

3 RECONSTRUCTION UPDATE



RECONSTRUCTION UPDATE CONTENTS

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Children look on as a soldier of the U.S. 101st Airborne Division patrols with Afghan police in Khowst Province, July 2013. (DOD photo)

OVERVIEW

Section 3 presents updates on accomplishments, challenges, and initiatives in Afghanistan reconstruction to provide context for oversight. Sidebars identify SIGAR audits, completed and ongoing, relating to those efforts. Cross-references to Section 1 point to more detail.

SIGAR presents the data in this section in compliance with Public Law 110-181, which mandates that each of SIGAR's quarterly reports to Congress on reconstruction activities in Afghanistan include, among other things:

- obligations and expenditures of appropriated funds
- discussions of U.S. government entities' contracts, grants, agreements, or other mechanisms
- funds provided by foreign nations or international organizations to programs and projects funded by U.S. government entities

TOPICS

This section has four subsections: Status of Funds, Security, Governance, and Economic and Social Development.

The **Status of Funds** subsection describes monies appropriated, obligated, and disbursed for Afghanistan reconstruction, including U.S. funds and international contributions.

The organization of the other three subsections mirrors the three pillars in the Prioritization and Implementation Plan developed in an international conference in July 2010 and announced by the Afghan government.

The **Security** subsection describes U.S. efforts to bolster the Afghan National Security Forces (the Army and Police), the transition away from private security contracting, and the battle against the narcotics trade.

The **Governance** subsection provides an overview of the Afghan government's progress toward good governance through capacity-building efforts, rule of law initiatives, and human rights recognition. This subsection also describes the status of reconciliation and reintegration, Afghan government control in various provinces, and initiatives to combat corruption.

The **Economic and Social Development** subsection looks at reconstruction activities by sectors like energy, mining, and health. It provides a snapshot

of the state of the economy and updates on progress in regulating financial networks, achieving fiscal sustainability, and delivering essential services.

METHODOLOGY

Section 3 was compiled from open-source and U.S. agency data. Attributions appear in endnotes or notes to tables and figures. Multiple organizations provide data, so numbers may conflict. SIGAR has not verified data other than that in its own audits or investigations. Information from other sources does not necessarily reflect SIGAR's opinion. For details on SIGAR audits and investigations this quarter, see Section 2.

Data Call

The data call is a series of questions directed to U.S. agencies about their contributions and involvement in reconstruction programming, and the state of affairs in Afghanistan. U.S. agencies responding to the latest data call include the Departments of State, Defense, Transportation, and Treasury, and the U.S. Agency for International Development. Responding agencies received a preliminary draft of this section so they could verify and comment on specific data they provided for this quarterly report.

Open-Source Research

Open-source research draws on the most current, publicly available data from reputable sources. Sources used include the U.S. agencies represented in the data call, the International Security Assistance Force, the United Nations (and relevant branches), the International Monetary Fund, the World Bank, and Afghan ministries and other government organizations.

GRAPHICS KEY

UNDERSTANDING THE GRAPHICS AND DATA TERMS

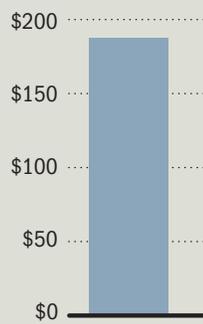
All figures and tables report data for this quarter, except where identified in titles or notes.

BAR CHARTS

This report discusses many funds and projects with dollar values ranging from millions to billions. To provide an accurate graphical representation of these numbers, some bar graphs appear with a break (a wavy line) to indicate a jump between zero and a larger number.



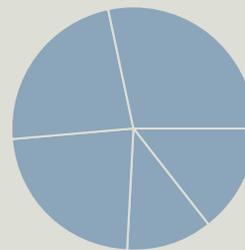
Bar chart with a break in scale



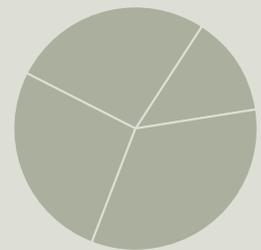
Bar chart without a break in scale

UNITS IN BILLIONS AND MILLIONS

Because this report details funding in both billions and millions of dollars, it uses a visual cue to distinguish the two measurement units. Dollars reported in billions are represented in blue, and dollars reported in millions are depicted in green.



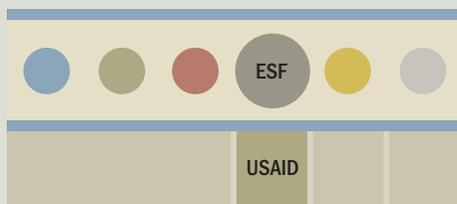
Pie chart in billions



Pie chart in millions

FUNDING MARKERS

Funding markers identify individual funds discussed in the text. The agency responsible for managing the fund is listed in the tan box below the fund name.



CALENDAR AND SOLAR YEARS

Afghanistan follows the solar Hejri calendar, which began in 622 A.D. in the Gregorian calendar. SIGAR converts Hejri solar years to Gregorian equivalents. The current Afghan solar year (SY) is 1392. It began on March 21, 2013, and ends on March 20, 2014. The Afghan government's fiscal year runs from December 21, 2012, to December 20, 2013.

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STATUS OF FUNDS

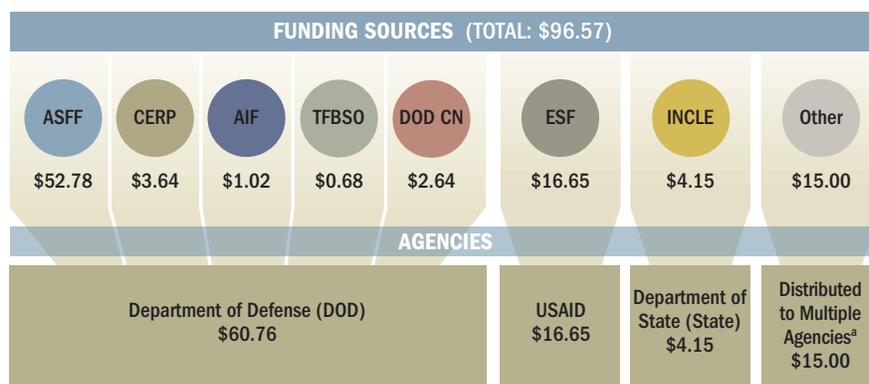
To fulfill SIGAR’s legislative mandate, this section details the status of U.S. funds appropriated, obligated, and disbursed for reconstruction activities in Afghanistan. As of June 30, 2013, the United States had appropriated approximately \$96.57 billion for relief and reconstruction in Afghanistan since FY 2002. This total has been allocated as follows:

- \$54.30 billion for security
- \$24.70 billion for governance and development
- \$6.92 billion for counternarcotics efforts
- \$2.67 billion for humanitarian aid
- \$7.99 billion for operations and oversight

Figure 3.1 shows the major U.S. funds that contribute to these efforts.

FIGURE 3.1

U.S. FUNDS SUPPORTING AFGHANISTAN RECONSTRUCTION EFFORTS (\$ BILLIONS)



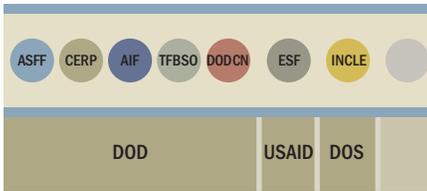
Notes: Numbers have been rounded.

^a Multiple agencies include DOJ, State, DOD, USAID, Treasury, USDA, DEA, BBG, and SIGAR.

Sources: DOD, responses to SIGAR data call, 7/22/2013, 7/3/2013, 7/1/2013, 10/22/2012, 10/14/2009, and 10/1/2009; State, responses to SIGAR data call, 7/16/2013, 7/2/2013, 6/27/2013, 10/5/2012 and 6/27/2012; Treasury, response to SIGAR data call, 7/1/2013; OMB, response to SIGAR data call, 7/19/2013 and 1/4/2013; USAID, responses to SIGAR data call, 7/17/2013, 10/15/2010, 1/15/2010, and 10/9/2009; DOJ, response to SIGAR data call, 7/7/2009; USDA, response to SIGAR data call, 4/2009; P.L. 113-6, 3/26/2013; P.L. 112-74, 12/23/2011; P.L. 112-10, 4/15/2011; P.L. 111-212, 10/29/2010; P.L. 111-118, 12/19/2009; FY 2010 Defense Explanatory Statement.

- ASFF:** Afghanistan Security Forces Fund
- CERP:** Commander’s Emergency Response Program
- AIF:** Afghanistan Infrastructure Fund
- TFBSO:** Task Force for Business and Stability Operations
- DOD CN:** DOD Drug Interdiction and Counter-Drug Activities
- ESF:** Economic Support Fund
- INCLE:** International Narcotics Control and Law Enforcement
- Other:** Other Funding

STATUS OF FUNDS



U.S. RECONSTRUCTION FUNDING FOR AFGHANISTAN

As of June 30, 2013, cumulative appropriations for relief and reconstruction in Afghanistan totaled approximately \$96.57 billion. This total can be divided into five major categories of reconstruction funding: security, governance and development, counternarcotics, humanitarian, and oversight and operations. For complete information regarding U.S. appropriations, see Appendix B.

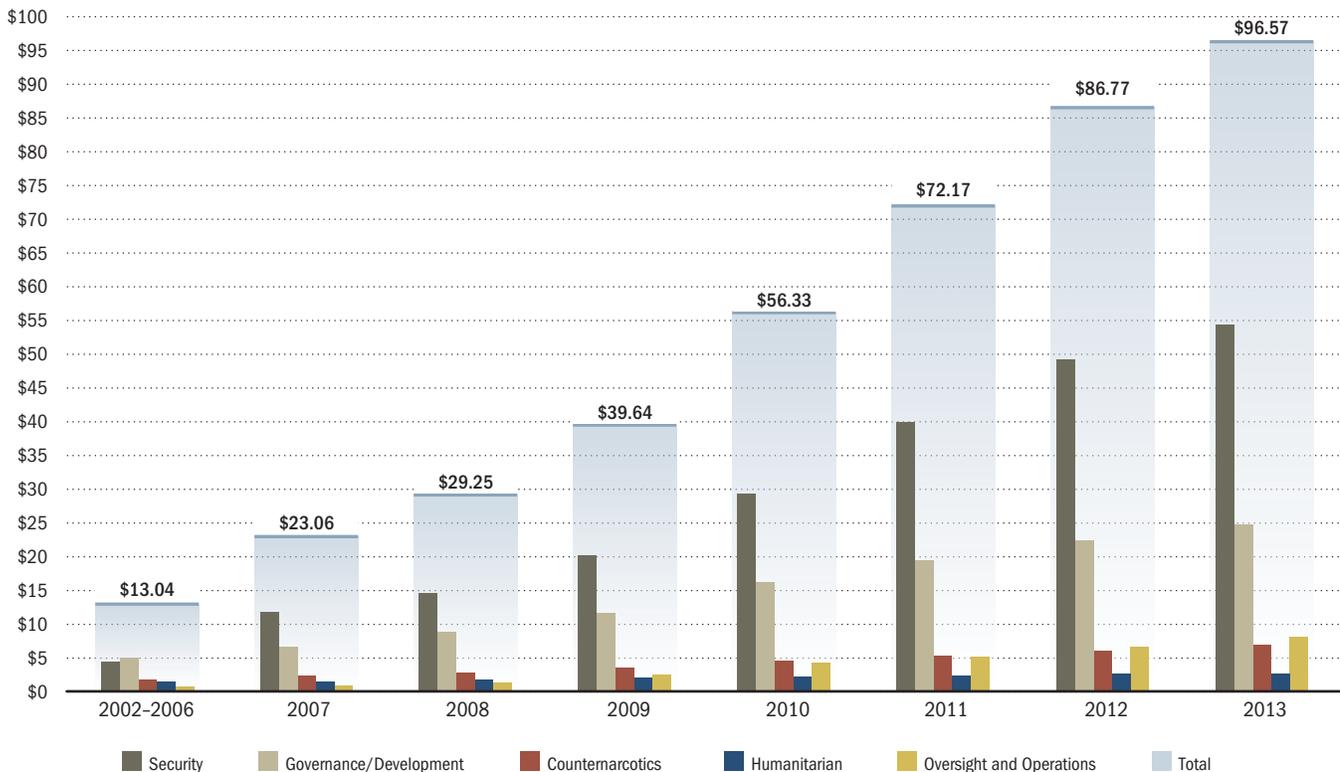
On March 26, 2013, President Obama signed the Consolidated and Further Continuing Appropriations Act, 2013, funding the U.S. government for the rest of the fiscal year and increasing cumulative funding for Afghanistan reconstruction to approximately \$96.57 billion, as shown in Figure 3.2.

As of June 30, 2013, the total appropriated for Afghanistan reconstruction for FY 2013 amounted to nearly \$9.79 billion—a 33% decrease from the

The amount provided to the seven major U.S. funds represents nearly 84.5% (nearly \$81.57 billion) of total reconstruction assistance in Afghanistan since FY 2002. Of this amount, over 84.9% (more than \$69.25 billion) has been obligated, and over 73.9% (more than \$60.28 billion) has been disbursed. The following pages provide additional details on these funds.

FIGURE 3.2

CUMULATIVE APPROPRIATIONS BY FUNDING CATEGORY, AS OF JUNE 30, 2013 (\$ BILLIONS)



Notes: Numbers have been rounded. FY 2013 figures for State and USAID accounts reflect draft allocation amounts and are subject to final Congressional approval. DOD reprogrammed \$1 billion from FY 2011 ASFF. DOD reprogrammed \$1 billion from FY 2012 ASFF. P.L. 113-6 rescinded \$1 billion from FY 2012 ASFF. DOD transferred \$101 million from FY 2011 AIF to FY 2011 ESF to fund an infrastructure project to be implemented by USAID.

Sources: DOD, responses to SIGAR data call, 7/22/2013, 7/3/2013, 7/1/2013, 10/22/2012, 10/14/2009, and 10/1/2009; State, responses to SIGAR data call, 7/16/2013, 7/2/2013, 6/27/2013, 10/5/2012 and 6/27/2012; Treasury, response to SIGAR data call, 7/1/2013; OMB, response to SIGAR data call, 7/19/2013 and 1/4/2013; USAID, responses to SIGAR data call, 7/17/2013, 10/15/2010, 1/15/2010, and 10/9/2009; DOJ, response to SIGAR data call, 7/7/2009; USDA, response to SIGAR data call, 4/2009; P.L. 113-6, 3/26/2013; P.L. 112-74, 12/23/2011; P.L. 112-10, 4/15/2011; P.L. 111-212, 10/29/2010; P.L. 111-118, 12/19/2009; FY 2010 Defense Explanatory Statement.

