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ECONOMIC AND SOCIAL DEVELOPMENT

As of June 30, 2013, the U.S. government has provided nearly \$24.7 billion to support governance and economic development in Afghanistan. Most of the appropriated funds flowed into four major programs and accounts, as shown in Table 3.9. Of the \$22 billion appropriated for these four funds, approximately \$18.1 billion had been obligated, \$13.7 billion disbursed, and \$1.5 billion expired as of June 30, 2013.

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 international community is calling Afghanistan’s “Transformation Decade” following the drawdown of Coalition forces in 2014.

KEY EVENTS

This quarter saw several important developments. First, senior officials from 40 countries and eight international organizations, as well as civil-society and private-sector representatives, met in Kabul on July 3, 2013, to review implementation of commitments made under the Tokyo Mutual Accountability Framework agreed to in July 2012.³⁸²

Second, the Swiss-based Basel Institute on Governance issued its second annual Anti-Money Laundering Index. Afghanistan ranked as the country most at risk for money laundering and terrorist financing activity out of 149 countries assessed. Iran had held that position in the 2012 rankings.³⁸³

Third, a major jobs conference held in Kabul focused on the state of Afghanistan’s labor market and the need for strategic, inclusive employment growth as the basis of future development.³⁸⁴

In other developments, the International Monetary Fund’s Extended Credit Facility Arrangement review and disbursement remain delayed due to insufficient Afghan progress under the agreement’s quantitative and legislative requirements.³⁸⁵ And a national railway plan for Afghanistan was released. Successful implementation of the plan is seen as critical for developing Afghanistan’s mining sector and its position as a regional trading partner.³⁸⁶

TABLE 3.9

CUMULATIVE APPROPRIATIONS FOR AFGHANISTAN DEVELOPMENT, AS OF JUNE 30, 2013 (\$ MILLIONS)		
Name	Managed by	Appropriated
ESF	USAID	\$16,654
CERP	DOD	\$3,639
TFBSO	DOD	\$685
AIF	STATE/DOD	\$1,024
Total		\$22,002

Notes: ESF = Economic Support Fund; CERP = Commander’s Emergency Response Program; TFBSO = Task Force for Business and Stability Operations; AIF = Afghanistan Infrastructure Fund.

Source: See Appendix B of this report.



Senior officials met in Kabul in July to discuss progress towards goals articulated in the Tokyo Mutual Accountability Framework. (UNAMA photo)

ECONOMIC PROFILE

Afghanistan's economy has grown 10% annually on average since 2002, fueled by international military spending and development assistance. The services sector has been the most important driver of economic growth, while construction has propelled the industrial sector. Demand in these areas has been buoyed by increased public spending in 2013.³⁸⁷

Legal agriculture is the second leading contributor to GDP, but fluctuates with the weather. Good rains in 2012 led to a near-record-breaking wheat and cereal harvest, driving real GDP growth to an estimated 11.8%. But moderate rainfalls in early 2013 should yield a more conventional harvest, slowing real GDP growth to 3.1% for the year.³⁸⁸

Fading business and investor confidence in response to Afghanistan's volatile political and security environments is expected to slow economic growth in 2013 and 2014, according to the World Bank. Moreover, with an expected decline in aid post-2014, World Bank projections show average real GDP growth declining to 4–6% annually during 2011–2018.³⁸⁹

Fiscal Sustainability

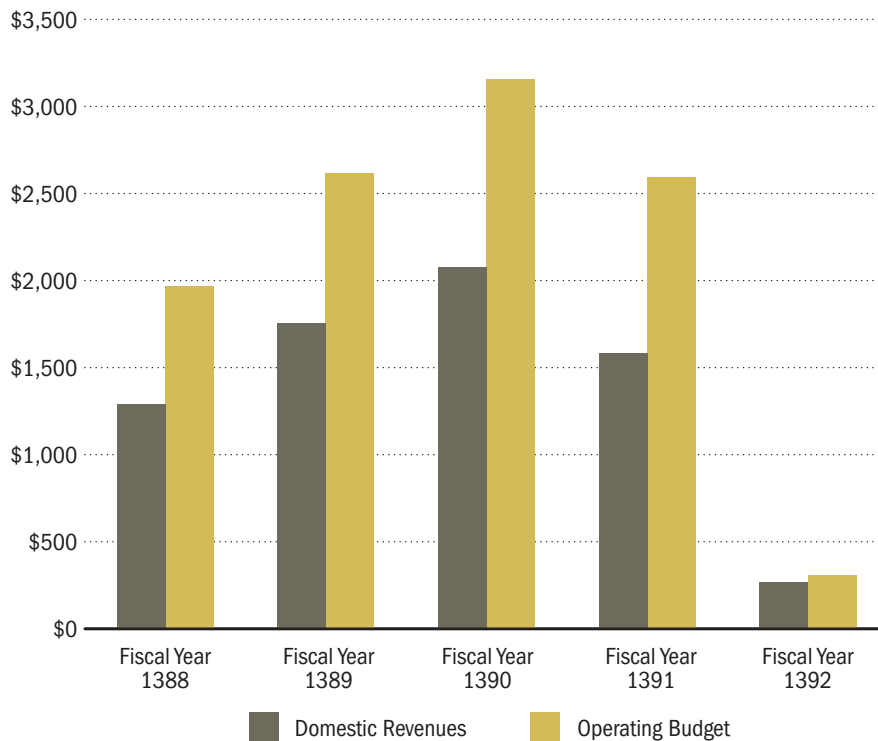
Afghanistan's fiscal sustainability ratio—domestic revenues versus operating expenses—remains one of the lowest in the world, according to DOD.³⁹⁰ The Ministry of Finance (MOF) projected domestic revenue for Afghan fiscal year (FY) 1392 (December 2012 to December 2013) at \$2.4 billion, an increase of 33% over FY 1391 (March 2012 to December 2012). However, in the first two months of FY 1392, total domestic revenues decreased by 19.2% from the same period in FY 1391, and missed MOF budget targets by 25.9%.³⁹¹ Figure 3.31 depicts the disparity between the government's domestic revenues—derived primarily from taxes and customs duties—and budgeted operating expenditures from FY 1388 to FY 1392. The Senior Leaders Meeting Joint Report to assess the Afghan Government's progress on meeting Tokyo Mutual Accountability Framework benchmarks concluded that the government's enforcement of taxation is increasingly being hindered by a deteriorating security situation, limitations on the application of the rule of law, and low organizational capacity.³⁹² More detailed information on revenue collection may be found on page 138.

Afghanistan Chamber of Commerce and Industries

This quarter, the Afghanistan Chamber of Commerce and Industries released results of its inaugural December 2012 surveys of 896 Afghan businesses in Kabul and Balkh provinces. The surveys had two purposes: to assess business owners' perceptions of the existing business environment (the Business Tendency Survey), and to document obstacles facing the private sector (the Bottleneck Survey). Respondents characterized the current business climate as "slightly worse than normal," but expected more positive economic activity in the first half of 2013. Meanwhile, security risks

FIGURE 3.31

AFGHANISTAN'S DOMESTIC REVENUES COMPARED TO OPERATING BUDGET (\$ MILLIONS)



Notes: Until recently, Afghan fiscal years ran approximately March 20 to March 20 of Gregorian calendar years. FY 1388 corresponds to March 20, 2009, to March 20, 2010, and so on. Nine-month data for fiscal year 1391 reflect a change in the timing of the Afghan fiscal year. FY 1392 (2013) is not over.

Sources: MOF, "1388 National Budget," accessed 7/2/13; MOF, "1389 National Budget," accessed 7/2/13; MOF, "1390 National Budget," accessed 7/2/13; MOF, "1391 National Budget," accessed 7/2/13; MOF, "National Budget Procedures Fiscal Year 1391" accessed 6/26/13; MOF, "Annual Fiscal Report 1391," accessed 6/20/2013; MOF, "1392 National Budget," accessed 7/1/13; MOF, "Monthly Fiscal Bulletin, Month 2," 5/18/13, accessed 6/24/2013.

remain a major impediment to private sector growth, as is difficulty navigating Afghanistan's land, tax and customs regimes. Additionally, registering a new company is not as problematic as extending an existing business license, which the survey indicates is a particularly acute challenge. Expanded follow-on surveys are planned.³⁹³

Trade

The State Department's FY 2014 budget request includes \$20.9 million for programs that aim to further integrate Afghanistan's economy into the central Asia region. Funding will target improving regional cooperation on trade, transit of goods and services, energy resources, water and other natural resources, and governance along trade and transit corridors.³⁹⁴

World Trade Organization Accession: Update

On May 4, 2013, Afghanistan reaffirmed its commitment to finalizing its bilateral market negotiations by July 2013 and completing World Trade Organization (WTO) accession at the organization's 9th Ministerial Conference in early December 2013.³⁹⁵

Afghanistan drafted 22 out of 26 required laws, which were submitted to the WTO, but must still pass Afghanistan's parliament. Afghanistan is also currently conducting bilateral market-access negotiations with eight WTO members and has launched six institutional initiatives to comply with WTO requirements.³⁹⁶ Negotiations are part of the final stage before the accession package is sent to the WTO General Council or Ministerial Conference for final approval.³⁹⁷

While Afghanistan wants accession to the WTO by the end of 2013, the State Department deems it unlikely, given the National Assembly's legislative backlog.³⁹⁸ Accession by the end of 2014 is an Inclusive and Sustained Growth and Development indicator under the Tokyo Mutual Accountability Framework.³⁹⁹

For more information about the U.S. Agency for International Development's (USAID) trade-accession assistance to Afghanistan, see page 173.

