID's priority economic-growth projects, funded through the ESF, include:⁵⁰⁸

- Assistance in Building Afghanistan by Developing Enterprises (ABADE)
- Economic Growth and Governance Initiative (EGGI)
- Trade Accession and Facilitation for Afghanistan (TAFA) I and II

Assistance in Building Afghanistan by Developing Enterprises

USAID's newly initiated, \$105 million Assistance in Building Afghanistan by Developing Enterprises (ABADE) program is focused on helping productive, Afghan-registered, small-to-medium enterprises add jobs, increase investment, and improve sales of domestic products and services. ABADE will support private-sector businesses that offer the best leverage and opportunity for sustained economic growth. Last quarter, ABADE hired staff and finalized its work plan and performance metrics.⁵⁰⁹ In this reporting period, ABADE held a formal inaugural event and conducted road shows in Kabul, Jalalabad, Herat, and Mazar-e-Sharif to reach out to potential business partners.⁵¹⁰

Economic Growth and Governance Initiative

The \$92 million Economic Growth and Governance Initiative (EGGI) program aims to strengthen government capacity to conduct more effective public financial management. It provides assistance for national budgeting, tax administration, and revenue generation. It also provides Women in Government internships to increase women's civil-service participation to 30%, which is the Millennium Development Goal. As of January 31, 2013, 208 women had graduated the internship program in FY 2012, of whom 76% found full-time employment.⁵¹¹

EGGI continues to face implementation challenges. Its provincial budgeting component has been descoped from the program as of March 2013. Afghanistan's civil service commission has still not finalized changes to its

recruitment procedures, which, once complete, will require the Women in Government internship program to realign its efforts to adhere to any new requirements. EGGI also faces funding constraints.⁵¹²

Trade Accession and Facilitation for Afghanistan I and II

Parts I and II of Trade Accession and Facilitation for Afghanistan (TAFA), at a combined cost of \$83 million, are designed to generate economic growth, trade, and investment by improving the conditions for international trade and transit for both the government and private sector. TAFA assists the Afghan government in three areas: trade-policy liberalization, customs reform, and trade facilitation. TAFA promotes the New Silk Road initiative by facilitating Afghanistan's accession to the World Trade Organization, developing bilateral and regional trade agreements, and streamlining customs and export procedures. As of March 30, 2013, approximately \$19.8 million has been obligated to TAFA II and \$4 million expended.⁵¹³

This quarter, TAFA worked with the Afghan Customs Department to streamline and standardize customs procedures at six Inland Customs Depots and at Kabul International Airport. TAFA efforts strengthened risk management controls and helped improve the Automated System for Customs Data (ASYCUDA) at these locations, potentially saving the Afghan government \$90 million–\$100 million annually. In addition, TAFA is providing assistance to the Da Afghanistan Bank and the MOF in their efforts to implement an electronic-payment system of customs duties and taxes to help combat corruption.⁵¹⁴

Also this quarter, TAFA initiated a month-long risk-management training program for Afghan customs officials at Kabul International Airport. Training focused on best practices to inspect high-risk cargo while allowing legitimate trade to flow expeditiously. According to USAID, initial risk-management results show a marked increase in infraction reporting, which helps determine a trader's risk level. Traders with infractions are targeted with more inspections, while law-abiding traders are rewarded with fewer.⁵¹⁵

A TAFA review of its streamlining efforts in 2012 found the number of customs-clearing steps dropped from 23 to 12, on average, saving traders over \$40 million in time and money.⁵¹⁶ Additionally, U.S. assistance to the customs department reduced the overall customs-processing time from 24 hours in 2011 to seven in 2012. Despite these successes, USAID noted that the customs department is in the midst of shifting positions, which occurs every six to 12 months, challenging TAFA progress and Afghan capacity-building efforts. Furthermore, TAFA has still not reached an agreement with the Afghan government on composition of future assistance under the Strategic Objective Agreement. This, in turn, has caused delays in TAFA receiving its allocated funding, and threatened its ability to provide timely services.⁵¹⁷

The ASYCUDA software is used in more than 80 countries as the basis of a comprehensive, integrated customs information system. Computerization strengthens customs administration by accelerating customs clearance and simplifying procedures, helping countries facilitate trade.

Source: UNCTAD, "What is ASYCUDA," accessed 4/3/2013.