STATUS OF FUNDS

\$14.60 billion appropriated for FY 2012, as shown in Figure 3.3. Despite the funding decrease from FY 2012 to FY 2013, the President's Budget Request for FY 2014—approximately \$12 billion with oversight and operations budget requests included—is significantly higher than FY 2013 appropriations.⁴¹ This increase is primarily attributed to a higher request for the Afghanistan Security Forces Fund to purchase equipment for the Afghan National Army's Special Mission Wing and Air Force.⁴²

Last quarter SIGAR reported that more than \$5.2 billion appropriated to four of the largest U.S. reconstruction funds for FY 2012 remained available for obligation. More than \$2.7 billion of this amount was obligated during this quarter, leaving approximately \$2.5 billion remaining to be obligated by the end of the fiscal year, as shown in Table 3.1.⁴³

TABLE 3.1

FY 2012 APPROPRIATIONS AND OBLIGATIONS, AS OF JUNE 30, 2013 (\$ MILLIONS)		
	Appropriated	Obligated
ASFF ^a	\$9,200	\$6,951
AIF	\$400	\$322
ESF	\$1,837	\$1,699
INCLE	\$324	\$310
TOTAL	\$11,761	\$9,282
	To Be Obligated	\$2,479

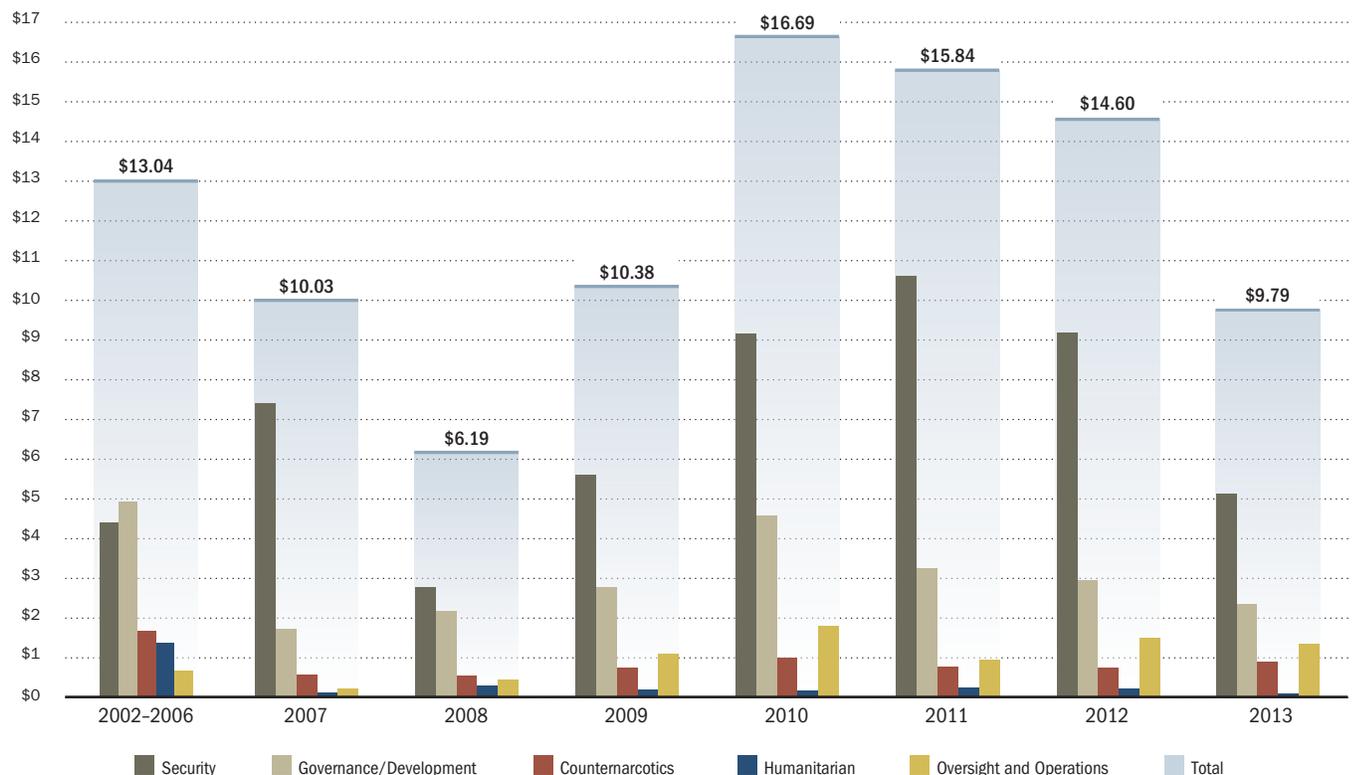
Notes: Numbers have been rounded. DOD reprogrammed \$1 billion out of FY 2012 ASFF, and P.L. 113-6 rescinded \$1 billion from FY 2012 ASFF, reducing the funding level from \$11.2 billion to \$9.2 billion.

^a ASFF data as of May 31, 2013

Sources: DOD, response to SIGAR data call, 7/22/2013; USAID, response to SIGAR data call, 7/17/2013; State, response to SIGAR data call, 7/15/2013; P.L. 112-74, 12/23/2011.

FIGURE 3.3

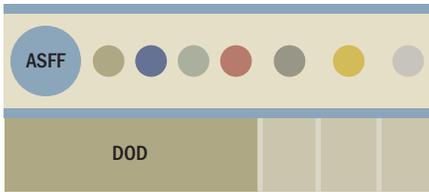
APPROPRIATIONS BY FISCAL YEAR, AMOUNT, AND CATEGORY (\$ BILLIONS)



Notes: Numbers have been rounded. FY 2013 figures for State and USAID accounts reflect draft allocation amounts and are subject to final Congressional approval. DOD reprogrammed \$1 billion from FY 2011 ASFF. DOD reprogrammed \$1 billion from FY 2012 ASFF. P.L. 113-6 rescinded \$1 billion from FY 2012 ASFF. DOD transferred \$101 million from FY 2011 AIF to FY 2011 ESF to fund an infrastructure project to be implemented by USAID.

Sources: DOD, responses to SIGAR data call, 7/22/2013, 7/3/2013, 7/1/2013, 10/22/2012, 10/14/2009, and 10/1/2009; State, responses to SIGAR data call, 7/16/2013, 7/2/2013, 6/27/2013, 10/5/2012 and 6/27/2012; Treasury, response to SIGAR data call, 7/1/2013; OMB, response to SIGAR data call, 7/19/2013 and 1/4/2013; USAID, responses to SIGAR data call, 7/17/2013, 10/15/2010, 1/15/2010, and 10/9/2009; DOJ, response to SIGAR data call, 7/7/2009; USDA, response to SIGAR data call, 4/2009; P.L. 113-6, 3/26/2013; P.L. 112-74, 12/23/2011; P.L. 112-10, 4/15/2011; P.L. 111-212, 10/29/2010; P.L. 111-118, 12/19/2009; FY 2010 Defense Explanatory Statement.

STATUS OF FUNDS



ASFF FUNDS TERMINOLOGY

DOD reported ASFF funds as appropriated, obligated, or disbursed

Appropriations: Total monies available for commitments

Obligations: Commitments to pay monies

Disbursements: Monies that have been expended

Source: DOD, response to SIGAR data call, 4/13/2010.

AFGHANISTAN SECURITY FORCES FUND

The Congress created the Afghanistan Security Forces Fund (ASFF) to provide the ANSF with equipment, supplies, services, and training, as well as facility and infrastructure repair, renovation, and construction.⁴⁴ The primary organization responsible for building the ANSF is the North Atlantic Treaty Organization (NATO) Training Mission-Afghanistan/Combined Security Transition Command-Afghanistan.⁴⁵

The Consolidated and Further Continuing Appropriations Act, 2013, appropriated more than \$5.12 billion for the ASFF for FY 2013, increasing total cumulative funding to nearly \$52.78 billion.⁴⁶ As of June 30, 2013, more than \$45.27 billion of total ASFF funding had been obligated, of which more than \$41.45 billion had been disbursed.⁴⁷ Figure 3.4 displays the amounts made available for the ASFF by fiscal year.

DOD reported that cumulative obligations as of June 30, 2013, increased by more than \$1.14 billion over cumulative obligations as of March 31, 2013. Cumulative disbursements as of June 30, 2013, increased by more than \$1.46 billion over cumulative disbursements as of March 31, 2013.⁴⁸ Figure 3.5 provides a cumulative comparison of amounts made available, obligated, and disbursed for the ASFF.

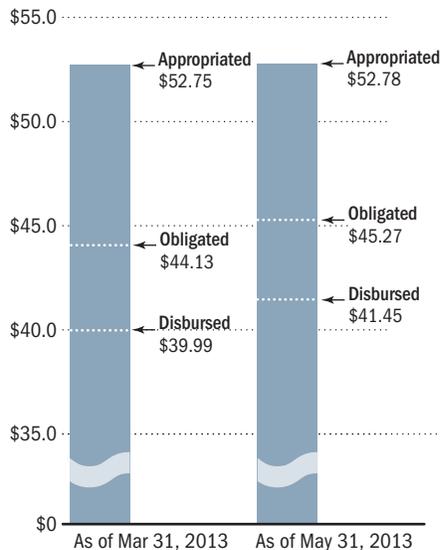
FIGURE 3.4

ASFF APPROPRIATED FUNDS BY FISCAL YEAR (\$ BILLIONS)



FIGURE 3.5

ASFF FUNDS, CUMULATIVE COMPARISON (\$ BILLIONS)



Notes: Numbers have been rounded.

^a DOD reprogrammed \$1 billion of FY 2011 ASFF.

^b DOD reprogrammed \$1 billion of FY 2012 ASFF; another \$1 billion was rescinded in P.L. 113-6.

Sources: DoD, response to SIGAR data call, 7/22/2013 and 4/16/2013; P.L. 113-6, 3/26/2013.

STATUS OF FUNDS

ASFF BUDGET ACTIVITIES

DOD allocates funds to three budget activity groups within the ASFF:

- Defense Forces (Afghan National Army, ANA)
- Interior Forces (Afghan National Police, ANP)
- Related Activities (primarily Detainee Operations)

Funds for each **budget activity group** are further allocated to four **sub-activity groups**: Infrastructure, Equipment and Transportation, Training and Operations, and Sustainment.⁴⁹

As of June 30, 2013, DOD had disbursed more than \$41.45 billion for ANSF initiatives. Of this amount, nearly \$27.44 billion was disbursed for the ANA, and more than \$13.69 billion was disbursed for the ANP; the remaining nearly \$0.32 billion was directed to related activities.⁵⁰

As shown in Figure 3.6, the largest portion of the funds disbursed for the ANA—more than \$11.07 billion—supported Equipment and Transportation. Of the funds disbursed for the ANP, the largest portion—nearly \$4.77 billion—supported Sustainment, as shown in Figure 3.7.⁵¹

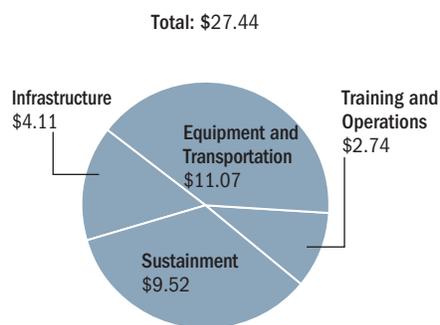
Budget Activity Groups: categories within each appropriation or fund account that identify the purposes, projects, or types of activities financed by the appropriation or fund

Sub-Activity Groups: accounting groups that break down the command's disbursements into functional areas

Sources: DOD, "Manual 7110.1-M Department of Defense Budget Guidance Manual," accessed 9/28/2009; Department of the Navy, "Medical Facility Manager Handbook," p. 5, accessed 10/2/2009.

FIGURE 3.6

**ASFF DISBURSEMENTS FOR THE ANA
By Sub-Activity Group
FY 2005–May 31, 2013 (\$ BILLIONS)**

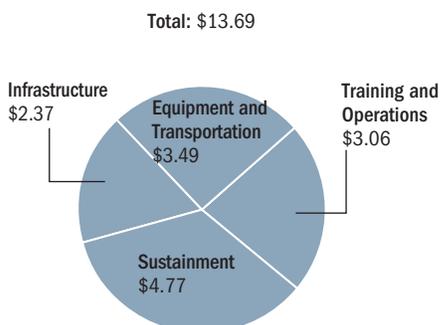


Note: Numbers have been rounded.

Source: DOD, response to SIGAR data call, 7/22/2013.

FIGURE 3.7

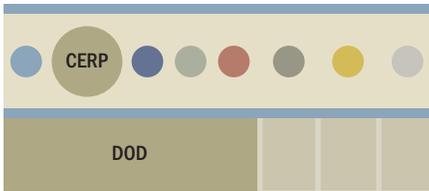
**ASFF DISBURSEMENTS FOR THE ANP
By Sub-Activity Group
FY 2005–May 31, 2013 (\$ BILLIONS)**



Note: Numbers have been rounded.

Source: DOD, response to SIGAR data call, 7/22/2013.

STATUS OF FUNDS



CERP FUNDS TERMINOLOGY

DOD reported CERP funds as appropriated, obligated, or disbursed

Appropriations: Total monies available for commitments

Obligations: Commitments to pay monies

Disbursements: Monies that have been expended

Source: DOD, response to SIGAR data call, 4/14/2010.

COMMANDER'S EMERGENCY RESPONSE PROGRAM

The Commander's Emergency Response Program (CERP) enables U.S. commanders in Afghanistan to respond to urgent humanitarian relief and reconstruction requirements in their areas of responsibility by supporting programs that will immediately assist the local population. Funding under this program is intended for small projects that are estimated to cost less than \$500,000 each.⁵² Projects with cost estimates exceeding \$1 million are permitted, but they require approval from the Commander of U.S. Central Command; projects over \$5 million require approval from the Deputy Secretary of Defense. CERP-funded projects may not exceed \$20 million.⁵³

The Consolidated and Further Continuing Appropriations Act, 2013, appropriated \$200 million for CERP for FY 2013, increasing total cumulative funding to nearly \$3.64 billion.⁵⁴ Of this amount, DOD reported that more than \$2.27 billion had been obligated, of which more than \$2.21 billion had been disbursed.⁵⁵ Figure 3.8 shows CERP appropriations by fiscal year, and Figure 3.9 provides a cumulative comparison of amounts appropriated, obligated, and disbursed for CERP projects.

FIGURE 3.8

CERP APPROPRIATIONS BY FISCAL YEAR
(\$ MILLIONS)

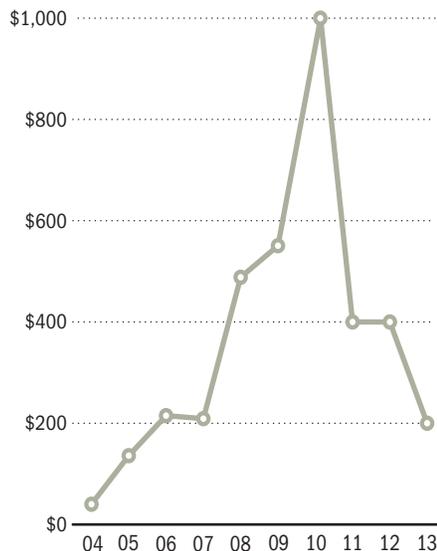
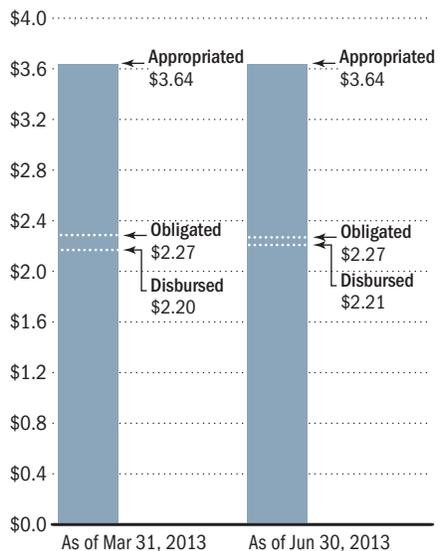


FIGURE 3.9

CERP FUNDS, CUMULATIVE COMPARISON
(\$ BILLIONS)



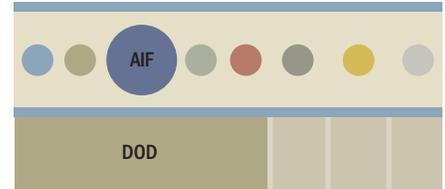
Notes: Numbers have been rounded. Data may include inter-agency transfers.

Sources: DOD, responses to SIGAR data call, 7/22/2013 and 4/17/2013; OMB, response to SIGAR data call, 1/4/2013; P.L. 113-6, 3/26/2013; P.L. 112-74, 12/23/2011; P.L. 112-10, 4/15/2011.