EXTENDED CREDIT FACILITY ARRANGEMENT

The Afghan government's poor performance in completing specific banking and financial structural reforms, and in meeting the quantitative macro-economic targets set forth under the International Monetary Fund's (IMF) Extended Credit Facility (ECF) Arrangement, have delayed IMF Board reviews and accompanying disbursement of funds. Neither the second review, originally planned for December 2012, nor the third, originally planned for March 2013, has been completed.⁴⁰⁰

According to Treasury, the Afghan government has not yet submitted a revised Anti-Money Laundering/Countering Financing of Terrorism Law to parliament, nor has it taken sufficient corrective actions to address its recent underperformance on quantitative targets, according to Treasury. Other missed targets for end-FY 1391, as reported to SIGAR.⁴⁰¹

- FY 1391 (March 2012 to December 2012) revenue target of 85.1 billion afghanis (Afs) missed by Afs 8.7 billion.
- Revised FY 1392 (December 2012 to December 2013) revenue targets believed to have been missed in the first two quarters.
- The central bank —Da Afghanistan Bank (DAB)—missed its net international reserve floor target for end-FY 1391 (approximately \$7.05 billion) by more than \$575 million.
- The ceiling on net central bank credit to the government was missed for end-FY 1391.

Quantitative targets achieved for end-FY 1391, as reported to SIGAR (“zero ceiling” provisos bar the Afghan government from taking any of the steps noted beyond the terms of the IMF agreement):⁴⁰²

- Ceiling on reserve money
- Zero ceiling on contracting of new medium or long-term non-concessional debt by public sector
- Zero ceiling on short-term external debt owed or guaranteed by the public sector
- Zero ceiling on net external payment arrears
- Zero ceiling on lending from state-owned banks or the central bank to, or government guaranteed borrowing by, public enterprises in need of restructuring; and
- Zero ceiling on government guarantees

IMF staff will assess Afghanistan’s progress on these and other measures during the next fiscal quarter to determine whether to present its reviews to the IMF Executive Board.⁴⁰³

The three-year, \$129 million ECF loan agreement signed in November 2011 is conditions-based. Disbursements are contingent upon completion of program reviews, as determined by IMF Management and the Executive Board. The IMF has released two disbursements of \$18.2 million—the first at initial ECF approval, the second in June 2012 despite a first review that characterized Afghan reform as weak and slow.⁴⁰⁴

Afghanistan’s IMF Program is financed from the Poverty Reduction and Growth Trust, to which the United States does not contribute.

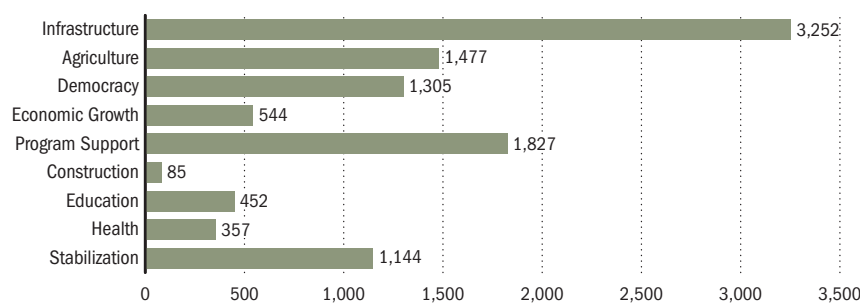
Source: Treasury, response to SIGAR data call, 6/26/2013.

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.⁴⁰⁵ Figure 3.32 shows USAID assistance by sector.

FIGURE 3.32

USAID DEVELOPMENT ASSISTANCE, AS OF JUNE 30, 2013 (\$ MILLIONS)

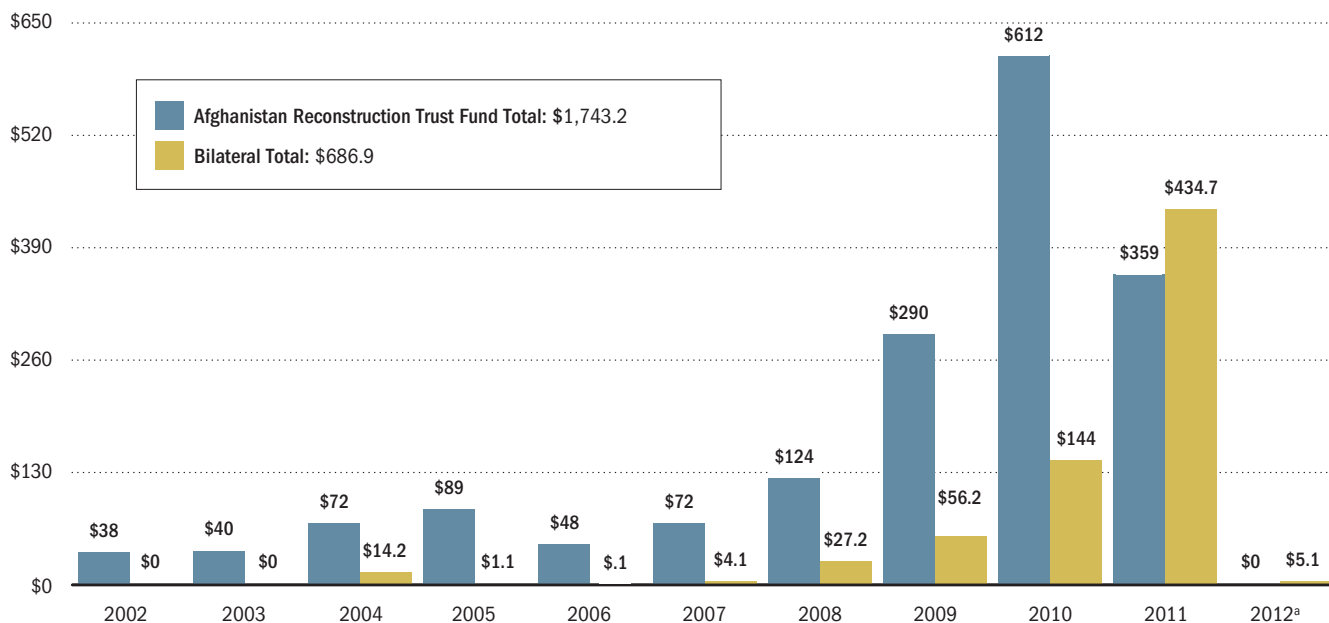


Note: Numbers rounded.

Source: USAID, response to SIGAR data call 7/10/2013.

FIGURE 3.33

USAID ON-BUDGET ASSISTANCE OBLIGATED, FY 2002–FY 2012 (\$ MILLIONS)



Notes: Numbers have been rounded.

^a Most FY 2012 USAID funding for on-budget assistance had not been obligated as of June 25, 2013.

Sources: USAID, responses to SIGAR data call, 7/16/2013 and 4/1/2013.

“Trends in public finance deserve attention: more on-budget aid poses challenges [to] the Government’s capacity to execute an increasing budget.”

Source: World Bank, “Afghanistan Economic Update,” 4/2013.