In other private-sector developments this quarter, USAID moved forward on a Global Development Alliance (GDA) with the Aga Khan Foundation, a large non-profit development organization based in Geneva. On March 24, 2013, USAID awarded a collaboration agreement to the Aga Khan Development Network for implementing a business incubator, investment-fund project called the Multi-Input Area Development (MIAD) GDA.⁵¹⁸ This \$60.9 million, 5-year, off-budget program will begin in May 2013. It will leverage private-sector investment to help fund sustainable social and economic development in Badakhshan province. The program will have two components: a MIAD financing facility, which will invest in small-, medium-, and large-scale enterprises that will serve as economic drivers; and a MIAD social-development trust fund that will provide block grants to district-level government for rural development, social service delivery, and local government capacity-building activities.⁵¹⁹

USAID will contribute \$7.5 million to the MIAD financing facility, while the Aga Khan Foundation will provide \$22.5 million in mobilized capital. USAID will contribute \$22.5 million to the MIAD trust fund, with the Aga Khan Foundation paying \$7.5 million. USAID's first-year program funding will cap out at approximately \$5.5 million.⁵²⁰

The Aga Khan Foundation will conduct routine monitoring of program implementation and outcome/impact assessments. USAID will closely monitor these assessments and conduct site visits to confirm results. USAID will also develop a performance-monitoring plan that includes performance and impact indicators such as the percentage of profits from economic drivers returned to the social-development trust fund; the net present value of economic drivers to Afghan beneficiaries; and the number of Badakhshan residents benefiting from social-development projects.⁵²¹

Task Force for Stability and Business Operations

In addition to helping the Afghan government develop natural resources, TFBSO has supported private-sector initiatives. TFBSO awarded the American University of Afghanistan a \$5 million grant to fund construction of a 5,500 square meter, state-of-the-art International Center for Afghan Women's Economic Development on its campus in Kabul. The Center is scheduled to open April 2013 and will lead and coordinate international and Afghan public- and private-sector efforts to advance women's role in economic growth.⁵²²

TFBSO also sourced and conducted due diligence on 50 companies this quarter, bringing the total number of companies assessed to 650, as of March 31, 2013. TFBSO also helps carpet, jewelry, and cashmere producers and other indigenous Afghan businesses meet international standards and access international markets.⁵²³

TRADE

Given Afghanistan's geographic position between South and Central Asia, regional economic integration, as called for in the New Silk Road initiative, could net it substantial customs revenues, according to a Congressional Research Service report. But despite the Central Asian countries' long-standing interest in a moderate and stable Afghanistan, the United States has not succeeded in its efforts to convince all of Afghanistan's neighbors to put the country's stability in the region above their particular interests.⁵²⁴ Tolo News reported in February that Pakistan fined Afghan traders \$50 million for approximately 3,700 containers that were held up by Pakistani authorities for 85 days in the Port of Karachi. These delays disrupt the free flow of goods and add fuel and transportation costs for Afghan traders.⁵²⁵

On February 27, 2013, officials from the United States and Afghanistan met in Washington, DC, to evaluate progress under the United States-Afghanistan Trade and Investment Framework Agreement signed in 2004. Discussions included an introduction to the U.S. Generalized Systems of Preferences, Afghanistan's accession to the World Trade Organization, and intellectual-property rights, as well as sector-specific investment challenges and impediments to greater trade and investment flows between the two countries.⁵²⁶

COMMUNICATIONS

Afghanistan's private-sector-led telecommunications sector is growing rapidly, and is one of the country's economic success stories.⁵²⁷ In 2010/2011, telecom contributed 45% of total tax revenue and is expected to continue driving economic growth and development next year.⁵²⁸

As of March 9, 2013, USAID has allocated and disbursed almost \$15.2 million, on-budget, to the Ministry of Communications and Information Technology (MCIT) for two projects—the District Communications Network and the Policy Capacity Initiative, both of which have ended. USAID is not providing any ongoing assistance to MCIT.⁵²⁹

According to UNAMA, the Afghan government is planning to either launch its own communications satellite into space through a competitive bidding process or link to an existing satellite. Three international companies submitted proposals to the government, but the official bidding process has not yet begun. The winner would be responsible for all costs, which would be recouped through service charges.⁵³⁰