AFGHANISTAN INFRASTRUCTURE FUND

The Ike Skelton National Defense Authorization Act for FY 2011 established the Afghanistan Infrastructure Fund (AIF) to pay for high-priority, large-scale infrastructure projects that support the U.S. civilian-military effort. Congress intended for projects funded by the AIF to be jointly selected and managed by DOD and State. Thirty days before obligating or expending funds on an AIF project, the Secretary of Defense and Secretary of State are required to notify the Congress with details of the proposed project, including a plan for its sustainment and a description of how it supports the counterinsurgency strategy in Afghanistan.⁵⁶

The Consolidated and Further Continuing Appropriations Act, 2013, appropriated \$325 million for the AIF for FY 2013, increasing total cumulative funding to more than \$1.02 billion.⁵⁷ This figure excludes \$101 million of FY 2011 AIF funds transferred to the FY 2011 Economic Support Fund for USAID's AIF-funded infrastructure project. As of June 30, 2013, nearly \$616.07 million of total AIF funding had been obligated, of which more than \$134.18 million had been disbursed.⁵⁸ Figure 3.10 shows AIF appropriations by fiscal year, and Figure 3.11 provides a cumulative comparison of amounts appropriated, obligated, and disbursed for AIF projects.



AIF FUNDS TERMINOLOGY

DOD reported AIF funds as appropriated, obligated, or disbursed

Appropriations: Total monies available for commitments

Obligations: Commitments to pay monies

Disbursements: Monies that have been expended

Source: DOD, response to SIGAR data call, 4/13/2012.

FIGURE 3.10

AIF APPROPRIATIONS BY FISCAL YEAR
(\$ MILLIONS)

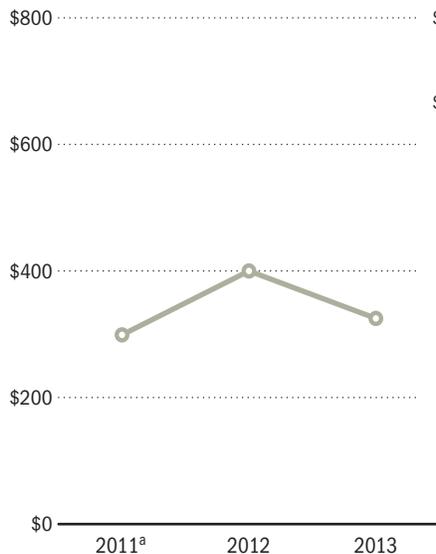
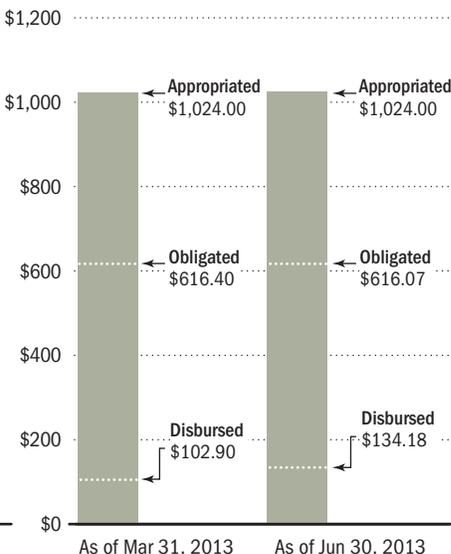


FIGURE 3.11

AIF FUNDS, CUMULATIVE COMPARISON
(\$ MILLIONS)

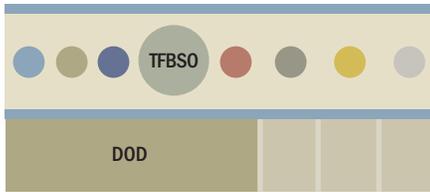


Notes: Numbers have been rounded. Updated data resulted in a lower obligation figure than that reported as of 3/31/2013.

^a FY 2011 figure excludes \$101 million transferred to USAID to execute an AIF project.

Sources: DoD, responses to SIGAR data call, 7/22/2013 and 4/17/2013; P.L. 113-6, 3/26/2013; P.L. 112-74, 12/23/2011; P.L. 112-10, 4/15/2011.

STATUS OF FUNDS



TFBSO FUNDS TERMINOLOGY

DOD reported TFBSO funds as appropriated, obligated, or disbursed

Appropriations: Total monies available for commitments

Obligations: Commitments to pay monies

Disbursements: Monies that have been expended

Source: DOD, response to SIGAR data call, 4/13/2010.

TASK FORCE FOR BUSINESS AND STABILITY OPERATIONS

In 2010, the Task Force for Business and Stability Operations (TFBSO) began operations in Afghanistan aimed at stabilizing the country and countering economically motivated violence by decreasing unemployment and creating economic opportunities for Afghans. TFBSO projects include activities that facilitate private investment, industrial development, banking and financial system development, agricultural diversification, and energy development.⁵⁹

TFBSO has two separate funding streams. The funds authorized for TFBSO in the National Defense Authorization Act are used to pay for activities directly related to reconstructing Afghanistan. The funds TFBSO receives from the Operations and Maintenance, Army, account are used to pay for sustainment of U.S. assets, civilian employees, travel, security, and other operational costs.

As of June 30, 2013, TFBSO had been appropriated nearly \$129.84 million for FY 2013, bringing cumulative appropriations for the task force to more than \$684.59 million.⁶⁰ Of this amount, nearly \$590.76 million had been obligated and more than \$421.62 million had been disbursed.⁶¹ Figure 3.12 displays the amounts appropriated for TFBSO projects by fiscal year, and Figure 3.13 provides a cumulative comparison of amounts made available, obligated, and disbursed for TFBSO projects.

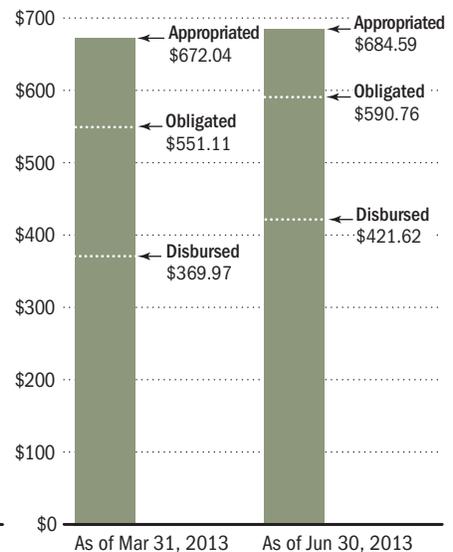
FIGURE 3.12

TFBSO APPROPRIATIONS BY FISCAL YEAR
(\$ MILLIONS)



FIGURE 3.13

TFBSO FUNDS, CUMULATIVE COMPARISON
(\$ MILLIONS)



Notes: Numbers have been rounded. NDA = National Defense Authorization Act. NDA funding is used to pay for activities directly related to reconstructing Afghanistan. OMA = Operations and Maintenance, Army. OMA funding is used to pay for sustainment of U.S. assets, civilian employees, travel, security, and other operational costs.

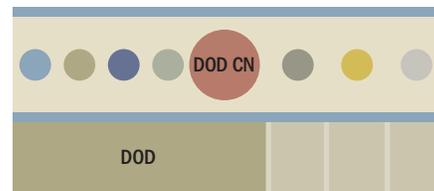
Sources: DOD, responses to SIGAR data call, 7/3/2013 and 10/4/2011; P.L. 113-6, 3/26/2013; P.L. 112-74, 12/23/2011; P.L. 112-10, 4/15/2011.

DOD DRUG INTERDICTION AND COUNTER-DRUG ACTIVITIES

DOD's Drug Interdiction and Counter-Drug Activities Fund (DOD CN) supports efforts to stabilize Afghanistan by combating the drug trade and related activities. DOD uses the DOD CN to provide assistance to the counternarcotics effort by supporting military operations against drug traffickers; expanding Afghan interdiction operations; and building the capacity of Afghan law enforcement bodies—including the Afghan Border Police—with specialized training, equipment, and facilities.⁶²

DOD CN funds are appropriated by Congress to a single budget line for all military services. DOD reprograms the funds from the Counternarcotics Central Transfer Account to the military services and defense agencies, which track obligations of the transferred funds. DOD reported DOD CN accounts for Afghanistan as a single figure for each fiscal year.⁶³

As of June 30, 2013, DOD reported that DOD CN received more than \$333.11 million for Afghanistan for FY 2013, bringing cumulative funding for DOD CN to more than \$2.64 billion since fiscal year 2004.⁶⁴ Figure 3.14 shows DOD CN appropriations by fiscal year, and Figure 3.15 provides a cumulative comparison of amounts appropriated and transferred to the military services and defense agencies for DOD CN projects. SIGAR is currently working with the defense agencies to report DOD CN obligations and disbursements for Afghanistan.



DOD CN FUNDS TERMINOLOGY

DOD reported DOD CN funds as appropriated, obligated, or disbursed

Appropriations: Total monies available for commitments

Obligations: Commitments to pay monies

Disbursements: Monies that have been expended

Source: DOD, response to SIGAR data call, 4/13/2010.

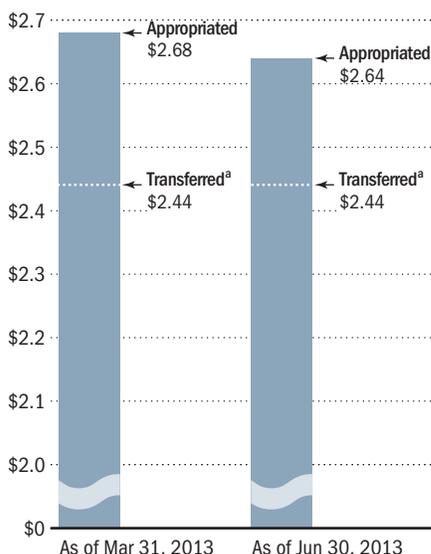
FIGURE 3.14

DOD CN APPROPRIATIONS BY FISCAL YEAR
(\$ MILLIONS)



FIGURE 3.15

DOD CN FUNDS, CUMULATIVE COMPARISON
(\$ BILLIONS)

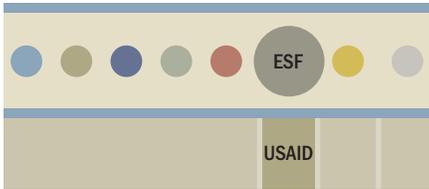


Notes: Numbers have been rounded. Updated data resulted in a lower appropriation figure for FY 2013.

^a DOD reprograms all funds to the military services and defense agencies for obligation and disbursement.

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

STATUS OF FUNDS



ESF FUNDS TERMINOLOGY

USAID reported ESF funds as appropriated, obligated, or disbursed

Appropriations: Total monies available for commitments

Obligations: Commitments to pay monies

Disbursements: Monies that have been expended

Source: USAID, response to SIGAR data call, 4/15/2010.

ECONOMIC SUPPORT FUND

Economic Support Fund (ESF) programs advance U.S. interests by helping countries meet short- and long-term political, economic, and security needs. ESF programs support counterterrorism; bolster national economies; and assist in the development of effective, accessible, independent legal systems for a more transparent and accountable government.⁶⁵

The ESF was appropriated more than \$1.62 billion for FY 2013, bringing cumulative funding for the ESF to more than \$16.65 billion. Of this amount, more than \$14.59 billion had been obligated, of which nearly \$10.93 billion had been disbursed.⁶⁶ Figure 3.16 shows ESF appropriations by fiscal year. Figure 3.17 shows ESF appropriations by fiscal year.

USAID reported that cumulative obligations as of June 30, 2013, increased by more than \$1.69 billion over cumulative obligations as of March 31, 2013. Cumulative disbursements as of June 30, 2013, increased by more than \$313.37 million over cumulative disbursements as of March 31, 2013.⁶⁷ Figure 3.17 provides a cumulative comparison of the amounts appropriated, obligated, and disbursed for ESF programs.

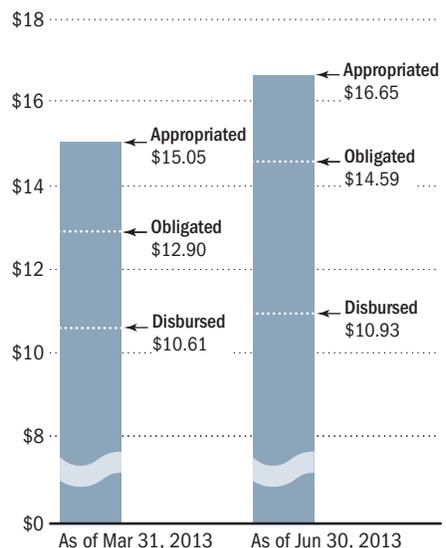
FIGURE 3.16

ESF APPROPRIATIONS BY FISCAL YEAR
(\$ BILLIONS)



FIGURE 3.17

ESF FUNDS, CUMULATIVE COMPARISON
(\$ BILLIONS)



Notes: Numbers have been rounded. FY 2013 figure reflects draft allocation amount for Afghanistan and is subject to final Congressional approval. FY 2011 figure includes \$101 million that was transferred to the ESF from the Afghanistan Infrastructure Fund.

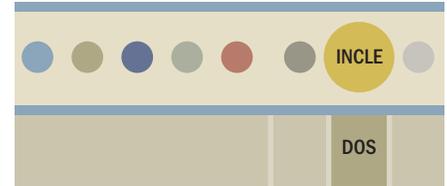
Sources: USAID, response to SIGAR data call, 7/17/2013 and 4/18/2013; State, response to SIGAR data call, 6/27/2013.

INTERNATIONAL NARCOTICS CONTROL AND LAW ENFORCEMENT

The U.S. Bureau of International Narcotics and Law Enforcement Affairs (INL) manages an account for advancing rule of law and combating narcotics production and trafficking—the International Narcotics Control and Law Enforcement (INCLE) account. INCLE supports several INL program groups, including police, counternarcotics, and rule of law and justice.⁶⁸

State reported that the Consolidated and Further Continuing Appropriations Act, 2013, appropriated nearly \$568.81 million for INCLE, bringing cumulative funding to nearly \$4.15 billion. Of this amount, nearly \$3.47 billion had been obligated, of which more than \$2.69 billion had been disbursed.⁶⁹ Figure 3.18 shows INCLE appropriations by fiscal year. Figure 3.19 shows INCLE appropriations by fiscal year.

State reported that cumulative obligations as of June 30, 2013, decreased by more than \$15.11 million compared to cumulative obligations as of March 31, 2013. Cumulative disbursements as of June 30, 2013, increased by more than \$115.93 million over cumulative disbursements as of March 31, 2013.⁷⁰ Figure 3.19 provides a cumulative comparison of amounts appropriated, obligated, and disbursed for INCLE.



INL FUNDS TERMINOLOGY

INL reported INCLE and other INL funds as appropriated, obligated, or disbursed.

Appropriations: Total monies available for commitments

Obligations: Commitments to pay monies

Disbursements: Monies that have been expended

Source: State, response to SIGAR data call, 4/9/2010.

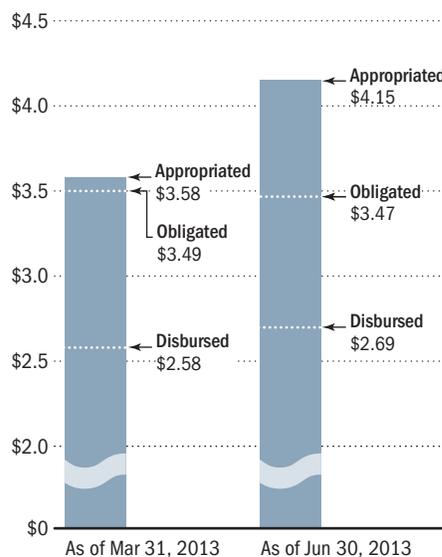
FIGURE 3.18

INCLE APPROPRIATIONS BY FISCAL YEAR
(\$ MILLIONS)



FIGURE 3.19

INCLE FUNDS, CUMULATIVE COMPARISON
(\$ BILLIONS)



Notes: Numbers have been rounded. Data may include inter-agency transfers. Updated data resulted in a lower obligation figure than that reported as of 3/31/2013.