U.S. Direct Assistance to the Afghan Government

In line with donor commitments made at the 2012 Tokyo Conference, the United States has been gradually increasing the amount of development assistance it provides directly to the Afghan government. This quarter, USAID obligated approximately \$235 million in on-budget assistance, primarily from prior fiscal-year funds, for a total of more than \$2.4 billion, as of June 30, 2013, as shown in Figure 3.33.⁴⁰⁶

Transition Planning

SIGAR is concerned about the safety of all U.S. agency personnel in Afghanistan as security responsibility increasingly is being transferred to the Afghan Public Protection Force (APPF). SIGAR is also concerned about the ability of U.S. implementing agencies to provide effective oversight over development programs as most international combat forces transition out of Afghanistan in 2014.⁴⁰⁷

A 2012 review of USAID/Afghanistan’s monitoring and evaluation system by the USAID Office of Inspector General stated that managing development programs in high-threat environments like Afghanistan presents special oversight risks and challenges. It described the security situation in Afghanistan as “[a] significant and continuing constraint to USAID/Afghanistan’s program monitoring and evaluation,” a sentiment echoed repeatedly by Mission personnel in Afghanistan to their counterparts in Washington, DC.⁴⁰⁸

However, USAID told SIGAR that it expects any impact from the security transition to be minimal since all implementing partners are already required to operate independently of U.S. government services, including those provided by International Security Assistance Force (ISAF) forces. In the lead-up to the March 2012 transfer of security responsibility to the APPF, USAID requested contingency security plans from all of its implementing partners, and stayed in frequent contact with them throughout the process. USAID also reported no project shut-downs and no reduction in mobility from its development project staff as a result of the transition, and fully expects to be able to continue providing effective oversight and management of its programs through third-party monitoring.⁴⁰⁹ While using third-party monitors may mitigate some security-related access issues—e.g., local nationals are less likely to attract hostile attention than foreigners—SIGAR is concerned that the practice may raise new issues such as vetting, accuracy, effectiveness, and accountability.

For its priority development projects, USAID reports it is able to execute site visits as needed.⁴¹⁰

So far, USAID completed two APPF cost analyses for its 31 implementing partners currently using their security services: the first in July 2012 for the quarter immediately following transition, and the second in June 2013. The average monthly cost to the implementing partners for APPF services is approximately \$1.4 million.⁴¹¹

The U.S. Civil-Military Strategic Framework for Afghanistan

The U.S. Civil-Military Strategic Framework for Afghanistan, last updated in October 2012 and now under revision, will emphasize transition to Afghan control. U.S. efforts will shift from providing security to advising and preserving gains, will aim to gain additional clarity on the Transformation Decade (2015–2024) once the post-2014 coalition military footprint is established and better converge with Afghanistan’s national planning strategies. The U.S. government aims to replace its Civil-Military Strategic Framework in 2014 with a multi-year Integrated Country Strategy that will include policy priorities, objectives, and the means for achieving them.⁴¹²

SIGAR AUDIT

This quarter, SIGAR published a follow-up audit on the impact of the transition from private security companies to the Afghan Public Protection Force on USAID reconstruction and assistance programs. In its findings, SIGAR expressed concerns about potentially high APPF costs. For more information, see Section 2, page 34.

Award Closeouts

USAID’s Office of Acquisition and Assistance (OAA) is actively identifying grants and contracts for closeout. Priority is given to awards that have the highest funding amounts to deobligate, followed by awards that have long expired. Over the last year, OAA closed out more than 72 awards and deobligated approximately \$29 million in excess funds. OAA is experiencing some challenges including difficulty locating implementing-partner points of contact for long-expired awards, and an audits backlog to determine final indirect cost rates needed to finalize a closeout. According to OAA, closing out awards should be and is being given higher priority than in the past, and an automated reporting and tracking system should be used to ensure all awards scheduled for closeout are accounted for.⁴¹³

DEBT RELIEF

Afghanistan currently has approximately \$1.16 billion in outstanding debt, which needs to be restructured or forgiven through Paris Club and Enhanced Highly Indebted Poor Country (HIPC) initiative agreements. These debts are owed to four countries, one commercial entity, and one private party, as seen in Table 3.10.⁴¹⁴

TABLE 3.10

AFGHANISTAN’S OUTSTANDING DEBTS (\$ MILLIONS)		
Country	Owed	Note
Bulgaria	\$56	Agreement reached in principle to restructure this debt.
Iran	\$10	
Kuwait Fund	\$22	
Russia	\$1,000	Represents residual amount remaining (and accrued interest) after first round of debt relief.
Euro-Pacific (Old Czech Debt)	\$68	Transferred to a private party who unsuccessfully sued Afghanistan’s Central Bank about it in a German Court. It is shown as a potential liability since the plaintiff may sue in another jurisdiction.
France Telecom	\$4	

Note: Amounts are approximate.

Source: Treasury, response to SIGAR data call, 6/26/2013.

Treasury’s Office of Technical Assistance (OTA) had previously helped Afghanistan successfully navigate the HIPC process, which it completed in March 2010. HIPC was designed for countries with unsustainable debt burdens, for whom traditional debt reduction or rescheduling mechanisms would not be sufficient. Countries under the HIPC designation receive assistance in lowering their debt burden to sustainable levels and reducing poverty.⁴¹⁵

The Paris Club is an informal group of official creditors—including the United States, which is a permanent member—whose role is to find coordinated and sustainable solutions to the payment difficulties experienced by debtor countries. Solutions include debt rescheduling and reduction in debt-service obligations.

The Comparable Treatment clause requires debtor countries to seek debt solutions from non-Paris Club or private creditors on terms comparable to Paris Club agreements.

Source: Paris Club, <http://www.clubdeparis.org>, accessed 7/3/2013.

No payments have been made on any of Afghanistan's debts since the early 1990s. In accordance with standard Paris Club and international procedures, payments are deferred until the creditor agrees to Paris Club/HIPC-comparable treatment and a bilateral agreement has been signed. OTA has one part-time advisor from its Government Debt Issuance and Management team providing technical assistance to Afghanistan on debt management issues, including forgiveness, debt-management process issues and strategy, and organization. Treasury's FY 2013 allocation toward this effort is \$38,987.⁴¹⁶

MONEY LAUNDERING

This quarter, the Basel Institute on Governance released its second annual Anti-Money Laundering Index—a review of countries at risk for money laundering and terrorist financing activity. Afghanistan ranked most vulnerable, followed by Iran, which held the top position in 2012. Rankings were based on five risk categories: money laundering/terrorist financing; corruption; financial transparency and standards; public transparency and accountability; and political and legal.⁴¹⁷

The State Department's recent International Narcotics Control Strategy Report listed Afghanistan as a major money-laundering country in 2012. The report says illegal financial activities “continue to pose serious threats to the security and development of Afghanistan.” This is largely perpetuated by informal, honor-based “hawala” methods of transferring money without moving it. Afghans rely upon hawala networks because of official corruption and weakness in the banking sector. Unlicensed and unregulated hawala brokers in drug-producing areas like Helmand are responsible for much of the money laundering through Afghanistan's financial system. But Afghan business consortiums that own hawalas and banks are complicit, too—the depreciation of the Iranian rial in 2012 led to increased cash smuggling from Afghanistan to satisfy increased Iranian demand for U.S. dollars, according to the report.⁴¹⁸

BANKING AND FINANCE

Private-sector development depends on establishing solid financial institutions to provide capital and facilitate the exchange of money for goods and services. However, Afghanistan's financial sector remains largely underdeveloped, makes limited capital investments in businesses, and contributes little to Afghanistan's private-sector activity.⁴¹⁹

Afghanistan's banking and financial sector has not fully recovered from the 2010 near-collapse of Kabul Bank, and suffers from a loss of consumer confidence. Audits of major banks in Afghanistan conducted in the wake of the Kabul Bank scandal revealed “systemic fragility and vulnerability in all

“The handing down of relatively light sentences to 21 people involved in the collapse of the Kabul Bank must not signal the end of accountability in this scandal. Robust and ongoing action, in particular on asset recovery and sound financial regulation, are essential. Demonstrations of commitment to sound institutional and financial fundamentals will be critical to ensuring sustained international assistance.”

Source: UN Secretary-General, “The Situation in Afghanistan and its Implications for International Peace and Security,” 6/13/2013, p. 15.

areas of banking governance and operations,” according to a World Bank report released this quarter.⁴²⁰

Total assets in the banking sector declined from \$5.5 billion in 2010 to \$4.4 billion in 2012. The average growth rate of demand deposits was 80% from 2005 to 2009, but declined to 12.5% growth over the last three years. Commercial loans grew an average 40% annually before the 2010 crisis, but have been declining to -20% since 2010. The World Bank characterized this trend as a “change in the risk perception of the commercial banks and a declining performance of the banking sector.”⁴²¹ The Bank is also tracking negative trajectories in the microfinance sector. It noted that several institutions have left the country, other institutions are in danger of bankruptcy, loan portfolio growth has slowed since 2008, and there are fewer active borrowers.⁴²²

Currency

Afghanistan’s currency, the afghani (Afs), depreciated by 8% against the U.S. dollar in 2012. It cost 47.9 afghanis to buy a U.S. dollar in 2011, but 51.8 afghanis in 2012. The World Bank attributed the depreciation largely to security concerns and uncertain business-sector conditions in the lead-up to the political and security transitions in 2014.

U.S. dollars are in higher demand than Afs. Afghanistan’s central bank—Da Afghanistan Bank (DAB)—curbed reserve money growth at 4% in 2012, and manages the floating exchange rate via foreign-exchange transactions to limit excessive Afs depreciation.⁴²³ Depreciation typically improves the price competitiveness of a country’s exports, but Afghanistan has limited export opportunities and limited domestic substitutes for some imports, and its exports actually declined in 2012. The country is not self-sufficient in cereal grains and imports large quantities of fuel.⁴²⁴ Under these circumstances, further depreciation, which typically narrows trade deficits, could help to widen it.