^a Figure reflects draft allocation amount for Afghanistan and is subject to final Congressional approval.

Sources: State, response to SIGAR data call, 7/15/2013, 6/27/2013, and 4/15/2013.

STATUS OF FUNDS

INTERNATIONAL RECONSTRUCTION FUNDING FOR AFGHANISTAN

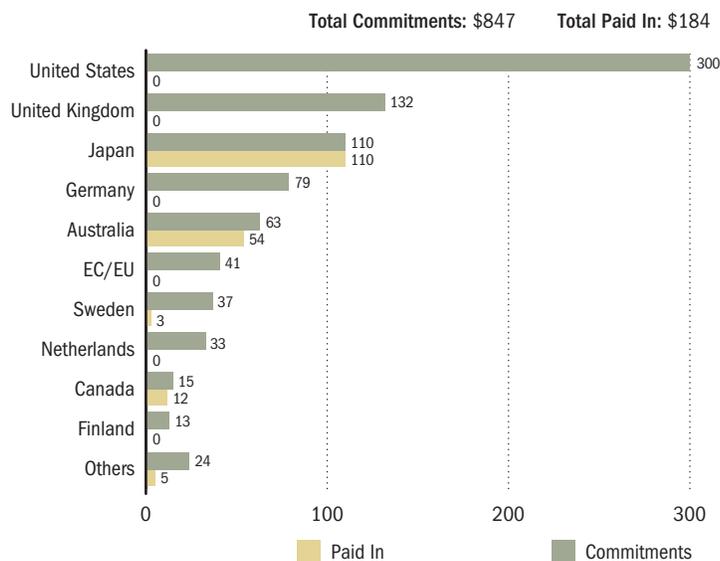
In addition to assistance provided by the United States, the international community provides a significant amount of funding to support Afghanistan relief and reconstruction efforts. As noted in previous SIGAR quarterly reports, most of the international funding provided is administered through trust funds. Contributions provided through trust funds are pooled and then distributed for reconstruction activities. The two main trust funds are the Afghanistan Reconstruction Trust Fund (ARTF) and the Law and Order Trust Fund for Afghanistan (LOTFA).⁷¹

The Afghanistan Reconstruction Trust Fund

The largest share of international contributions to the Afghan operational and development budgets comes through the ARTF. From 2002 to June 21, 2013, the World Bank reported that 33 donors had pledged more than \$6.96 billion, of which nearly \$6.30 billion had been paid in.⁷² According to the World Bank, donors have pledged approximately \$846.88 million to the ARTF for Afghan fiscal year 1392, which runs from December 21, 2012, to December 20, 2013.⁷³ Figure 3.20 shows the 10 largest donors to the ARTF for FY 1392.

FIGURE 3.20

ARTF CONTRIBUTIONS FOR FY 1392 BY DONOR, AS OF JUNE 21, 2013 (\$ MILLIONS)



Notes: Numbers have been rounded. FY 1392 = 12/21/2012–12/20/2013.

Source: World Bank, "ARTF: Administrator's Report on Financial Status as of June 21, 2013," p. 1.

STATUS OF FUNDS

As of June 21, 2013, the United States had pledged more than \$2.04 billion and paid in more than \$1.74 billion since 2002.⁷⁴ The United States and the United Kingdom are the two biggest donors to the ARTF, together contributing nearly 46% of its total funding, as shown in Figure 3.21.

Contributions to the ARTF are divided into two funding channels—the Recurrent Cost (RC) Window and the Investment Window.⁷⁵ As of June 21, 2013, according to the World Bank, nearly \$2.83 billion of ARTF funds had been disbursed to the Afghan government through the RC Window to assist with recurrent costs such as salaries of civil servants.⁷⁶ The RC Window supports the operating costs of the Afghan government because the government’s domestic revenues continue to be insufficient to support its recurring costs. To ensure that the RC Window receives adequate funding, donors to the ARTF may not “preference” (earmark) more than half of their annual contributions for desired projects.⁷⁷

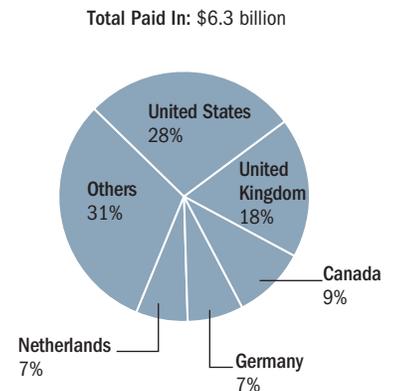
The Investment Window supports the costs of development programs. As of June 21, 2013, according to the World Bank, nearly \$2.90 billion had been committed for projects funded through the Investment Window, of which nearly \$2.04 billion had been disbursed. The World Bank reported 22 active projects with a combined commitment value of nearly \$1.84 billion, of which approximately \$980.40 million had been disbursed.⁷⁸

The Law and Order Trust Fund for Afghanistan

The United Nations Development Programme (UNDP) administers the LOTFA to pay ANP salaries and build the capacity of the Ministry of Interior.⁷⁹ Since 2002, donors have pledged more than \$3.35 billion to the LOTFA, of which nearly \$2.92 billion had been paid in, according to the most recent data available.⁸⁰ The LOTFA’s sixth support phase started on January 1, 2011. On March 20, 2013, the UNDP-LOTFA Steering Committee approved an extension of Phase VI to expand the phase from the planned end date of March 31, 2013, to December 31, 2013. In the 27 months since Phase VI began, the UNDP had transferred more than \$1.13 billion from the LOTFA to the Afghan government to cover ANP and Central Prisons Directorate staff remunerations and an additional \$25.61 million for capacity development and other LOTFA initiatives.⁸¹ As of March 31, 2013, donors had committed more than \$1.82 billion to the LOTFA for Phase VI. Of that amount, the United States had committed nearly \$859.37 million, and Japan had committed more than \$614.76 million. Their combined commitments make up nearly 81% of LOTFA Phase VI commitments.⁸² The United States had contributed more than \$1.12 billion to the LOTFA since the fund’s inception.⁸³ Figure 3.22 shows the four largest donors to the LOTFA since 2002, based on the latest data available.

FIGURE 3.21

ARTF CONTRIBUTIONS PAID IN BY DONORS SY 1381 (2002)–JUNE 21, 2013 (PERCENT)

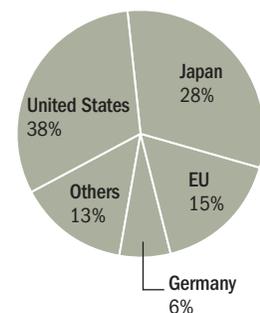


Notes: Numbers have been rounded. "Others" includes 28 donors.

Source: World Bank, "ARTF: Administrator's Report on Financial Status as of June 21, 2013," p. 5.

FIGURE 3.22

DONORS' CONTRIBUTIONS TO THE LOTFA SINCE 2002, AS OF MARCH 31, 2013 (PERCENT)



Notes: Numbers have been rounded. EC/EU = European Commission/European Union. "Others" includes 18 donors.

Sources: UNDP, "LOTFA Phase VI Quarterly Progress Report Q1/2013," Annex 1, 6/26/2013; SIGAR analysis of UNDP's quarterly and annual LOTFA reports, 7/23/2013.

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SECURITY

As of June 30, 2013, the U.S. Congress had appropriated more than \$54 billion to support the Afghan National Security Forces (ANSF). Most of these funds (\$52.8 billion) were appropriated through the Afghanistan Security Forces Fund (ASFF) and provided to the Combined Security Transition Command-Afghanistan (CSTC-A). Its purpose is to build, equip, train, and sustain the ANSF, which comprises the Afghan National Army (ANA) and the Afghan National Police (ANP). Of the \$52.8 billion appropriated for the ASFF, approximately \$45.3 billion had been obligated and \$41.5 billion disbursed as of May 31, 2013.⁸⁴

This section discusses assessments of the ANSF and the Ministries of Defense and Interior; gives an overview of U.S. funds used to build, equip, train, and sustain the ANSF; and provides an update on efforts to combat the cultivation of and commerce in illicit narcotics in Afghanistan. This section also discusses the challenges to transitioning to Afghan-led security by the end of 2014.

KEY EVENTS

Key events this quarter include a proposed increase in funding in the Department of Defense's (DOD) FY 2014 ASFF budget request, the status of the FY 2014 National Defense Authorization Act (NDAA), the status of U.S.-Afghan negotiations on a bilateral security agreement, the increasing number of ANSF casualties, and the progress toward transition to ANSF-led security in Afghanistan.

FY 2014 ASFF Budget Request

This quarter, DOD released its budget request for the FY 2014 ASFF. The request is broken into two parts: a core request for \$5.11 billion and an "enabler" request for \$2.62 billion.⁸⁵ According to DOD, the funding listed under the enabler request is conditional. It "shall not be available for obligation until the Department of Defense, with approval from the Office of Management and Budget, notifies the congressional defense committees that such amount, or a portion thereof, is necessary to further develop the capabilities of the Afghanistan Security Forces."⁸⁶

SECURITY

At its current level, the total request of \$7.73 billion is \$1.98 billion more than the FY 2013 ASFF budget request and \$2.60 billion more than the final amount appropriated for FY 2013. The FY 2014 request would increase funding for ANA equipment by 803% and for infrastructure by 210% above what Congress provided for these categories in FY 2013, as shown in Table 3.2. DOD is requesting \$2.18 billion for ANA equipment (up from \$242 million in FY 2013) to purchase equipment and weapons. Notably, new equipment requested includes the following items aimed at bolstering the ANSF's enabler, or combat support, capabilities:⁸⁷

- Mobile Strike Force Vehicles (\$886.9 million)
- 4 medium airlift aircraft to replace the Afghan Air Force's fleet of G-222s (\$250 million)
- Replacement helicopters (\$345 million)
- 10 C-208 fixed-wing training aircraft (\$28.6 million)
- 20 light air support fixed-wing aircraft for air-to-ground missions (\$416.8 million)
- 8 MD-530 helicopters for special operations and quick-reaction forces (\$28 million)
- NATO Standard 155mm howitzers (\$163.4 million)

TABLE 3.2

AFGHANISTAN SECURITY FORCES FUND			
	Consolidated Appropriations Act, 2013 (P.L. 113-6)	FY 2014 Overseas Contingency Operations (OCO) Request	Change
MOD/ANA			
Infrastructure	90,000,000	278,650,000	+210%
Equipment and Transportation	241,521,000	2,180,382,000	+803%
Training and Operations	758,380,000	626,550,000	-17%
Sustainment	2,523,825,000	2,735,603,000	+8%
MOI/ANP			
Infrastructure	50,000,000	0	-100%
Equipment and Transportation	84,859,000	54,696,000	-36%
Training and Operations	569,868,000	626,119,000	+10%
Sustainment	1,305,950,000	1,214,995,000	-7%
Related Activities			
Infrastructure	1,200,000	0	-100%
Equipment and Transportation	1,239,000	0	-100%
Training and Operations	4,000,000	2,500,000	-38%
Sustainment	18,325,000	7,225,000	-61%
Reductions			
General Reduction	-525,000,000		NA
TOTAL	5,124,167,000	7,726,720,000	+51%

Notes: Numbers have been rounded. MOD = Ministry of Defense. MOI = Ministry of Interior.

Sources: DOD, "Justification for FY 2014 Overseas Contingency Operations, Afghanistan Security Forces Fund (ASFF)," 5/2013, p. 2; DOD, "Justification for FY 2013 Overseas Contingency Operations, Afghanistan Security Forces Fund (ASFF)," 2/2012, p. 44; Congressional Record, House, 3/6/2013, p. H1013; Congressional Record, Senate, 3/11/2013, p. S1531; GPO, H.R. 933, 3/26/2013, p. H.R. 933-136.

Although DOD has asked for funds, CSTC-A said no Afghan authority had asked for MD-530s. Further there were no authorized positions for MD-530 pilots or maintainers.⁸⁸ The additional “enabler” request for ANA infrastructure (\$278.7 million) includes funding for facilities to house the new aircraft, ammunition bunkers for the new howitzers, and a new regional hospital. DOD is also requesting \$192.4 million for Afghan Air Force training.⁸⁹

Despite the increase in the request for ANA equipment and infrastructure, the amounts requested in eight of the 12 ASFF funding categories were less than the amounts appropriated for FY 2013, as shown in Table 3.2.

National Defense Authorization Act for FY 2014

As of July 8, 2013, the House of Representatives had passed its version (H.R. 1960) of the NDAA for FY 2014; the Senate is now considering the bill.⁹⁰ The current version of the bill withholds \$2.6 billion of ASFF funding until the Secretary of Defense certifies to Congress that the United States and Afghanistan have signed a bilateral security agreement that ensures:⁹¹

- protection for DOD and its contractors from taxes or charges for efforts to carry out missions in Afghanistan that had been agreed to by both the United States and Afghanistan
- exclusive U.S. jurisdiction over U.S. forces in Afghanistan
- no infringement of the U.S. military and its personnel’s self-defense rights
- ability of the U.S. military to protect U.S. government offices and personnel in Afghanistan as needed
- U.S. military access to bases as needed to carry out its mission
- U.S. freedom of movement necessary to defeat al-Qaeda and its associates

H.R. 1960 withholds the same \$2.6 billion until the Secretary of Defense submits to Congress a report on certain equipment (helicopters, systems for close air support, air-mobility systems, and armored vehicles) to be purchased with ASFF funds authorized by the Act that includes:⁹²

- lists of all equipment
- the expected date such equipment would be delivered and operable in Afghanistan
- full requirements for operating such equipment
- the plan for maintaining such equipment and estimated costs by year through 2020
- the expected date that ANSF personnel would be fully capable of operating and maintaining such equipment without U.S. support
- an explanation of the extent to which the acquisition of such equipment will impact longer-term U.S. costs of supporting the ANSF

H.R. 1960 also includes limitations on use of FY 2013 and later DOD funding for purchasing equipment from Rosoboronexport, the Russian



Seth Jones of the RAND Corporation shared his views with SIGAR staff on the U.S. effort to secure and stabilize Afghanistan. SIGAR periodically invites subject matter experts to speak with staff. (SIGAR photo)

agency that sells military equipment, until the Secretary of Defense certifies that Rosoboronexport is cooperating with the Defense Contract Audit Agency, has not provided anti-aircraft missiles to Syria, and has not signed any new contracts with President Bashar al Assad's regime. The Secretary of Defense may waive the limitation by certifying that the purchase is in the national security interests of the United States.⁹³

Since 2005, DOD has been procuring Russian-made Mi-17 helicopters for the ANSF. In 2011, the Army contracted Rosoboronexport to purchase 21 Mi-17 military helicopters with the option to buy another 12.⁹⁴

H.R. 1960 also requires that no less than \$47.3 million be used to recruit and retain women in the ANSF.⁹⁵ Recruitment of women has been a challenge: currently only 0.2% of ANA personnel and 1% of ANP personnel are women.⁹⁶

Bilateral Security Agreement

Since November 15, 2012, the United States and Afghanistan have been negotiating a Bilateral Security Agreement (BSA) to determine the status and role of U.S. forces post-2014.⁹⁷ The top U.S. and NATO commander in Afghanistan, General Joseph F. Dunford Jr., told Congress on April 17 that the BSA was needed to show our commitment to both Afghanistan and to Coalition partners and to counter the Taliban message that Afghanistan will be abandoned.⁹⁸ On June 19, 2013, President Karzai suspended talks with the United States on the BSA due to disagreements over the peace process.⁹⁹

The United States has yet to determine the number of troops that will remain in Afghanistan after 2014. Last quarter, U.S. Central Command (CENTCOM) commander General James Mattis recommended a post-2014 force of 20,000 Coalition troops, 13,600 of them American. NATO defense ministers have discussed leaving a force of 9,500 U.S. and 6,000 Coalition troops.¹⁰⁰ As of July 9, 2013, the United States had not ruled out a "zero option" whereby all U.S. troops would exit Afghanistan post-2014.¹⁰¹

Security Environment and ANSF Casualties

In testimony before the Senate Foreign Relations Committee on July 11, a senior DOD official noted that close to 400 Afghan army and police personnel are being killed in action every month.¹⁰²

From February 16 to May 15, 2013, the number of security incidents in Afghanistan had increased by 10% over the same period in 2012, according to the UN Secretary-General.¹⁰³

Transition Progress

This quarter, all five tranches of geographic areas were transitioning to ANSF-led security. President Karzai's June 18 announcement of the start of the transition process for the fifth and final tranche means 100% of the Afghan population now lives in areas under transition to ANSF security lead. The announcement also coincided with the "Milestone 2013"

ceremony which marked the International Security Assistance Force’s (ISAF) shift in focus from combat to supporting the ANSF through a train-advise-assist mission.

According to DOD, ISAF will continue to engage in combat operations, as needed, until the end of 2014, and remain committed to helping the ANSF by providing enablers such as air, aviation, medical support, intelligence, counter-IED, signals, and logistics. However, ANSF will be responsible for day-to-day execution of security operations. Afghanistan’s Ground Forces Command, a new Ministry of Defense (MOD) operational headquarters, will oversee security in the country.¹⁰⁴

To ensure proper security in transitioning areas, ISAF will continue to provide the ANSF with training, advising, and assistance support using the Security Force Assistance Brigades, according to DOD. Through this transition process, the level of ISAF support can be adjusted as the ANSF demonstrate improved capabilities. During this shift, the Coalition forces will realign their posture, setting the conditions for the ANSF to assume full security responsibility and authority in late 2014.¹⁰⁵

U.S. FORCES IN AFGHANISTAN

According to CENTCOM, 70,100 U.S. forces were serving in Afghanistan as of June 30, 2013. Of those, approximately 51,000 were assigned to ISAF and 1,700 to the NATO Training Mission-Afghanistan (NTM-A)/CSTC-A. Of the remaining U.S. personnel, 7,200 were assigned to the U.S. Forces-Afghanistan and 10,200 were designated “other military personnel.”¹⁰⁶ As of July 15, 2013, a total of 2,115 U.S. military personnel have died in Afghanistan—83% of whom were killed in action—and 18,957 were wounded as part of Operation Enduring Freedom since it began on October 7, 2001.¹⁰⁷

ANSF STRENGTH

This quarter, ANSF’s assigned force strength was 337,111 (185,287 assigned to the ANA and Afghan Air Force, and 151,824 assigned to the ANP), according to data provided by CSTC-A.¹⁰⁸ This is 14,889 less than the end-strength goal, as shown in Table 3.3.

TABLE 3.3

ANSF ASSIGNED STRENGTH, MAY 20, 2013			
ANSF Component	Current Target	Status as of 5/2013	Difference Between Current Strength and Target End-Strength Goals
Afghan National Army	187,000 personnel by December 2012	178,826	-8,174
Afghan National Police	157,000 personnel by February 2013	151,824	-5,176
Afghan Air Force	8,000 personnel by December 2014	6,461	-1,539
ANSF Total	352,000	337,111	-14,889

Sources: DOD, “Report on Progress Toward Security and Stability in Afghanistan,” 12/2012, p. 56; CSTC-A, response to SIGAR data calls, 7/2/2013.

SIGAR AUDIT

In an ongoing audit, SIGAR is assessing the reliability and usefulness of data for the number of ANSF personnel authorized, assigned, and trained. In the same audit, SIGAR is examining the methods and tools used to measure and evaluate the ANSF’s operational effectiveness, including the extent to which these methods and tools are consistently applied, reliable, and validated.

AFGHAN LOCAL POLICE

This quarter, the number of trained and equipped Afghan Local Police (ALP) personnel was 23,551. The current goal is for the ALP to reach 30,000 personnel. According to the Special Operations Joint Task Force, the ALP are operational at 115 sites. The United States has obligated \$151 million to support the ALP as of June 30, 2013.¹⁰⁹ ALP numbers are not counted as ANSF.

SIGAR AUDIT

Last quarter, SIGAR initiated a follow-on audit to the agency's March 2012 testimony and its June 2012 report that assessed the potential effects of USAID's transfer of security functions for its projects from PSCs to the APPF.

AFGHAN PUBLIC PROTECTION FORCE

As of June 30, 2013, the number of personnel assigned to the APPF was 18,821, according to CSTC-A. Of these, 1,352 were officers, 1,336 were non-commissioned officers (NCOs), and 16,133 were guards.¹¹⁰ APPF numbers are not counted as ANSF.

ANSF ASSESSMENTS

Assessments of the ANA and ANP are indicators of the effectiveness of U.S. and Coalition efforts to build, train, equip, and sustain the ANSF. These assessments also provide both U.S. and Afghan stakeholders with updates on the status of these forces as transition continues and Afghanistan assumes responsibility for its own security.

In assessing the capability of ANA and ANP units, ISAF uses the Commander's Unit Assessment Tool (CUAT), which has five rating levels:¹¹¹

- **Independent with Advisors:** The unit is able to plan and execute its missions, maintain command and control of subordinates, call on and coordinate quick-reaction forces and medical evacuations, exploit intelligence, and operate within a wider intelligence system.
- **Effective with Advisors:** The unit conducts effective planning, synchronizing, directing, and reporting of operations and status. Leaders, staff, and unit adhere to a code of conduct and are loyal to the Afghan government. Coalition forces provide only limited, occasional guidance to unit personnel and may provide **enablers** as needed. Coalition forces augment support only on occasion.
- **Effective with Partners:** The unit requires routine mentoring for planning, synchronizing, directing, and reporting of operations and status; coordinating and communicating with other units; and maintaining effective readiness reports. Leaders, staff, and most of the unit adhere to a code of conduct and are loyal to the Afghan government. ANSF enablers provide support to the unit; however, coalition forces may provide enablers to augment that support.
- **Developing with Partners:** The unit requires partnering and assistance for planning, synchronizing, directing, and reporting of operations and status; coordinating and communicating with other units; and maintaining effective readiness reports. Leaders and most of the

Enablers: specialized units that support combat units, such as engineering, civil affairs, military intelligence, helicopter, military police, and intelligence, surveillance, and reconnaissance assets.

Source: DOD, "Mullen Tours Forward Outposts in Afghanistan," 4/22/2009, accessed 1/4/2012.

staff usually adhere to a code of conduct and are loyal to the Afghan government. Some enablers are present and effective, providing some of the support. Coalition forces provide enablers and most of the support.

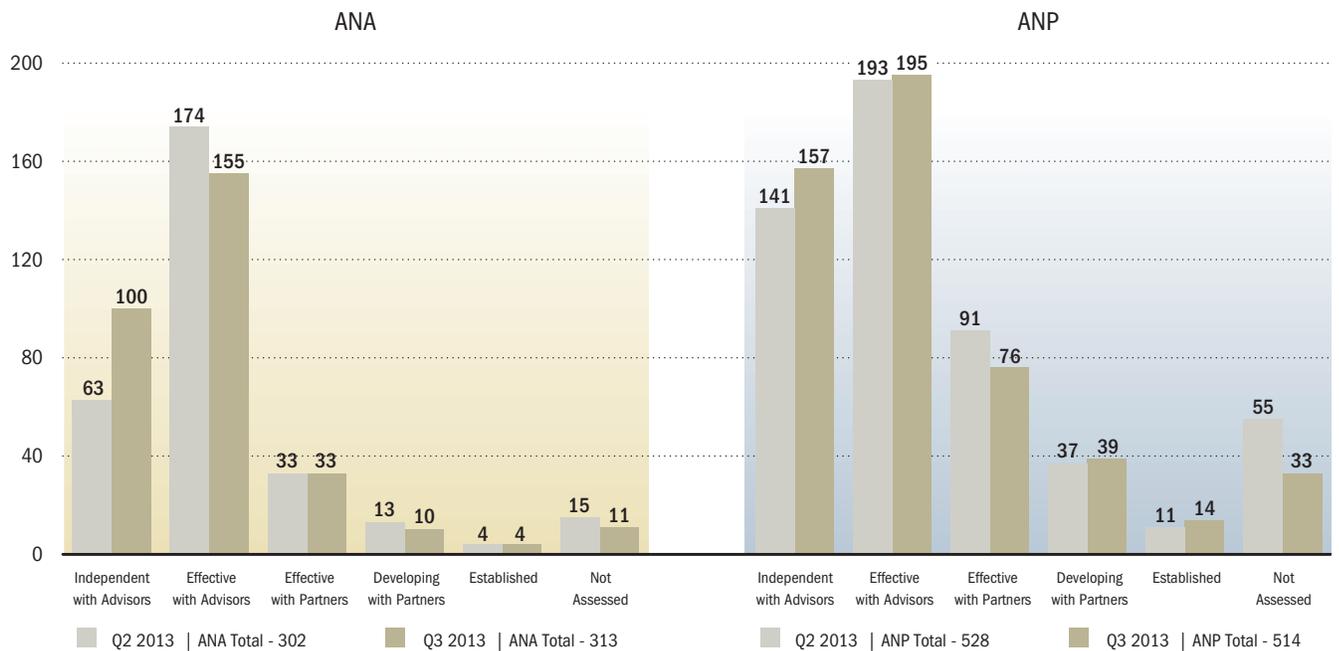
- Established:** The unit is beginning to organize but is barely capable of planning, synchronizing, directing, or reporting operations and status, even with the presence and assistance of a partner unit. The unit is barely able to coordinate and communicate with other units. Leadership and staff may not adhere to a code of conduct or may not be loyal to the Afghan government. Most of the unit's enablers are not present or are barely effective. Those enablers provide little or no support to the unit. Coalition forces provide most of the support.

During this reporting cycle, the total number of ANA units rose from 302 to 312. According to ISAF Joint Command (IJC), this increase is the result of new units being fielded in the 111th Capital Division, the Mobile Strike Brigades, and the 201st, 203rd, and 215th Corps.¹¹² For the ANP, the total number of units fell from 528 to 514.¹¹³

Because not every unit is reported in every CUAT cycle, the IJC uses the most recent assessment (within the last 18 months) to “enable cycle to cycle

FIGURE 3.23

CUAT RATINGS OF ANSF UNITS, QUARTERLY CHANGE



Sources: DOD, responses to SIGAR data call, 4/17/2013 and 7/9/2013.

comparisons.”¹¹⁴ When compared this way, 37 more ANA units and 16 more ANP units were rated “independent with advisors,” as shown in Figure 3.23 on the previous page. According to the most recent assessments, more than 81% of all ANA units were rated at the two highest levels: 32% were “independent with advisors” and 50% were “effective with advisors.” For the ANP, more than 68% of units were rated at the two highest levels: 31% were “independent with advisors” and 38% were “effective with advisors.”¹¹⁵

MINISTRY OF DEFENSE AND MINISTRY OF INTERIOR ASSESSMENTS

Assessments of the MOD and the MOI continued to show progress this quarter. To rate the operational capability of these ministries, NTM-A uses the Capability Milestone (CM) rating system. This system assesses staff sections (such as the offices headed by assistant or deputy ministers) and cross-functional areas (such as general staff offices) using four primary and two secondary ratings:¹¹⁶

- CM-1A: capable of autonomous operations
- CM-1B: capable of executing functions with coalition oversight only
- CM-2A: capable of executing functions with minimal coalition assistance
- CM-2B: can accomplish its mission but requires some coalition assistance
- CM-3: cannot accomplish its mission without significant coalition assistance
- CM-4: exists but cannot accomplish its mission

At the MOD, all 46 staff sections and cross-functional areas were assessed this quarter. Of those, nine progressed and two regressed. Notably, the Logistics Command became the first MOD office to achieve the highest rating of CM-1A (capable of autonomous operations).

The other offices that received a higher rating this quarter were:¹¹⁷

- General Staff Policy and Planning (CM-1B)
- First Deputy Minister of Defense (CM-1B)
- Assistant Minister of Defense for Reserve Affairs (CM-2B)
- Afghan Air Force Command (CM-2B)
- Assistant Minister of Defense for Education (CM-2B)
- General Staff Logistics (CM-2B)
- Vice Chief of General Staff - Air (CM-2B)
- Assistant Minister of Defense for Intel Policy (CM-3)

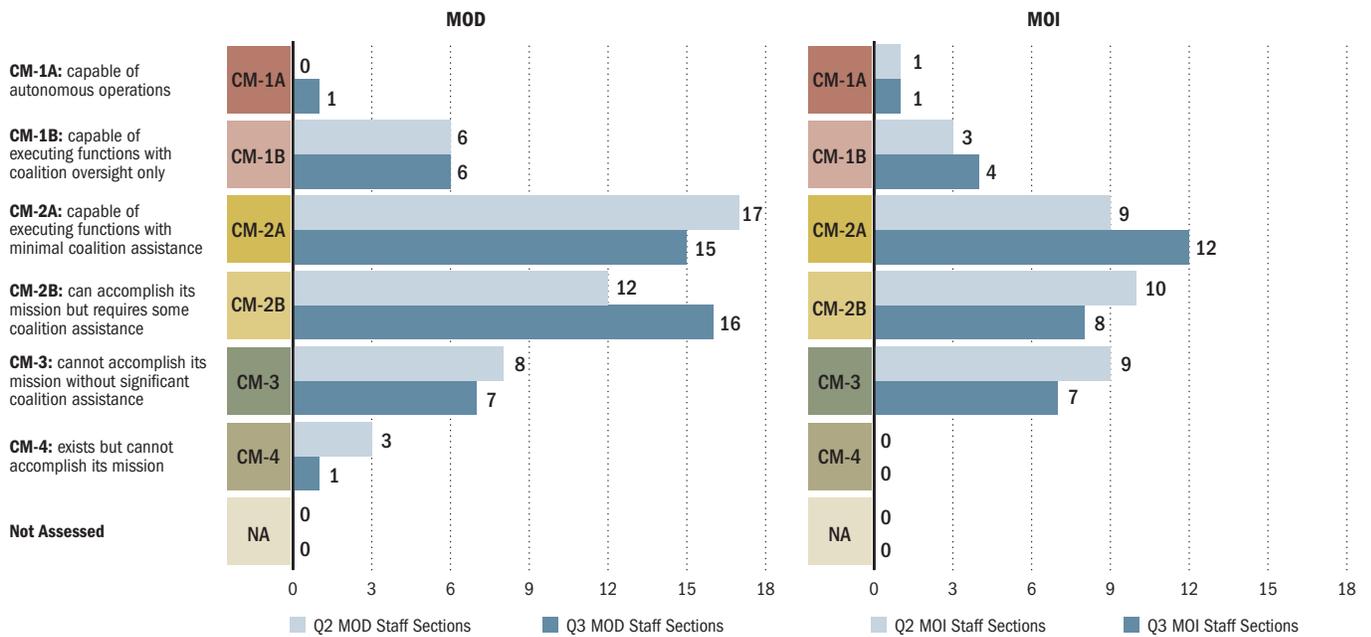
The two MOD offices that regressed were the MOD Chief of the Legal Department (fell to CM-3) and the MOD Chief of Finance (fell to CM-2B).¹¹⁸ One MOD office—Gender Integration—was rated CM-4 (down from 3 last quarter), meaning that it cannot accomplish its mission, as shown in Figure 3.24.¹¹⁹

SIGAR SPECIAL PROJECT

In an ongoing special project, SIGAR is reviewing assessments of the MOD and MOI to determine those ministries' capacity to manage and account for U.S. direct assistance funds. For more information, see SIGAR's April 2013 Quarterly Report to Congress.