The Kabul Bank

On March 5, 2013, the Special Tribunal of the Supreme Court on Kabul Bank issued its judgment on 21 individuals charged with fraud. Afghanistan’s Attorney General’s Office (AGO) appealed the verdict on March 16.⁴²⁵ The Attorney General is seeking longer prison terms and additional convictions for the two leaders of the fraud, ex-chairman Sher Khan Farnood and ex-CEO Khalilullah Ferozi, who were given modest five-year prison sentences and ordered to pay only partial restitution.

According to the U.S. Department of Justice (DOJ), the Attorney General requested additional convictions for Farnood and Ferozi to include embezzlement and money laundering under Afghanistan’s Anti-Money Laundering and Proceeds of Crime Law, which carries with it a confiscation order to recover stolen funds. The Attorney General is seeking additional

convictions for the remaining defendants, but is not asking for penalties other than those initially ordered by the Tribunal.⁴²⁶

Kabul Bank had been Afghanistan's largest banking service provider, distributing most civil salaries on behalf of the Afghan government. The Bank's 2010 near-collapse brought to light the theft of more than \$935 million, over 92% of which went to 19 individuals and companies. Afghanistan's central bank, Da Afghanistan Bank, covered these losses, equivalent to 5-6% of Afghanistan's total GDP.⁴²⁷

Cash and Asset Recoveries: Update

The Afghan government claimed cash recoveries of \$142.3 million on March 1, 2013, compared to the \$138 million that was reported to SIGAR in April. As of July 3, 2013, the Kabul Bank Receivership reported \$173.2 million in cash recoveries, according to the Senior Officials Meeting Joint Report (on Tokyo Mutual Accountability Framework implementation).⁴²⁸ Even this larger figure amounts to less than 20% of the total stolen funds.

Prosecutions: Update

Since the Special Tribunal of the Supreme Court on Kabul Bank issued its March 5, 2013, verdict against 21 individuals charged with fraud, no effort has been made to hold anyone else accountable. At that time, the Special Tribunal ordered the arrest and prosecution of 16 additional individuals with existing warrants: 13 Kabul Bank executives and/or shareholders and three Central Bank officials. Most of the 16 have fled Afghanistan and the Afghan government has made no decisive attempt to pursue them, according to the DOJ.⁴²⁹

The Special Tribunal's order also directed the investigation and prosecution of 16 other recipients of illegal loans, including five Kabul Bank shareholders and six related companies. However, DOJ reported that the chief of the investigative prosecutors at the AGO Anti-Corruption Unit was unaware of any plans to pursue further investigations. The Deputy Attorney General, after being given a copy of the Special Tribunal's order, promised charges and investigations, but he, along with the Attorney General and others within the AGO, indicated to DOJ that any new investigations will focus on international actors, who are both beyond the reach of Afghan law enforcement, and whose criminal responsibility is highly suspect. As of June 30, 2013, no new investigations were opened into the identified individuals or entities.⁴³⁰

Several news reports this quarter stated that the AGO will prosecute four companies that audited Kabul Bank in the years leading up to the 2010 crisis, including PricewaterhouseCoopers and Deloitte Consulting.⁴³¹ Even though Afghanistan's Independent Joint Anti-Corruption Monitoring and Evaluation Committee (MEC) accused these companies of wrongly



In a June 2013 lecture at SIGAR, Clare Lockhart, co-founder of the Institute for State Effectiveness, spoke on a range of topics, including the importance of stabilizing the Afghan economy. (SIGAR photo)

attesting to Kabul Bank's compliance with Afghan law, and failing to identify and follow up on reports of fraudulent activity at the bank, the MEC feels this is an imprudent strategy and use of resources. Instead, the MEC recommends that the AGO work with other countries to gather the necessary evidence and focus on investigating those with a more direct role in the fraud.⁴³²

DEVELOPMENT OF NATURAL RESOURCES

The United States, the Afghan government, and the international donor community count on developing Afghanistan's natural resources to underpin future economic growth in the face of declining external aid. Although mining has contributed less than 2% 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, and from oil and gas fields in the Afghan-Tajik basin.⁴³³ However, SIGAR has consistently cautioned that the Afghan government may not be able to earn revenues from Afghanistan's minerals, coal, petroleum, and natural gas resources any time soon because of the considerable infrastructure investment required to develop them.

The World Bank also warned that the potential for direct job creation from mining is limited and demographically uneven. Afghanistan can expect to create between 15,000 and 20,000 direct jobs from oil, gas, and mining activities, with 2,000 to 4,000 jobs at a major mine and fewer jobs at oil and gas operations. Of these, approximately 70% will be skilled and semi-skilled labor, largely benefitting urban areas where skilled laborers typically live. Rural communities will generally fill the remaining available unskilled positions.⁴³⁴

The United States, through DOD's Task Force for Business and Stability Operations (TFBSO), has supported the Afghan government's efforts to attract investment in the mining sector. Out of \$10.2 million total for mining-sector development in FY 2013, TFBSO obligated \$9.7 million, as of June 30, 2013. Last quarter, TFBSO reported \$6.8 million in total mining assistance, with \$4.8 million obligated.⁴³⁵ Additionally, USAID is scheduled to launch its Mining Investment and Development for Afghan Sustainability (MIDAS) project, having awarded a contract on March 31, 2013. With a total estimated cost of \$41 million—descoped from \$90 million reported last quarter—it will focus on legal and regulatory reform, technical assistance to the Ministry of Mines and Petroleum (MOMP), small and medium enterprise development, assistance in geo-science field investigation, and other support as needed.⁴³⁶ MIDAS will also absorb some of TFBSO's extractives programs as it transitions out of Afghanistan.⁴³⁷

Impact on Afghan Businesses and Investors

Development of the mining, oil, and gas sectors could stimulate local businesses. For example, the World Bank estimates that \$800 million worth of needed goods and services for Aynak copper mine and Amu Darya oil and gas deposits can be procured from local Afghan suppliers. However, Afghan businesses operate under imperfect economic conditions. These suppliers require support and investment to ensure they deliver quality goods in sufficient quantities. Since Afghan manufacturing is negligible and in some cases of questionable quality, most consumable goods, construction materials, and equipment are imported.⁴³⁸

New Minerals Law: Update

On June 24, 2013, the Ministry of Justice officially submitted the draft Minerals Law to the Ministry of Parliamentary Affairs for transmittal to the lower house of parliament. Once passed by both the lower and upper houses, it will be sent to the president for final approval. An unofficial copy of the law has already been distributed to expedite review.⁴³⁹ The law would, among other things, link exploration and extraction rights. DOD's TFBSO has previously warned that without that legislative provision many companies will not bid on new tenders and will not sign contracts on existing awards.⁴⁴⁰ A July 1, 2013, news report quoted a MOMP advisor who said four major mining contracts are on hold pending passage of the new minerals law—Hajigak (iron ore); Zarkashan (gold); Badakhshan (gold); and Balkhab (copper).⁴⁴¹

Passing a revised minerals law is an IMF and Tokyo Mutual Accountability Framework benchmark.⁴⁴² Updating the law is meant to better protect Afghan resources, encourage investors, and align regulations to international best practices.⁴⁴³ Its delay has significantly hindered private-sector investment, according to TFBSO, which said mining companies value political and legal stability even more than security.⁴⁴⁴

Assistance to the Ministry of Mines and Petroleum, and the Afghanistan Geological Survey

This quarter, the United States continued to provide technical assistance to the MOMP and Afghan Geological Survey (AGS) through TFBSO and the U.S. Geological Survey (USGS). These organizations are providing support for mineral and hydrocarbon tenders and oil-and-gas data management, including geology reports, seismic data, well logs, and production logs. They are also assisting MOMP and AGS with visits to U.S. mines, participation in official meetings, and attendance at international conferences related to resource development. As of June 30, 2013, TFBSO obligated \$9.7 million out of \$10.2 million allocated in FY 2013 for mining sector development. Most of those funds are for technical assistance and advisory services.⁴⁴⁵

TFBSO contributes subject-matter expert advisors who provide geological reports, legal documentation, and financial-transaction services to

the MOMP for its international mining and hydrocarbon-tender programs. TFBSO also works with the AGS to refine and expand their drilling and data-collection programs for future tenders, and develop a cadre of Afghan geologists who can explore areas for future tender. TFBSO, along with USGS, is training AGS employees on updated remote-sensing techniques and geographic-data software, and is helping move Afghanistan's geological data off USGS servers and onto their own. TFBSO helped develop a regulatory and legal framework for the sale of natural gas from the Sheberghan-Mazar pipeline and provided training programs in welding, construction safety, program management, equipment maintenance, and other midstream transportation operations.⁴⁴⁶

Aynak Copper Mine: Update

Metallurgical Corporation of China (MCC) was awarded the contract for extraction rights at the Mes Aynak copper mine in Logar province in 2008, but has not yet begun excavation. Development of the mine remains delayed by the discovery of cultural relics in the area, difficulties in land acquisition, lack of primary infrastructure, and security concerns.⁴⁴⁷

According to published summaries of the contract, MCC has agreed to pay the government \$808 million in pre-royalty payments and royalty rates of up to 19.5% of revenues, build a 400 MW coal-fired power plant, and develop an associated coal mine. MCC has the option to renegotiate its contract in 2013, and may defer further investment until it evaluates the results of Afghanistan's 2014 presidential election and post-transition security environment.⁴⁴⁸

MOMP and the Ministry of Information and Culture (MOIC) are working with approximately 30 international archeologists at Aynak to excavate and transfer culturally significant artifacts before mining begins. This Mes Aynak Archaeological Project is financed by the World Bank's International Development Association, and supported by the Delegation Archeologique Francaise en Afghanistan. Archeological work is scheduled through July 2013 and may be extended.⁴⁴⁹

Hajigak Iron-ore Mine: Update

Contract negotiations for the Hajigak iron-ore concessions continue. The MOMP awarded three blocks to AFISCO, a seven-member Indian consortium led by state-owned Steel Authority of India Ltd. in November 2011, and one block to Canadian Kilo Iron Ore, a subsidiary of Kilo Goldmines. Kilo Iron Ore has consented in principle to all contract negotiating terms. Both firms are awaiting parliamentary approval of the new Minerals Law before signing. AFISCO is also still in negotiations about surrounding infrastructure, including a steel plant and a power plant. AFISCO may also be experiencing investor and financial difficulties, according to TFBSO.⁴⁵⁰

Hydrocarbons

Afghanistan's efforts to develop its oil and gas reserves focus on the Amu Darya Basin and Afghan-Tajik Basin, both in northern Afghanistan. This quarter, TFBSO continued its technical assistance to the MOMP and AGS.

Amu Darya Basin Production: Update

The three awarded blocks of the Amu Darya Basin are estimated to contain 87 million barrels of crude oil, according to the State Department and TFBSO.⁴⁵¹ The China National Petroleum Corporation Watan Energy Afghanistan (CNPCI-W) produced approximately 10,709 barrels of crude from three blocks as of June 1, 2013. The Afghan government has received \$4.66 million in royalty and surface rental fees as of June 3, 2013.⁴⁵²

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. CNPCI-W began export agreement negotiations with regional refineries in April 2013 to purchase its Amu Darya oil, with bids being assessed this quarter. Government revenues from Amu Darya will depend on future production rates and market values. While technically capable, CNPCI-W's low-level production to date makes it unlikely to reach its legally required FY 2013 production rate of 1.65 million barrels.⁴⁵³

The Amu Darya Petroleum Authority, which manages the Amu Darya contract, evolved into the Afghanistan Petroleum Directorate (APD) in early 2013. TFBSO helped develop APD's organizational chart, and advised their hiring of accounting, finance, human resources, and technical areas staff. TFBSO also provides subject-matter expert support to the APD—technical (oil and gas engineering), legal (contract implementation), and financial (accounting and analysis)—to assist in the oversight of TFBSO-supported contracts.⁴⁵⁴

AGRICULTURE

Since 2002, USAID has obligated about \$29 million to build capacity at the Ministry of Agriculture, Irrigation, and Livestock (MAIL), increase access to markets, and provide alternatives to poppy cultivation.⁴⁵⁵ Agriculture plays a dominant role in the Afghan economy. Only 12% of the land is arable and less than 6% is cultivated, yet 80% of Afghans directly and indirectly earn a living from agriculture.⁴⁵⁶ Given its importance to the labor force, agriculture could be a catalyst for GDP growth, improved food security, and more stable employment opportunities.⁴⁵⁷ A United Nations-Afghan-World Bank jobs conference this quarter emphasized that Afghanistan's national strategy for economic growth and sustainable job creation should focus on the agriculture sector.⁴⁵⁸



Participants in a May 2013 conference focused on the importance of vocational training and the agricultural sector to the Afghan economy. (UNAMA photo)

USAID provides assistance to the agriculture sector through several programs. The three highest priorities, worth more than \$350 million total, are:⁴⁵⁹

- 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)

These three programs are providing lessons learned for USAID as it works to award five new regional agriculture-development programs.

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. The \$100 million, on-budget 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 \$50.4 million total allocation (revised downward from \$75 million last quarter), \$29 million has been obligated (compared to \$64.6 million reported last quarter) and \$9 million has been disbursed (compared to \$53.7 million last quarter), as of June 30, 2013.⁴⁶⁰

The \$50 million, off-budget ACE is the technical-assistance component that manages all ADF lending activities and helps build MAIL capacity. According to USAID, ADF has over 20,000 clients in 30 of Afghanistan's 34 provinces. A total of \$67.8 million in loans have been approved, and of that, \$32 million has been disbursed. USAID reports a loan default rate of only 4%. 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. Of USAID's \$68.4 million total allocation for ACE, \$43.6 million was obligated (from \$20 million last quarter) and fully disbursed (from \$5.8 million last quarter), as of June 30, 2013.⁴⁶¹

Incentives Driving Economic Alternatives-North, East, and West

Incentives Driving Economic Alternatives-North, East, and West (IDEA-NEW) is a five-year, \$160 million, 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 June 30, 2013, USAID has

allocated \$154.6 million, obligated \$131.1 million to the IDEA-NEW program (\$4 million more than reported last quarter) and has disbursed \$125.1 million (\$6.9 million more than last quarter). 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.⁴⁶²

USAID reported 52,242 households have directly benefitted from IDEA-NEW (revised from 950,000 households reported last quarter), which resulted in over 46,000 full-time jobs and \$4.7 million in agricultural exports. IDEA-NEW is planning a poppy-impact assessment to determine what, if any, impact the program has had on poppy cultivation.⁴⁶³

According to USAID implementers, oversight remains a challenge. Even though USAID says that it can provide oversight with third-party monitors, in its data-call response to SIGAR it acknowledged that safety and site access are becoming more acute concerns as provincial reconstruction teams and foreign combat forces leave Afghanistan.⁴⁶⁴ SIGAR has consistently expressed concern about this constraint.

Commercial Horticulture and Agricultural Marketing Program

Commercial Horticulture and Agricultural Marketing Program (CHAMP), a \$40 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.⁴⁶⁵

USAID reported more than 13,000 households have directly benefited from CHAMP, while 2.7 million fruit trees have been planted over 5,000 hectares of land. As CHAMP approaches the 2014 transition, it will shift focus to post-harvest commercialization of high-value crops. It aims to increase exports through marketing, and promote import substitution domestically.

Of the almost \$37.8 million that USAID has allocated to CHAMP, \$30.3 million has been obligated (\$6 million more than last quarter) and almost \$26.5 million has been disbursed (\$3.2 million more than last quarter), as of June 30, 2013. However, USAID said that 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.⁴⁶⁶

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.



An Afghan electric-utility staffer welcomes a SIGAR team at the Kajaki Dam power plant. (SIGAR photo)

Energy

Electricity is critical to Afghanistan's development. In collaboration with the Afghan government and in line with its 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.⁴⁶⁷ In addition, DOD has provided \$292 million for electricity projects through CERP and \$530 million through the Afghanistan Infrastructure Fund (AIF), which is jointly managed by DOD and State.⁴⁶⁸ This assistance has lifted the number of Afghans with access to electricity from 5% of the population in 2001 to 30% in 2012.⁴⁶⁹

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—Sheberghan; Kandahar-Helmand Power Project, which includes Kajaki Dam hydropower; and the Power Transmission Expansion and Connectivity Program. The Afghan government, coordinating closely with USAID, prioritized these programs with the goal of increasing the availability of affordable, grid-based power.⁴⁷⁰

Sheberghan Program

The Sheberghan project is a critical first step in identifying and managing gas resources and adding domestic power generation for Afghanistan, which currently imports more than 70% of its energy needs, according to USAID.⁴⁷¹ 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. As of June 15, 2013, \$30 million has been obligated for SGDP, with none disbursed; while \$20.5 million has been obligated for Sheberghan Gas Generation Activity, of which almost \$7.4 million was disbursed.⁴⁷²

USAID is funding 21% of the Sheberghan program; the Overseas Private Investment Corporation is backing financing of a \$300 million privately funded 200 MW gas-fired power plant (52% of total funding); the Asian Development Bank (ADB) will support construction of the associated transmission lines (22% of total funding); and the MOMP will cover the remaining 5%.⁴⁷³