FIGURE 3.24

CAPABILITY MILESTONE RATINGS OF MOD AND MOI, QUARTERLY CHANGE



Sources: CSTC-A, responses to SIGAR data call, 4/1/2013, 7/2/2013, and 7/15/2013.

All 32 staff sections at the MOI were assessed; nine progressed and two regressed—the Recruiting Command and the Inspector General—since last quarter. No MOI sections were rated CM-4. Those whose ratings increased this quarter were:¹²⁰

- Force Management (CM-1B)
- Legal Affairs (CM-2A)
- Intelligence (CM-2A)
- Civil Service (CM-2A)
- Afghan Border Police (CM-2A)
- Anti-Crime Police (CM-2A)
- Information, Communications, and Technology (CM-2B)
- Training Management (CM-2B)
- Counter-IED (CM-2B)

AFGHAN NATIONAL ARMY

As of May 31, 2013, the United States had a obligated \$29.9 billion, and disbursed \$27.4 billion of ASFF funds to build, train, and sustain the ANA.¹²¹

ANA Strength

As of May 21, 2013, the overall strength of the ANA was 185,287 personnel (178,826 Army and 6,461 Air Force), according to CSTC-A. This is an increase of 3,453 since last quarter, as shown in Table 3.4. The total includes 18,033 trainees, students, and those awaiting assignment, as well as 4,667 cadets. According to CSTC-A, the ANA includes 7,806 civilians (both ANA and Air Force personnel) in determining its end strength. CSTC-A noted that it worked with the ANA to identify and separate civilians from military personnel.¹²² SIGAR’s reporting of ANA’s end strength does not include these civilians, but does count unassigned military personnel and cadets.

CSTC-A stated that 52,650 ANA and Afghan Air Force personnel were in the field or actively engaged in combat operations. Another 69,707 were “present for duty” which meant that they were “in [their] barracks.” Personnel both present for duty and in the field did not include “Echelon Above Corps” personnel—those assigned to the MOD, General Staff, or the Intermediate Commands.¹²³

Determining accurate ANA strength is challenging. The ANA often collects data by hand, on paper. CSTC-A has said “there is no 100% viable method of validating ANA personnel numbers,” although it does

TABLE 3.4

ANA STRENGTH, QUARTERLY CHANGE						
ANA Component	Authorized			Assigned		
	Q1 2013	Q2 2013	Quarterly Change	Q1 2013	Q2 2013	Quarterly Change
201st Corps	17,821	17,638	-183	17,427	18,116	+689
203rd Corps	20,022	20,002	-20	19,095	20,288	+1,193
205th Corps	18,476	18,287	-189	18,982	19,351	+369
207th Corps	14,313	14,097	-216	12,803	14,279	+1,476
209th Corps	14,458	14,236	-222	13,065	13,371	+306
215th Corps	16,933	16,733	-200	17,307	17,447	+140
111th Capital Division	9,273	9,174	-99	8,654	8,619	-35
Special Operations Force	12,261	12,238	-23	10,366	10,970	+604
Echelons Above Corps ^a	37,592	38,773	+1,181	37,837	33,685	-4,152
TTHS ^b	-	-	-	19,905 ^c	22,700 ^d	+2,795
ANA Total	161,149	161,218^e	+69	175,441	178,826	+3,385
Afghan Air Force (AAF)	7,639	7,097	-542	6,393	6,461	+68
ANA + AAF Total	168,788	168,315	-473	181,834	185,287	+3,453

Notes: Q1 data is as of 2/18/2013. Q2 data is as of 5/21/2013.

^a Includes MOD, General Staff, and Intermediate Commands

^b Trainee, Transient, Holdee, and Student; these are not included in counts of authorized personnel

^c Includes 3,802 cadets

^d Includes 4,667 cadets

^e CSTC-A provided total; actual sum of ANA components was 161,178

Sources: CSTC-A, responses to SIGAR data calls, 4/1/2013, 4/16/2013, and 7/2/2013.

cross-reference reported numbers with pay records and personnel status reports. In addition, CSTC-A cross-references ANA reporting of new recruits with ANA training-center strength reports. While these efforts leave room for error, CSTC-A reported that discrepancies are relatively minor and acceptable considering “the potential for over/under reporting in a still largely paper-based system.” CSTC-A noted that the use of the Afghan Human Resources Information System will provide a more reliable platform for reporting and validating ANA strength numbers.¹²⁴ That automated system is still in development, however, and its launch date is not yet set.

ANA Sustainment

As of May 31, 2013, the United States had obligated \$9.8 billion and disbursed \$9.5 billion of ASFF funds for ANA sustainment.¹²⁵

As part of sustainment funding, the United States has provided the ANA with ammunition at a cost of approximately \$1.03 billion, according to CSTC-A.¹²⁶

ANA Salaries, Food, and Incentives

As of June 30, 2013, the United States had provided nearly \$1.8 billion through the ASFF to pay for ANA salaries, food, and incentives since FY 2008. This includes \$51 million provided this quarter. Since FY 2009, the United States contribution to ANA salaries alone (not including food and incentives) was \$1.2 billion. The estimated annual amount of funding required for the base salaries, bonuses, and incentives of a 195,000-person ANA is \$686.1 million.¹²⁷

ANA Equipment and Transportation

While the U.S. effort to equip the ANA has at times appeared to be ending, new requirements for additional equipment are resulting in new procurements. These new requirements are evident in quarterly changes to equipment cost totals, as well as in DOD’s FY 2014 ASFF budget request for approximately \$2 billion in new equipment.¹²⁸

As of May 31, 2013, the United States had obligated and disbursed \$11.1 billion of the ASFF for ANA equipment and transportation.¹²⁹ Most of these funds were used to purchase weapons and related equipment, vehicles, communications equipment, and aircraft and aviation-related equipment.¹³⁰ Nearly 82% of U.S. funding in this category was for vehicles and transportation-related equipment, as shown in Table 3.5 on the following page. The United States has also procured more than \$768 million in other equipment such as clothing and personal gear.¹³¹

Last quarter, CSTC-A stated that the United States had procured \$878 million of weapons for the ANA. However, this quarter, CSTC-A stated that the total cost was actually \$623 million due to a \$153 million correction in the total cost of some equipment and accounting for nearly \$102 million in donated equipment that was not U.S.-funded (but still tracked as part

SIGAR AUDIT

This quarter, SIGAR announced an audit to evaluate the effectiveness of U.S. government oversight of contracts to procure, operate, and maintain Mobile Strike Force Vehicles (MSFV) for the ANA. The audit will also determine the extent to which the ANA has the capacity to operate and maintain its current and planned MSFVs. For more information, see Section 2, page 40.

SIGAR AUDIT

SIGAR completed a financial audit of a contract to support the ANA’s Technical Equipment Maintenance Program. The audit found four internal control deficiencies and five instances of non-compliance, which brought into question \$2.8 million in costs. For more information, see Section 2, page 46.

TABLE 3.5

COST OF U.S.-FUNDED ANA EQUIPMENT		
Type of Equipment	Procured	Remaining to be Procured
Weapons	\$622,775,356	\$226,000
Vehicles	\$5,558,632,248	\$0
Communications Equipment	\$599,498,880	\$0
Total	\$6,780,906,484	\$226,000

Source: CSTC-A, response to SIGAR data call, 7/2/2012.

of the ANA's equipment inventory).¹³² The updated equipment cost total is reflected in Table 3.5.

CSTC-A also stated last quarter that no new vehicles or communications equipment remained to be procured for the ANA. However, this quarter, CSCT-A's latest cost totals had increased for vehicles (by more than \$2 million) and communications equipment (by nearly \$19 million).¹³³ According to CSTC-A, this is due, in part, to new requirements to support APPF convoy-security operations and the General Directorate of Police Special Units.¹³⁴

This quarter, the Afghan Air Force inventory consisted of 108 aircraft, according to CSTC-A.¹³⁵

- 48 Mi-17s (transport helicopters)
- 6 Mi-35s (attack helicopters)
- 16 C-27As (cargo planes)
- 26 C-208s (light transport planes)
- 6 C-182s (four-person trainers)
- 6 MD-530Fs (light helicopters)

Still to be procured are 20 light support aircraft, 12 Mi-17 helicopters, and four C-130H cargo planes.¹³⁶ Last February, the U.S. Air Force awarded a U.S. company a \$427 million contract to deliver the 20 light support aircraft; the contract is capped at \$950 million through February 2019.¹³⁷

Ten of the Afghan Air Force's 48 Mi-17s are loaned to the Special Mission Wing (SMW).¹³⁸ The SMW is a unit that provides air support for Afghan Special Forces executing counternarcotics and counterterrorism missions.¹³⁹ This quarter, the SMW inventory consisted of 30 Mi-17 helicopters: 13 from DOD, 10 on loan from the Afghan Air Force, five from the United Kingdom, and two from Germany.¹⁴⁰

ANA Infrastructure

As of May 31, 2013, the United States had obligated \$6.2 billion and disbursed \$4.1 billion of the ASFF for ANA infrastructure.¹⁴¹ At that time, the United States had completed 227 infrastructure projects (valued at \$2.65 billion), with another 124 projects ongoing (\$2.93 billion) and eight planned

SIGAR AUDIT

A SIGAR audit released this quarter found that DOD is moving forward with a \$771.8 million purchase of aircraft for the SMW despite the SMW having less than one-quarter of the personnel needed, facing steep recruitment and training challenges, and lacking the ability to maintain its current aircraft fleet. For more information, see Section 2, page 30.

(\$180 million), according to CSTC-A. Of the ongoing projects, five new contracts (valued at more than \$58 million) were awarded this quarter.¹⁴²

While the number of completed projects is increasing (227 this quarter compared to 213 last quarter), the total number of projects—ongoing and planned—is decreasing. According to CSTC-A, the overall decrease is due, in part, to project completions and to a reduction in planned projects because transfers of Coalition bases are reducing ANSF facility requirements.¹⁴³

This quarter, the largest ongoing ANA infrastructure projects were a brigade garrison for the 201st Corps in Kunar (at a cost of \$115.8 million), phase one of the MOD's headquarters in Kabul (\$108 million), and a brigade garrison for the 205th Corps in Kandahar (\$89.1 million).¹⁴⁴

DOD's FY 2014 ASFF budget request of nearly \$279 million for ANA infrastructure was 210% more than the amount appropriated (\$90 million) for FY 2013. FY 2013 ASFF funding was not for construction projects, but for upgrades and modernizations of garrisons and force-protection systems, and to prepare Coalition facilities for handover to the ANSF as U.S. forces are drawn down. The FY 2014 ASFF budget request is mostly for the construction of facilities for the planned increase of ANA equipment, including bunkers for howitzers and additional facilities for new Afghan Air Force aircraft.¹⁴⁵

ANA and MOD Training and Operations

As of May 31, 2013, the United States had obligated \$2.8 billion and disbursed \$2.7 billion of the ASFF for ANA and MOD operations and training.¹⁴⁶ This quarter, 58,828 ANA personnel were enrolled in some type of training, with 42,500 enrolled in literacy training, according to CSTC-A. In addition, 7,770 enlisted personnel were enrolled in basic warrior-training courses, 2,781 were training to become commissioned officers, and 1,371 were training to become NCOs. Other training programs include combat specialty courses such as infantry training; combat-support courses such as engineering, signals, and logistics; and courses to operate the high-mobility multipurpose wheeled vehicles known as "Humvees."¹⁴⁷

According to CSTC-A, the United States funds a variety of contracts to train the MOD and the ANA. The largest of these are a \$256 million contract for advising, training, and supporting the MOD; a \$76.3 million contract to train elements of the ANA Special Operations Command; and a \$65.4 million contract to train ANA specialized personnel to respond to improvised explosive devices (IEDs) and other explosive ordnance.¹⁴⁸

ANA Literacy

Since its start in 2009, NTM-A/CSTC-A's literacy program has sought to achieve greater literacy rates within the ANA. The program is based on a 312-hour curriculum. According to CSTC-A, in order to progress from illiteracy to functional literacy, a student may take as many as seven tests. The student's performance determines if he or she progresses to the next training level.¹⁴⁹

SIGAR AUDIT

An ongoing SIGAR audit will examine CSTC-A's justification and support for the ANSF infrastructure project requirements. The audit will also assess: (1) the extent to which U.S. and Coalition basing plans for the ANSF reflect ANSF force-strength projections; (2) whether CSTC-A fully considered alternatives to new construction; (3) whether CSTC-A developed and used appropriate criteria to ensure that current and proposed construction projects for the ANSF are necessary, achievable, and sustainable by the Afghan government.

Level 1 literacy is the ability to read and write single words, count up to 1,000, and add and subtract whole numbers. At Level 2, an individual can read and write sentences, carry out basic multiplication and division, and identify units of measurement. At Level 3, an individual has achieved functional literacy and can “identify, understand, interpret, create, communicate, compute and use printed and written materials.”¹⁵⁰

As of June 13, 2013, ANA personnel who have completed a literacy program include:¹⁵¹

- 128,370 Level 1 graduates
- 37,404 Level 2 graduates
- 31,977 Level 3 graduates

According to CSTC-A, the goal is to achieve 100% Level 1 literacy and 50% Level 3 (or functional) literacy by the time the program ends.¹⁵² However, CSTC-A stated that it does not know how many literacy program graduates are still in the ANA.¹⁵³

Since 2010, the United States has funded three literacy contracts for the ANSF. Each has a base year and a five-year limit—one-year options may be exercised in August of each year—and a maximum cost of \$200 million. According to CSTC-A, these contractors were providing 684 literacy trainers to the ANA:¹⁵⁴

- OT Training Solutions, a U.S. company, was providing 254 trainers.
- Insight Group, an Afghan company, was providing 180 trainers.
- The Higher Education Institute of Karwan, an Afghan company, was providing 250 trainers.

CSTC-A said responsibility for literacy training for ANA personnel in the field will transition to the ANA between October 1, 2013, and October 1, 2014.¹⁵⁵

Although a deputy to the commander of the NATO Training Mission and CSTC-A said in May 2011, “We know that we will improve the literacy rate in Afghanistan in the Afghanistan national security forces to over 50 percent by January 2012,” the current literacy rate has not been reported.¹⁵⁶

Women in the ANA

The number of women in the ANA is increasing, but the goal for women to make up 10% of the ANA and Afghan Air Force remains distant. At a Senate hearing on July 11, a senior DOD official called the statistics of over 400 women in the ANA “impressive” and a “very significant [increase] from zero.”¹⁵⁷ Despite an increase this quarter, however, women make up only 0.2% of the force.¹⁵⁸ This is the same percentage as three years ago, when 301 women were serving.¹⁵⁹

According to CSTC-A, institutional barriers stemming from traditional and cultural biases have impeded progress in women’s integration. Moreover, many families do not want their daughters to join because of



ANA Officer adjusts the sights on her weapon. Women currently make up 0.2% of the ANA. (ISAF photo)

concerns for their security. Nonetheless, more women are showing an interest in joining the military. But the MOD has not capitalized on this interest and “has not organized necessary initial training” for women.¹⁶⁰ U.S. and Coalition personnel continue to work closely with the MOD and the ANA to address gender integration issues.¹⁶¹

This quarter, 426 women were serving in the ANA—255 officers, 89 NCOs, 53 enlisted personnel, and 29 cadets—according to CSTC-A. This is a 14% increase over the number of women serving last quarter. In the Afghan Air Force, 34 women were serving—22 officers and 12 NCOs.¹⁶²

AFGHAN NATIONAL POLICE

As of May 31, 2013, the United States had obligated \$15 billion, and disbursed \$13.7 billion of ASFF funds to build, train, and sustain the ANP.¹⁶³

ANP Strength

As of May 20, 2013, the overall strength of the ANP was 151,824 personnel, including 108,128 Afghan Uniform Police (AUP), 21,422 Afghan Border Police (ABP), 14,515 Afghan National Civil Order Police (ANCOP), 3,059 in the Counter Narcotics Police of Afghanistan (CNPA), and 3,779 students in training—according to CSTC-A.¹⁶⁴ The total is an increase of 905 since last quarter, as shown in Table 3.6.