A second round of bids for the drilling and rehabilitation of SGDP were received and evaluated this quarter. The project was descoped from

four wells to three. Companies view this job as a small return on investment given the security and political risks. An award is scheduled to be announced in August 2013.⁴⁷⁴ Additionally, after a mid-contract review this quarter, USAID exercised its option to extend a second 18-month option for Advanced Engineering Associates International, which is providing technical assistance to the MOMP and its Gas Business Unit, as well as Da Afghanistan Bereshna Sherkat (DABS) employees. USAID said Afghanistan currently lacks the technical competence to produce gas, negotiate energy sales, and execute operations-and-maintenance programs.⁴⁷⁵

In a separate development this quarter, the United States, with TFBSO assistance, signed two Memorandums of Understanding (MOU) with the MOMP. One is to rehabilitate the existing 89 km Sheberghan to Mazar gas pipeline, which supplies the Northern Fertilizer Power Plant in Mazar-e-Sharif. The other is to build a new, 94 km pipeline between Sheberghan and Mazar-e-Sharif, and install a gas refinery in Yateemtaq. The total estimated cost of these projects is \$32 million. Scheduled to be completed in June 2014, the projects will be implemented by state-owned Afghan Gas Enterprise.⁴⁷⁶

Kandahar-Helmand Power Project

The Kandahar-Helmand Power Project (KHPP) is intended to increase the power supply in Kandahar and make power more accessible to the population. It was designed to support interim diesel power for critical needs, increase long-term sustainable hydro power, and reduce losses while strengthening the southern transmission and distribution system.⁴⁷⁷ In 2010, USAID awarded a \$266 million contract to Black & 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, yet temporary, 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.⁴⁷⁸

As of June 15, 2013, USAID had obligated \$229.6 million of ESF funds for the KHPP, and of that, approximately \$176.6 million had been disbursed, an increase of \$24.4 million from last quarter.⁴⁷⁹

Last quarter, USAID transitioned responsibility for installing the third Kajaki turbine to Afghanistan's national utility, DABS, and committed to fund it on-budget. The turbine could provide an additional 18.5 MW of power. In May 2013, USAID signed a bilateral, on-budget implementation letter with the Afghan government, and committed \$75 million for the project. DABS solicited requests for proposals to install the third turbine and for a construction-management consultant. Bids were due in June and are being evaluated. This implementation strategy of on-budget



Parts for the third turbine at the Kajaki Dam power plant have languished outdoors under tarps for years, awaiting installation. (SIGAR photo)

assistance has shifted the timeline for completion to late 2015. Black & Veatch is available to provide technical assistance and site security until its contract expires in September 2013. The most recent insurgent attack on Kajaki transmission lines occurred in May 2013 and resulted in an eight-day power outage.⁴⁸⁰

U.S. Forces-Afghanistan, the U.S. Army Corps of Engineers, and USAID are working closely on related power-infrastructure efforts within SEPS. KHPP continued to encounter logistical difficulties this quarter. USAID reported two shipping containers carrying equipment critical for Kandahar medium-voltage distribution upgrades are still being held indefinitely in Pakistan. Additionally, the APPF, which provides site security along SEPS, has been unilaterally changing contract terms, conditions, and unit pricing due to leadership and contracting-officer turnover at its headquarters. According to USAID, contracts and guard salaries have consequently been delayed, at times compromising site security.⁴⁸¹

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.⁴⁸²

A key component of PTEC is funding to construct a transmission line between Kabul and Kandahar to connect NEPS with SEPS. This 530 km 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. Connecting NEPS to SEPS is a multi-donor effort. The ADB is responsible for the first 40 km Kabul–Arghandi substation connector. DOD, through the U.S. Army Corps of Engineers, is constructing the transmission line from Arghandi to Pul-e Alam and Gardez. USAID will fund construction of the 120 km section from Arghandi to Ghazni through on-budget aid to DABS.⁴⁸³

USAID plans to contribute \$417 million from its \$814 million PTEC project to ADB's Afghanistan Infrastructure Trust Fund (AITF), of which approximately \$290 million will be used to construct the remaining transmission line from Ghazni to Kandahar to complete the NEPS to SEPS connection. The ADB established the AITF in December 2010, to allow bilateral, multilateral, and individual contributors to partner with the ADB in financing infrastructure investments. AITF will fund projects on-budget through DABS or other Afghan government ministries. Current contributors to AITF also include the UK's Department for International Development and the Japanese Embassy. As of June 6, 2013, USAID obligated \$180 million to AITF and disbursed \$45 million.⁴⁸⁴

DOD-Funded Programs

Reliable and sustainable power generation and transmission is the linchpin to security, stability, and economic growth in Afghanistan, according to DOD. This quarter, DOD continued implementing several priority energy-sector projects using FY 2012 and FY 2013 AIF money. These included:⁴⁸⁵

- 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. Funding levels have not changed from last quarter. FY 2012 funding remains at \$79.8 million for fuel and operations and maintenance (O&M). The estimated FY 2013 cost is \$100 million, which includes \$90 million for fuel and \$10 million for O&M.⁴⁸⁶ DOD plans to continue purchasing fuel and providing O&M support into FY 2015.⁴⁸⁷

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.⁴⁸⁸

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. 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. 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. Completion of this project is essential to distribute power generated by the third turbine awaiting installation at Kajaki Dam, according to DOD.⁴⁸⁹

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

This project will install 83 km of transmission lines from Charikar to Bazirak and from Charikar to Mahmood Raqi, and will build three power 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. 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.⁴⁹⁰ However, SIGAR has raised questions about DABS's capacity, and other audits have said Afghanistan lacks the resources necessary to pay for O&M.⁴⁹¹

CERP Projects in the Electricity Sector

DOD also uses CERP funds to pay for small-scale electricity projects, such as installing generators, solar panel systems, and utility poles. During the second quarter of FY 2013, 10 new CERP-funded electricity projects were obligated (valued at \$33,240). The largest of these newly obligated projects (\$5,000) was installing six solar panels for the district center in Logar, benefitting 10,000 locals. Of \$89,553 obligated in FY 2013, \$75,836 has been disbursed as of March 31, 2013.⁴⁹²

TRANSPORTATION

Afghanistan's lack of transportation infrastructure hinders trade and economic growth. The country has one of the worst road systems in the world. It has less than 100 miles of railroad, and is 2,000 km from the nearest seaport—one of the longest distances from a seaport among all landlocked developing countries, according to World Bank analysis. The Bank said restoring the transportation sector is imperative for economic recovery and development.⁴⁹³

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.⁴⁹⁴ This quarter, the United States continued its efforts to develop transportation laws, ministry capacity, and compliance with international standards.

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 km line from Hairatan, on the border with Uzbekistan, to Mazar-e-Sharif.⁴⁹⁵ The country needs to expand the 75 km line if it is to further the New Silk Road vision of regional and economic

connectivity. The next component of this rail—an interlinking 400 km line between Afghanistan, Turkmenistan, and Tajikistan—was inaugurated this quarter.⁴⁹⁶

This quarter also saw the release of a national railway plan for Afghanistan. U.S. government civilian and military personnel worked with representatives of the railway industry and academia to develop it.⁴⁹⁷ This macro-level, assumption-based plan supports Afghanistan's National and Regional Resource Corridors Program, which, in part, calls for rehabilitating and upgrading regional trade and transportation links between Afghanistan, Pakistan, and Iran, as well as China and Central Asia.⁴⁹⁸

The rail plan describes its recommendations as economically viable, and technically and financially feasible, yet sensitive to multiple risk elements which it says the plan mitigates to an acceptable level.⁴⁹⁹ The plan is predicated on Afghanistan leveraging its vast iron-ore and copper resources for sustainable economic growth and for the railway's commercial viability. Mining is expected to account for about 76% of total rail freight traffic, with Hajigak alone accounting for about 60%. The plan's drafters said their analysis showed that railway operations revenues from mineral transport have the potential to reach \$54 billion from 2017 to 2040 and for government revenues from royalties and taxes to reach \$45 billion in that same period.⁵⁰⁰

However, the plan acknowledges that to realize that return, Afghanistan must be competitive with low-cost producers of iron ore like Brazil and Australia, which extract, rail-transport, and ship to Asian markets for as little as \$39 per metric ton. If Afghan ore is not competitive, revenue will be insufficient to expand and sustain the railway. The plan's authors also said that Afghanistan must use efficient routes to sea ports and avoid different rail-line gauges, which will necessitate the off-loading and transfer of cargo, adding time and cost. This will be a major challenge because Afghanistan is surrounded by three different size track gauges: Russian (Turkmenistan, Uzbekistan, Kyrgyzstan, and Tajikistan), Standard (Iran and China), and Indian Broad (Pakistan and India), as shown in Figure 3.34 on the following page.⁵⁰¹

Figure 3.34 also shows the preferred rail design, which consists of two primary lines: a southern route in proximity to major mining areas that can transport mineral freight to seaports in Iran and Pakistan for shipments to global markets using standard-width rail gauge; and a northern route using Russian rail gauge that can transport commercial freight. The southern line is expected to be more economically viable, bringing in a potential \$56.1 billion in revenue from 2017 to 2040. Under this plan Iran is the preferred destination for mineral exports because the route is more efficient and Iran's rail infrastructure is in better condition than Pakistan's.⁵⁰²

The northern line would be less economically viable with potential revenues at \$12.6 billion in that same time frame. Both lines facilitate trade with Iran. The northern line would expand trade between the Central Asian Republics and Iran—potentially 3 million metric tons a year from 2017



In his May 2013 trip to Afghanistan, Special IG Sopko examines the Afghan rail connection to Uzbekistan. (SIGAR photo)

FIGURE 3.34

HIGH PRIORITY RAIL DESIGN AND REGIONAL CONNECTIVITY REQUIREMENTS - AFGHANISTAN NATIONAL RAILWAY



Note: "Gauge" is the inside distance between rails.

Source: GIROA, The Afghanistan National Railway Plan, 7/1/2013.

to 2040—using Afghanistan as a conduit. Potential for additional commercial rail traffic between Iran, China, and Europe is also possible.⁵⁰³

Future developments in U.S. policy toward Iran could, obviously, affect the prospects for both aspects of the rail plan.

EDUCATION

According to the most recent data available to USAID from the Ministry of Education's Information Management System (EMIS)—SY 1390

(March 2011–March 2012)—Afghanistan has a total of 13,556 primary, lower secondary, and upper secondary schools. Of these 2,204 are girls' schools, 4,097 are boys' schools, and 7,255 are co-educational. Since 2002, USAID has funded construction and refurbishment of 696 schools as well as several teacher-training colleges. Approximately 500 schools were closed in SY 1391 (March 2012–December 2012), mostly in conflict-ridden provinces like Zabul, Helmand, parts of Ghazni, Wardak, Kandahar, and Uruzgan, according to the Ministry of Education. These statistics are not reported in EMIS and thus cannot be verified.⁵⁰⁴

There were approximately 7.6 million students in primary, government lower secondary, and government upper secondary schools, according to SY 1390 EMIS data—4.6 million male and 3 million female. Additionally, there were approximately 77,600 students in government universities—62,800 male and 14,800 female.⁵⁰⁵ However, when incorporating all education programs, including general, religious, cross-border, technical, vocational, and literacy students, the total number of students in Afghanistan was reported as more than 8.3 million—5.16 million male and 3.16 million female.⁵⁰⁶

USAID said there is some concern about the reliability of Ministry of Education/EMIS data, citing common school practice to keep student names on record for up to two years after they drop out. In the past, USAID had verified the metrics in its project areas through implementing-partner contractors. With more USAID assistance now going on-budget, USAID relies primarily on Ministry of Education data, verified by a third-party contractor not affiliated with the Afghan government.⁵⁰⁷

There were more than 185,250 teachers—128,600 male and 56,650 female—across all education programs in Afghanistan, according to SY 1390 Ministry of Education data. Most teach general education, followed by Islamic education. According to USAID, main challenges in building Afghanistan's education system include low teacher competency, lack of monitoring and supervision, lack of security, insufficient class materials, and low ministerial capacity and coordination with the provinces.⁵⁰⁸

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)

USAID selected these three programs as its highest priorities through extensive coordination with the Ministries of Education and Higher Education, and after assessing how best to leverage its strengths relative to other donors so that Afghanistan's national education priorities and needs are met.⁵⁰⁹

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 June 30, 2013, USAID obligated \$20 million and of that, disbursed approximately \$5.8 million, an increase of \$1.1 million from last quarter.⁵¹⁰

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 to make them more employable, especially girls in rural and remote areas. USAID and the Ministry of Education are still discussing performance milestones—number of schools, teachers, and students that will be targeted—that, if reached, will trigger on-budget disbursement of funds. An implementation letter that would spell out these milestones, means of verification, and the funding level associated with each milestone was to be signed in May 2013, but is delayed.⁵¹¹

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.⁵¹² USAID reported no changes on project goals, successes and challenges this quarter.⁵¹³

However, USAID extended through July 31, 2017, an existing award to the International School of Kabul (ISK) that was scheduled to expire in August 2013. The extension of \$3.1 million brings the total estimated cost of this phase to \$7.3 million. USAID has been supporting ISK since 2005, with an initial infusion of \$9.6 million. ISK is a co-educational, U.S.-accredited, English-language, K-12 institution.⁵¹⁴

Higher Education Project

Since the Higher Education Project (HEP) project began in 2006, it has supported the Ministry of Higher Education in executing its National Higher Education Strategic Plan. 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 had previously 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 of more than \$13 million spent on the program. USAID reported no changes on project



A speaker addresses the audience at AUA's ribbon-cutting ceremony for a new women's center at the university. (U.S. Embassy Kabul photo)

goals, successes and challenges this quarter.⁵¹⁵ It is unclear whether USAID has made any progress in considering an evaluation design for the follow-on HEP (2013–2017) that will include greater attention to outcome measures and data collection.⁵¹⁶ As of June 30, 2013, USAID had obligated \$21.2 million toward HEP and disbursed \$13.4 million, an increase of \$1 million from last quarter.⁵¹⁷

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 (AUA) 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. AUA also offers a master's degree in business administration. USAID reported no changes on project goals, successes and challenges this quarter.⁵¹⁸ As of June 30, 2013, USAID had obligated approximately \$42.1 million—\$2.5 million more than reported last quarter—and disbursed \$39.7 million—\$2.1 million more than last quarter—toward this effort. USAID is aiming to finalize a new \$40 million, five-year cooperative agreement by July 31, 2013, to ensure no gap in support.⁵¹⁹

LABOR

Assessing donor aid and the transition's impact on Afghanistan's labor market is difficult given the limited and inconclusive available data, according to

the World Bank. For example, 2009 figures showed just 6.8% of Afghans were unemployed, but more than 48% were underemployed (working fewer than 35 hours a week, on average). According to World Bank analysis, underemployment is particularly acute in conflict provinces, likely due to temporary jobs created by provincial reconstruction teams (PRT).⁵²⁰ With the closure of several PRTs, and more planned, unemployment in these areas could rise. As of 2011, the World Bank reported 80% of Afghan males aged 15 or older participated in the labor force, compared to 16% of females.⁵²¹

HEALTH

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 20 years to an average 62–64 years, according to the USAID-funded Afghanistan Mortality Study 2010.⁵²² Some observers have questioned the accuracy of that survey, and as of May 2013, the CIA World Factbook gives the Afghan life expectancy from birth as 50.11 years. The World Bank, which calculated life expectancy at 48, did not include Afghanistan Mortality Study figures in its international comparative analysis because the study doesn't contain time-series data for the last 10 years.⁵²³

From FY 2002 through FY 2011, U.S. on- and off-budget assistance to Afghanistan's health sector totaled \$926 million. On-budget assistance to the Ministry of Public Health (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.⁵²⁴

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)

All three were extended until October 31, 2014.⁵²⁵

Partnership Contracts for Health Services

A six-year (2008–2014), \$218 million on-budget program, Partnership Contracts for Health (PCH) supports the MOPH's efforts to provide the Basic Package of Health Services and the Essential Package of Hospital Services across Afghanistan. The United States supports 545 of these health facilities.⁵²⁶ USAID reports no changes this quarter to project descriptions, goals, challenges, successes, or metrics. As of June 30, 2013, USAID had obligated \$190.3 million to this program and disbursed \$136.1 million, an increase of \$14.8 million from last quarter.⁵²⁷

PCH delivers health care ranging from basic to highly specialized diagnostic and treatment services. It also supports Community Midwifery Education contracts, which help reduce both maternal and child mortality. USAID had previously 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.⁵²⁸

Health Policy Project

The Health Policy Project (HPP), a 28-month (June 2012–October 2014), \$18 million program, is building MOPH capacity to address basic health needs through public-private partnerships. USAID reports no changes this quarter to project descriptions, goals, challenges, successes, or metrics. As of June 30, 2013, USAID had obligated \$15.5 million to the program—an increase of \$6.7 million over last quarter. 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. Past 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 included 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.⁵²⁹

Leadership, Management, Governance Project

The 26-month (September 2012–October 2014), \$25 million Leadership, Management, Governance (LMG) Project works with the MOPH and the Ministry of Education, at the provincial and central levels 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 June 30, 2013, USAID had obligated \$20.7 million, an increase of \$4.4 million for the program.⁵³⁰