SIGAR AUDIT

In an ongoing audit, SIGAR will assess the ANP’s logistics capacity for petroleum, oil, and lubricants. The audit focuses on two main issues: accuracy of fuel requirements, and accountability for fuel purchases.

TABLE 3.6

ANP Component	Authorized			Assigned		
	Q1 2013	Q2 2013	Quarterly Change	Q1 2013	Q2 2013	Quarterly Change
AUP	108,122	108,122	None	103,851	108,128	+4,277
ABP	23,090	23,090	None	22,029	21,422	-607
ANCOP	14,541	14,541	None	14,592	14,515	-77
NISTA ^a	9,000	9,000	None	7,388	3,779	-3,609
Other	-	-	-	-	-	-
ANP Total	154,753	154,753	None	147,860	147,844	-16
CNPA	2,247	2,247	None	3,059	3,059	None
ANP + CNPA Total	157,000	157,000	None	150,919	151,824^b	+905

Notes: Q1 data is as of 2/18/2013. Q2 data is as of 5/20/2013; NR = Not reported

^a Personnel in training

^b CSTC-A provided total; actual sum of all ANP components and the personnel in the NISTA account was 150,903

Sources: CSTC-A, responses to SIGAR data calls, 4/1/2013 and 7/2/2013.

ANP Sustainment

As of May 31, 2013, the United States had obligated \$4.9 billion, and disbursed \$4.8 billion of ASFF funds for ANP sustainment.¹⁶⁵

As part of sustainment funding, the United States has provided the ANP with ammunition at a cost of approximately \$246 million, according to CSTC-A.¹⁶⁶

ANP Salaries

From 2008 through June 30, 2013, the U.S. government had provided \$818 million through the ASFF to pay ANP salaries, incentives (extra pay for personnel engaged in combat or employed in specialty fields), and food, CSTC-A reported. However, that number does not include non-ASFF funds. As of June 30, 2013, the United States had provided approximately \$1.01 billion through the UN-administered Law and Order Trust Fund-Afghanistan (LOTFA) to support the ANP. The United States also provided more than \$73 million outside of LOTFA for salaries and incentives.¹⁶⁷

According to CSTC-A, when the ANP reaches its final strength of 157,000 personnel, it will require an estimated \$628.1 million per year to fund salaries (\$265.7 million), incentives (\$224.2 million), and food (\$138.2 million).¹⁶⁸

ANP Equipment and Transportation

As of May 31, 2013, the United States had obligated and disbursed \$3.5 billion of ASFF funds for ANP equipment and transportation.¹⁶⁹ Most of these funds were used to purchase weapons and related equipment, vehicles, and communications equipment.¹⁷⁰ More than 82% of U.S. funding in this category was for vehicles and vehicle-related equipment, as shown in Table 3.7.

TABLE 3.7

COST OF U.S.-FUNDED ANP EQUIPMENT		
Type of Equipment	Procured	Remaining to be Procured
Weapons	\$368,722,984	\$273,538
Vehicles	\$2,646,263,422	\$5,519,620
Communications Equipment	\$201,958,600	\$42,500
Total	\$3,216,995,006	\$5,835,658

Source: CSTC-A, response to SIGAR data call, 7/2/2013.

ANP Infrastructure

As of May 31, 2013, the United States had obligated \$3.5 billion and disbursed \$2.4 billion of ASFF funds for ANP infrastructure.¹⁷¹ As of June 30, 2013, the United States had completed 538 infrastructure projects (valued at \$1.74 billion), with another 199 projects ongoing (\$1.13 billion) and 29 planned (\$245 million), according to CSTC-A.¹⁷²

This quarter, the largest ongoing ANP infrastructure projects were a regional police-training center in Herat (\$62.2 million), administrative facilities at the MOI Headquarters (\$59.5 million), and an ANCOP training center

SIGAR AUDIT

In an ongoing audit, SIGAR will assess the process CSTC-A uses to determine requirements and to acquire, manage, store, and distribute repair parts for the ANSF, and evaluate internal controls to determine if they are sufficient to account for these parts and to prevent fraud, waste, and abuse.

in Jowzjan (\$35.8 million).¹⁷³ The contract for the regional police-training center in Kandahar (reported as a \$62.3 million ongoing project in prior SIGAR quarterly reports) was terminated last quarter, according to CSTC-A. At the time of its termination, \$34 million worth of work had been completed. An additional contract is scheduled to be awarded for the remaining work required to make the center operational.¹⁷⁴

ANP Training and Operations

As of May 31, 2013, the United States had obligated and disbursed \$3.1 billion of ASFF funds for ANP and MOI training and operations.¹⁷⁵ This quarter, 6,596 ANP personnel were enrolled in some type of training, according to CSTC-A. Of those, 1,175 were training to become officers and 1,304 were training to become NCOs.¹⁷⁶

The total number of students has decreased this quarter. According to CSTC-A, this decrease is due, in part, to a yearly trend whereby enrollment steadily decreases through the third quarter. CSTC-A stated that the ANP is taking a more proactive role in training by reviewing their requirements and realigning courses and enrollment numbers to better meet their fielded-force and professionalization needs.¹⁷⁷

NTM-A/CSTC-A contracts with DynCorp International to provide training, mentoring, and support services at multiple training sites around the country. The ASFF-funded contract provides 458 mentors and trainers as well as approximately 2,500 support personnel at regional training centers and in mobile support teams. The contract value is \$1.18 billion.¹⁷⁸

ANP Literacy

NTM-A/CSTC-A's literacy program for the ANP follows the same curriculum and uses the same standards as the ANA's literacy program previously mentioned in this section. The program is based on moving students through three levels of literacy training.¹⁷⁹

As of June 13, 2013, ANP personnel who have completed a literacy program include:¹⁸⁰

- 76,337 Level 1 graduates
- 48,304 Level 2 graduates
- 30,944 Level 3 graduates

According to CSTC-A, the goal is to achieve 100% Level 1 literacy and 50% Level 3 (or functional) literacy by the time the program ends.¹⁸¹ However, CSTC-A stated that it does not know how many literacy program graduates are still in the ANP.¹⁸² The current literacy level of the force has not been reported.

Since 2010, the United States has funded three literacy contracts for the ANSF. Each has a base year and a five-year limit—one-year options may be exercised in August of each year—and a maximum cost of \$200 million.

SIGAR AUDIT

In an ongoing audit, SIGAR will examine CSTC-A's justification and support for the ANSF infrastructure project requirements. The audit will also assess: the extent to which U.S. and Coalition basing plans for the ANSF reflect ANSF force-strength projections; whether CSTC-A fully considered alternatives to new construction; and whether CSTC-A developed and used appropriate criteria to ensure that current and proposed construction projects for the ANSF are necessary, achievable, and sustainable by the Afghan government.

SIGAR AUDIT

In an ongoing audit, SIGAR is evaluating the implementation and oversight of the three ANSF literacy training program contracts. SIGAR will also assess whether the contractors provide qualified instructors and services; the extent to which CSTC-A monitored the contractors' performance and training outcomes; and the extent to which the contracts are meeting the goal of providing basic, sustainable levels of literacy for the ANSF.

According to CSTC-A, these contractors were providing 700 literacy trainers to the ANP.¹⁸³

- OT Training Solutions, a U.S. company, was providing 274 trainers.
- Insight Group, an Afghan company, was providing 152 trainers.
- The Higher Education Institute of Karwan, an Afghan company, was providing 274 trainers.

CSTC-A said responsibility for literacy training for ANP personnel in the field will transition to the ANP between October 1, 2013, and October 1, 2014.¹⁸⁴

Women in the ANP

As of May 20, 2013, ANP personnel included 1,489 women—226 officers, 605 NCOs, and 658 enlisted personnel—according to CSTC-A.¹⁸⁵ This is the exact same number of women as reported last quarter. At this level, women make up 1% of the ANP. This is the same percentage as three years ago, when 1,100 women were serving.¹⁸⁶

The ANP has a total of 2,995 authorized positions for women, but some are currently occupied by men. According to CSTC-A, the MOI is considering moving some of these men into positions authorized for males.¹⁸⁷

ANSF MEDICAL/HEALTH CARE

As of June 30, 2013, the United States has funded construction of 174 ANSF medical facilities valued at \$134 million, and has funded \$11 million in contracts to provide the ANSF with medical training, according to CSTC-A. The United States is also funding ongoing construction of 10 additional medical facilities valued at \$33 million. Moreover, since 2006, Coalition forces have procured and fielded \$25 million in ANSF medical equipment. Coalition partners have also funded service, supply, and equipment contracts at a cost of \$561,924.¹⁸⁸

This quarter, the ANSF health care system had 775 physicians—a decrease of 140 since last quarter—out of 944 authorized. Of these, 566 were assigned to the ANA and 209 were assigned to the ANP. The ANSF had 6,860 other medical personnel (including nurses and medics)—an increase of 39 since last quarter—out of 10,284 needed.¹⁸⁹ In June 2013, the ANSF took full control of three of four major regional military hospitals.¹⁹⁰

The shortage of medical personnel is becoming a larger concern as the ANSF takes on more security responsibility. According to CSTC-A, progress is being made in recruiting physicians; although the Afghan Office of the Surgeon General has found it difficult to recruit physicians to serve in “less desirable areas.”¹⁹¹

TABLE 3.8

CONVENTIONAL WEAPONS DESTRUCTION PROGRAM METRICS, APRIL 1, 2012–MARCH 31, 2013						
Date Range	AT/AP Destroyed	UXO Destroyed	SAA Destroyed	Fragments Cleared	Minefields Cleared (m²)	Estimated Contaminated Area Remaining (m²)
4/1–6/30/2012	1,559	28,222	20,580	3,601,378	7,251,257	563,000,000
7/1–9/30/2012	5,542	165,100	121,520	2,569,701	11,830,335	550,000,000
10/1–12/31/2012	2,146	62,449	22,373	3,672,661	7,265,741	570,000,000
1/1–3/31/2013	1,984	100,648	105,553	3,722,289	7,978,836	552,000,000
Total	11,231	356,419	270,026	3,722,289	34,326,169	552,000,000

Notes: AT/AP = anti-tank/anti-personnel ordnance. UXO = unexploded ordnance. SAA = small-arms ammunition. Fragments are reported because their clearance requires the same care as for other objects until their nature is determined.

Source: DOS, PM/WRA, response to SIGAR data call, 6/27/2013.

REMOVING UNEXPLODED ORDNANCE

From 2002 through 2012, the U.S. Department of State has provided nearly \$260 million in funding for weapons destruction and de-mining assistance to Afghanistan, according to its Political-Military Affairs’ Office of Weapons Removal and Abatement (PM/WRA). Through its Conventional Weapons Destruction program, the Department of State funds five Afghan nongovernmental organizations (NGOs), five international NGOs, the United Nations Mine Action Service, and a U.S. government contractor. These funds enable clearance of areas contaminated by explosive remnants of war, support removal and destruction of abandoned weapons that insurgents might use to construct improvised explosive devices, and provide mentoring to the Afghan government’s Department of Mine Clearance.¹⁹²

From April 1, 2012, through March 31, 2013, Department of State-funded implementing partners cleared over 34 million square meters (about 13 square miles) of minefields, according to the most recent data from the PM/WRA.¹⁹³ An estimated 552 million square meters (more than 200 square miles) of contaminated areas remain to be cleared, as shown in Table 3.8. The PM/WRA defines a “minefield” as an area contaminated by landmines, and a “contaminated area” as an area contaminated with both landmines and explosive remnants of war.¹⁹⁴

COUNTERNARCOTICS

The Afghan opium economy undermines U.S. reconstruction efforts by financing the insurgency and fueling corruption. Despite efforts to reduce poppy cultivation and illicit drug trafficking, Afghanistan is expected to produce 90% of the world’s opium this year, as it has in the past.¹⁹⁵ Moreover, the illicit trade continues to generate substantial revenue: a 2012 report from the Asian Development Bank said opium exports are equivalent to 13% of Afghan GDP.¹⁹⁶

The U.S. counternarcotics strategy focuses primarily on combating the narco-insurgency nexus.¹⁹⁷ The main components of the strategy include U.S.-sponsored eradication, alternative livelihoods and public-awareness initiatives, and interdiction operations. As of July 1, 2013, the United States has appropriated \$4.42 billion for counternarcotics initiatives in Afghanistan since efforts began in 2002. Most of these funds were appropriated through two channels: the State Department's International Narcotics Control and Law Enforcement (INCLE) account (\$1.78 billion), and the DOD Drug Interdiction and Counter-Drug Activities (DOD CN) fund (\$2.64 billion).¹⁹⁸

State's Bureau of International Narcotics and Law Enforcement Affairs (INL) is the primary U.S. entity charged with funding Afghan-led eradication, alternative livelihoods, and public awareness programs. DOD and INL coordinate to support the counternarcotics efforts of the Ministry of Counternarcotics (MCN), MOI, and MOD.¹⁹⁹

The Narco-Insurgency Nexus

In 2009, President Obama stated that Afghanistan's "economy is undercut by a booming narcotics trade that encourages criminality and funds the insurgency."²⁰⁰ According to the Congressional Research Service, narco-trafficking generates \$70–100 million per year for insurgents.²⁰¹ However, the benefit to insurgents may be greater than previously thought. In June 2013, Afghanistan's Minister of Counternarcotics said that insurgents receive \$155–400 million per year.²⁰² In insurgent-controlled territory, insurgents collect this income by taxing poppy farmers, running protection rackets, operating heroin labs, and conducting kidnappings and other smuggling schemes.²⁰³ Insurgents also win political support by protecting farmers from eradication or interdiction efforts.²⁰⁴ Since 2001, insurgent territorial control has centered in the south and southwest. Today, Helmand, Kandahar, and Farah account for over 80% of Afghanistan's poppy cultivation per year, according to the U.S. Institute of Peace.²⁰⁵

The Narco-Corruption Nexus

The narcotics trade is also linked to corruption by both high- and low-level officials in the Afghan government. "High-level corruption" occurs when Afghan officials collude in the opium economy to gain the financial and/or political support of local power brokers.²⁰⁶ On the other end of the corruption spectrum, low-level or "need-driven" corruption occurs, for example, when low-paid law enforcement officials supplement their income with bribes that enable narco-trafficking.²⁰⁷ Both types of corruption erode public faith in government and indirectly enrich insurgents.²⁰⁸ Moreover, the participation of officials in narco-trafficking distorts eradication and alternative livelihood initiatives, obstructs interdictions, and shields offenders from punishment.

Afghanistan in the Global Opium Economy

Afghanistan has emerged over the past thirty years as the world's leading opium producer. In 1972, Iran, Pakistan, and Turkey began enforcing drug bans, which created an opening for a new opium supplier in Southwest Asia.²⁰⁹ Soon thereafter, the Soviet occupation of Afghanistan destroyed the rural economy there. The repercussions were significant: as opium was both durable and highly valuable, farmers used opium for savings and exchange and mujahedeen used opium to finance weapons procurement.²¹⁰

Opium continued as a source of income for warring factions, including the Taliban, during the Afghan Civil War.²¹¹ Under the Taliban's rule, opium production doubled from 1996–1999.²¹² From 2000–2001, the Taliban enforced a ban on poppy cultivation, creating a humanitarian crisis for farmers left without income and starving during a drought.²¹³

By the end of the 1990s, Afghanistan produced about 70% of the world's opium.²¹⁴ From 2003–2012, Afghanistan produced an average of 85% of the world's opium annually, according to United Nations Office of Drugs and Crimes (UNODC).²¹⁵ However, analysts attribute these decreases more to global market saturation, crop disease, and poor weather than to U.S. counternarcotics efforts.²¹⁶

Between 2005 and 2012, the **farm-gate value** of opium production was equivalent to 8% on average of Afghanistan's total GDP, according to the UNODC. From 2007–2012, the total **export value** of opiates was equivalent to 25% of the country's GDP on average.²¹⁷ Both values have shrunk over time due to the growth of the Afghan economy and lower opium production since 2007, as shown in Figure 3.25 on the following page.