USAID reported last 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.⁵³¹

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:⁵³²

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

USAID deemed these programs as having the highest probability of creating lasting economic gains in job creation and revenue turnover. Each program area was also considered in relation to strategic plans.⁵³³

Assistance in Building Afghanistan by Developing Enterprises

USAID's \$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 through public-private partnerships. ABADE will support private-sector businesses that offer the best leverage and opportunity for sustained economic growth. Since ABADE's launch in February 2013, five public-private partnerships have been approved and awarded—two of which involve women-owned businesses—and 15 applications are awaiting approval. Additionally, business-outreach and government capacity-building efforts continued this quarter, as did an action plan to support the Business Development Services (BDS) sector began, including two surveys to identify BDS capabilities and unmet demand for such services. No implementation challenges have been reported. As of June 17, 2013, USAID obligated \$17.6 million in Economic Support Funds, and disbursed approximately \$7.5 million.⁵³⁴

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. Thirty-eight government-program budgetary units developed and submitted their 2012-2013 budgets on time to Budget Committee with EGGI assistance, while EGGI's provincial training program helped 88% of the provincial directorates submit their first-round budgets on time, improving to 98% in the second round.⁵³⁵

EGGI also provides Women in Government internships to increase women's civil-service participation to 30%, the Millennium Development

Goal. As of June 5, 2013, 313 women had graduated the internship program, 105 more than reported last quarter. Of those graduates, 67% found full-time employment through EGGI assistance. EGGI is scheduled to conclude in August 2013, and an on-budget follow-on project is planned. As of June 17, 2013, USAID obligated approximately \$88.8 million in Economic Support Funds, and disbursed \$69.8 million.⁵³⁶

Trade Accession and Facilitation for Afghanistan I and II

Parts I and II of Trade Accession and Facilitation for Afghanistan (TAFAs), at a combined cost of \$83.8 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. TAFAs assist the Afghan government in three areas: trade-policy liberalization, customs reform, and trade facilitation. TAFAs promote the New Silk Road initiative by facilitating Afghanistan's accession to the World Trade Organization (discussed on page 146), developing bilateral and regional trade agreements, and streamlining customs and export procedures.⁵³⁷

TAFAs are scheduled to end in August 2013. While a follow-on project is planned, USAID is concerned about whether new implementing partners can provide appropriate TAFAs-level support. As of June 17, 2013, USAID had obligated all \$83.7 million to TAFAs I & II—compared to \$19.8 million reported last quarter—while \$67.1 million has been disbursed, compared to \$4 million last quarter.⁵³⁸

COMMUNICATIONS

Afghanistan's private-sector-led telecommunications sector is growing rapidly and is one of the country's economic success stories. The World Bank expects strong recorded growth for 2012.⁵³⁹ In 2010/2011, telecom contributed 45% of total tax revenue to the government and is expected to be less susceptible to any future economic contraction.⁵⁴⁰ However, a survey of the telecom industry by the Afghanistan Investment Support Agency found that high tax rates were the primary impediment to internet service and mobile network providers, followed by security issues and a shortage of skilled labor.⁵⁴¹

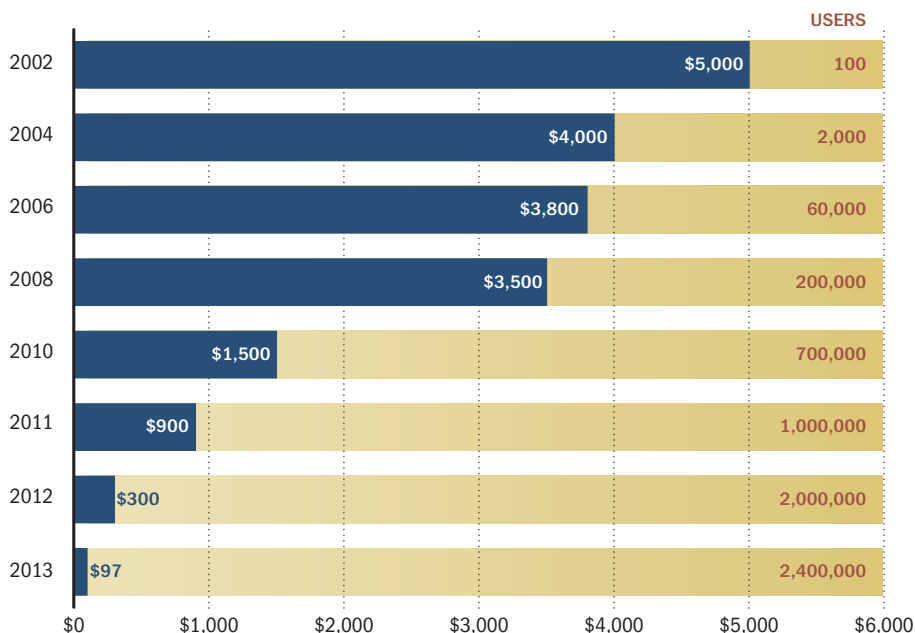
With the steady reduction of internet prices, the Ministry of Communications and Information Technology (MCIT) expects the number of users to reach 2.4 million in 2013. The cost of 1 mbps (megabyte per second) access was \$5,000/month in 2002, dropping to \$97/month in 2013, as shown in Figure 3.35 on the following page.⁵⁴²

SIGAR AUDIT

This quarter, SIGAR initiated an audit to examine USAID and DHS programs designed to enhance the Afghan government's ability to generate customs revenue. As part of this audit, SIGAR will assess whether or not TAFAs I and II achieved the intended outcomes. For more information, see Section 2, page 40.

FIGURE 3.35

PRICE FOR 1MEGABYTE/SECOND INTERNET SERVICE, US\$/MONTH



Note: Until 2008, telecommunications services were only available via satellite. In 2008, fiber optic cable became available. Sources: MCIT, "Internet Price of 1MB/Month," accessed 6/17/2013; MCIT, "Internet Users," accessed 6/17/2013.

Mobile Money

As of June 30, 2013, USAID has obligated and disbursed almost \$15.2 million on-budget to the MCIT, but currently provides no direct, on-going assistance to the ministry.⁵⁴³

However, USAID is providing off-budget assistance to the telecommunications sector through its Mobile Money program, which seeks to increase access to safe, secure financial services through the use of cell phones to store currency, pay for goods, and receive and transfer funds. USAID actively supports both mobile electricity and mobile teacher-salary payments initiatives. This quarter, 200 Afghan teachers in Kabul registered for this service, and 100,000 Etisalat telecom customers in Kabul can now pay their electricity bills by phone. Afghanistan's electric utility company, DABS, expects 200,000 additional customers to be registered by the end of 2013.⁵⁴⁴

USAID's Mobile Solutions team is also designing a program in conjunction with non-profit FHI 360 called Mobile Solutions Technical Assistance and Research, which will provide technical assistance and training to increase access to and use of mobile technologies, including mobile money. Also this quarter, USAID released a study on women's access to mobile technology.⁵⁴⁵

DOD's Telecom Advisory Team (TAT), in coordination with USAID, provides ongoing technical advice and assistance to MCIT, the Afghanistan Telecom Regulatory Agency (ATRA), and telecom industry groups. DOD is helping build capacity at MCIT and ATRA, expand Afghanistan's fiber network and wireless coverage, develop requirements of Afghanistan's satellite slot, and its planning efforts. In April 2013, TAT delivered a draft MOU to the Ministry of Interior on installing cell towers in the 46 most dangerous districts. The hope is that uninterrupted cellular service will promote security and stability in these areas.⁵⁴⁶

Mobile Money Applications

Here are some of the mobile money applications that are already being enjoyed in Afghanistan. More applications will soon be offered by your favorite mobile telephone company.

Electricity Bill Payment
Kabul residents can now receive and pay their electricity bill through the mobile phone. No more late bills, no more trips to the bank or electricity company just to pay.

Salary Payment
Teachers can now receive their salaries in full, on time and where they are (delivered to their school) or at a mobile money agent nearest them.

Money Transfer
Sending money can be done in a flash to anyone anywhere in Afghanistan, or beyond.

Business-to-Business Transactions
Moving funds to suppliers or traders just got easier with mobile money transfer.

Business-to-Government Transactions
Fast, easy and transparent way of paying taxes, customs duties, or municipality taxes.

AMMOA
Association of Mobile Money Operators in Afghanistan

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AMMOA MEMBERS
Afghan Wireless, etisalat, Hawala, ATR, ROSHAN

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Mobile Money

Like money on wings?

Yes! And more . . .

It's money on the go - *whenever, wherever!*

Send, receive, buy, pay and do other transactions using your mobile phone.

It's *safe, easy, transparent.*

And if you don't have quick access to banks, your mobile phone becomes your *virtual bank.*

Learn how this technology is shaping the financial landscape of Afghanistan ... and why this technology is *perfect for you!*

English version of brochure promoting cell phone money transactions to Afghans. (USAID image)