Although the Western European heroin market is shrinking, the global opium market remains stable, according to the UNODC's 2013 World Drug Report.²¹⁸ Canada is the only North American country supplied by heroin produced in Afghanistan.²¹⁹ However, new markets for heroin and other opium-based products are opening in Africa and East Asia, and new trafficking routes are opening, connecting Afghanistan—through Iran and Pakistan—to Iraq and the Middle East.²²⁰

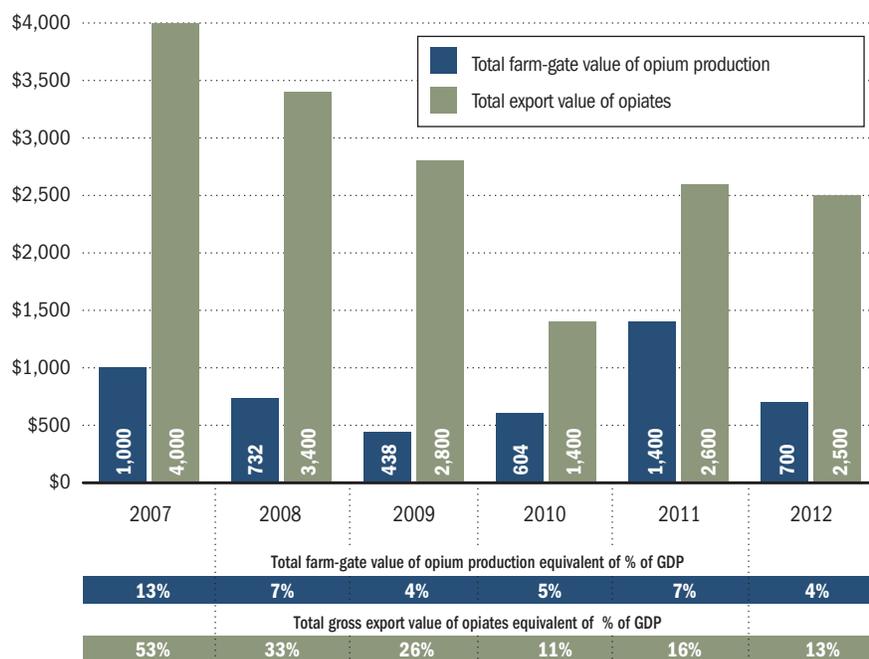
In its 2013 Opium Risk Assessment of Afghanistan, UNODC projects poppy cultivation will increase in most regions and the main poppy-growing provinces. Of the 20 provinces that produce opium, UNODC expects 12 to increase their poppy cultivation, seven to remain unchanged, and one to decrease. Another 14 provinces are expected to maintain their poppy-free status. UNODC warned that some provinces may lose their poppy-free status without timely eradication. UNODC further reported that cultivation is expected to expand in some areas where it had previously existed and also in “new areas or in areas where poppy cultivation was stopped.”²²¹ Increases in Helmand and Kandahar are projected due to the current high price of opium as well as recovery from weather- and crop disease-related low yields in 2012.²²² INL said that increased poppy

Farm Gate Price: the price of the product available at the farm, excluding any separately billed transport or delivery charge.

Export Value: The value of exports at the seaport, airport, or border port of export, based on the transaction price, including inland freight, insurance, and other charges incurred in placing the merchandise alongside the carrier at the port of exportation. The value, as defined, excludes the cost of loading the merchandise aboard the exporting carrier and also excludes freight, insurance, and any charges or transportation costs beyond the port of exportation.

Sources: U.S. Census Bureau, “Guide to Foreign Trade Statistics: Description of the Foreign Trade Statistical Program,” 2/16/2012; IMF, “Producer Price Index Manual: Theory and Practice,” 2004, p. 598.

FIGURE 3.25
SIZE OF THE AFGHAN OPIUM ECONOMY (\$ MILLIONS)



Note: 2012 export value computed from UNODC data.

Sources: UNODC, "Afghanistan Opium Survey 2008," 8/2008, p. 1; UNODC, "Afghanistan Opium Survey 2009," 12/2009, Fact Sheet; UNODC, "Afghanistan Opium Survey 2010," 9/2010, Fact Sheet; UNODC, "Afghanistan Opium Survey 2011," 12/2011, p. 3; UNODC, "Afghanistan Opium Survey 2012 Summary Findings," 11/2012, p. 3; Asia Development Bank, "Afghanistan Fact Sheet," 12/2012, p. 1.

cultivation predicted by UNODC for 2013 "should not overshadow the positive counternarcotics gains made since 2007" and "fluctuations in poppy cultivation are expected."²²³

The report identified a strong relationship between security and poppy cultivation, noting that "almost all villages with very poor security and most villages with poor security" cultivated poppy.²²⁴ UNODC observed that villages reached by agricultural assistance and public awareness campaigns were less likely to grow poppy, but also found the correlation was not statistically significant. However, UNODC noted that in some areas, agricultural programs "seemed to have led to comparatively low and possibly declining levels of poppy cultivation."²²⁵

Poppy Eradication

From 2004 to 2008, the U.S. counternarcotics strategy in Afghanistan centered on eradication.²²⁶ In 2009, the United States stopped leading eradication efforts because the strategy was "ineffective and drove farmers to

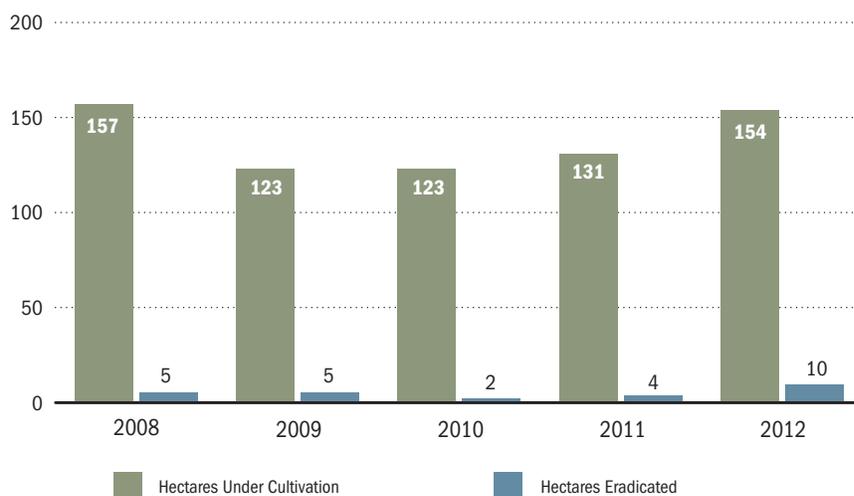
side with the Taliban.²²⁷ However, the United States continues to support Afghan-led eradication efforts. Since 2010, INL has obligated \$7 million to the Governor-Led Eradication (GLE) program which reimburses governors for the cost of self-initiated eradication efforts.²²⁸ From January 1 through June 24, 2013, GLE eradicated 7,692 hectares, a decrease compared to the 11,032 hectares eradicated by the same point in 2012.²²⁹ (Note: INL's figure for hectares eradicated in 2012 did not match the UNODC's data, which shows 9,672 hectares eradicated in all of 2012).²³⁰

Since 2008, eradication efforts have affected on average less than 4% of the annual national poppy crop, as shown in Figure 3.26. Yet GLE may be an effective deterrent: according to UNODC, fear of eradication was a primary driver in many farmers' decisions not to farm in 2012, unlike in previous years.²³¹ But concerns remain that eradication delegitimizes local authorities and builds support for the Taliban by impoverishing farmers.²³² Reflecting these worries, DOD noted that the MCN "believes that GLE is most effective when paired with an Alternative Livelihood (AL) campaign designed to give subsistence farmers a viable alternative to growing poppy."²³³

INL has also obligated \$85 million since 2010 to the MCN's Good Performers' Initiative (GPI) which provides incentives for governors to reduce poppy cultivation in their provinces.²³⁴ A province becomes eligible for \$1 million in GPI development projects if it is deemed poppy-free, defined as having fewer than 100 hectares (about 247 acres) under

FIGURE 3.26

HECTARES OF POPPY CULTIVATED AND ERADICATED, 2008-2012 (THOUSANDS)



Note: A hectare is 10,000 square meters, or almost 2.5 acres.

Sources: UNODC, "World Drug Report 2012," 6/2012, pp. 27-28; UNODC, "World Drug Report 2012," 6/2012 p. 27; UNODC, "Afghanistan Opium Survey 2012: Summary Findings," 11/2012, p. 3.

cultivation during the year.²³⁵ Since the start of the GPI in 2007, more than 170 development projects are either complete or in progress in all 34 provinces.²³⁶ Nonetheless, national poppy cultivation levels remain high.

Alternative Livelihoods and Anti-Poppy Awareness

Alternative livelihood (AL) programs aim to end farmers' dependence on illicit narcotics.²³⁷ The United States has funded numerous cash-for-work and short-term crop-substitution programs to provide short-term employment.²³⁸ However, experts contend that these programs often do not create sustainable alternative labor and goods markets.²³⁹ For example, many of the wheat seeds distributed in Helmand in 2008–2009 were sold locally rather than sown because the favorable wheat-to-opium price ratios under which the program took effect were unsustainable.²⁴⁰

A Brookings Institution report argues that sustainable AL initiatives should develop and integrate the whole agricultural production chain.²⁴¹ Among other initiatives, the U.S. Agency for International Development (USAID) has obligated \$131 million to Incentives Driving Economic Alternatives for North, East, and West (IDEA-NEW) which increases farmers' access to agricultural inputs and instruction, processing facilities, markets, and credit.²⁴² But IDEA-NEW has had mixed results due to inadequate planning and oversight, according to the USAID Inspector General.²⁴³ Further, AL affiliates are threatened by insurgents, and as security bubbles shrink, performing oversight will be increasingly difficult.²⁴⁴

INL also funds the Counternarcotics Public Information (CNPI) program to promote continued poppy-free status in provinces through nationwide pre-planting-season public awareness campaigns in poppy-growing areas.²⁴⁵ UNODC said that awareness campaigns like CNPI "seem to have a positive influence on the decision not to grow opium."²⁴⁶ In addition, INL funds a grant to the Aga Khan Foundation, which focuses on helping six key provinces eliminate poppy cultivation by working with communities and local NGOs to increase opportunities for residents to find non-narcotics-related jobs.²⁴⁷

This quarter, INL launched a year-long public opinion survey initiative to track different aspects of the illicit drug trade to guide INL policy and assistance to Afghanistan. The \$729,000 project will be completed in May 2014.²⁴⁸

Counternarcotics Police of Afghanistan

This quarter, 3,059 personnel were assigned to the Counternarcotics Police of Afghanistan (CNPA).²⁴⁹ The CNPA includes the National Interdiction Unit (NIU), Sensitive Investigation Unit (SIU), Technical Investigation Unit (TIU), and other elements.²⁵⁰

Since 2006, INL has obligated \$219.8 million to support the interdiction activities of the NIU and SIU by providing investigative and strategic mentoring, logistics, housing, food and fuel, as well as transportation to and

The Helmand Food Zone is an Afghan-led initiative to reduce poppy cultivation. It includes:

- Distribution of heavily subsidized wheat seeds and fertilizers to farmers who pledge to not grow poppy
- Targeted eradication against crops of farmers who continue growing poppy
- Anti-poppy public-awareness efforts

Source: Civil-Military Fusion Center, "The Food Zone Programme," 5/2012, pp. 1, 3.

from interdiction operation sites. INL also underwrites the NIU's salary supplements, and since 2010, has obligated \$249.8 million for counternarcotics aviation support.²⁵¹

Since 2004, DOD has provided more than \$415 million on CNPA training, equipment, and facilities.²⁵² DOD also funds programs to improve the CNPA's Tactical Operations Center which targets drug trafficking networks. Further, DOD funds the Afghan Special Mission Wing (SMW) which, along with INL helicopters, supports CNPA operations.²⁵³ As detailed in SIGAR's recent audit, DOD is moving forward with a \$771.8 million purchase of aircraft for the SMW although the SMW lacks the absorptive capacity for them.²⁵⁴

NTM-A and the Drug Enforcement Administration (DEA) provide mentors and advisors to the CNPA. According to CSTC-A, NTM-A provides 16 advisors and the DEA provided 33 counternarcotics trainers (of which 20 are in country at a time). Also according to CSTC-A, a U.S. contractor provides 37 staff to assist the CNPA.²⁵⁵

Interdiction Operations

The objectives of U.S. interdiction policy are to decrease drug trafficking and processing through direct action, and "to build the capability of Afghan law enforcement to disrupt and dismantle drug trafficking organizations."²⁵⁶ In 2009, the interdiction policy was refined to target drug lords connected to the insurgency in order to break the narco-insurgency nexus.²⁵⁷

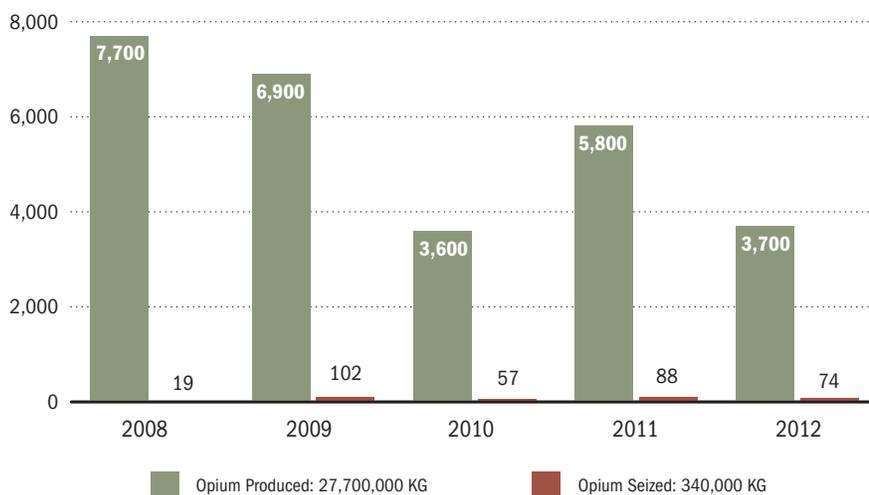
From April 1 through June 30, 2013, Afghan forces conducted 73 unilateral interdiction operations.²⁵⁸ These operations resulted in 73 detentions and the seizure of several thousand kilograms of narcotics and narcotics-related chemicals.²⁵⁹ But as shown in Figure 3.27 on the following page, seizures have affected on average only 1.2% of the total opium produced annually.

Interdiction operations have not significantly decreased Afghan drug trafficking, in part because they increasingly target small-scale poppy farmers, according to a Brookings Institution report.²⁶⁰ In addition, the impact of interdiction may be limited because Afghanistan's judicial system is incapable of bringing high-level narco-traffickers to justice, according to a 2010 U.S. Senate report.²⁶¹ However, the Afghan Minister of Counternarcotics pointed out at a June 2013 event that Afghan authorities have arrested seven of the top 10 traffickers targeted, including individuals with significant political power.²⁶² The State Department also noted the recent conviction of a well-connected "drug kingpin" as an example of how the Afghan judiciary is improving.²⁶³

While interdiction efforts have yielded limited results, U.S. efforts to build Afghan capability to mount counternarcotics operations have shown some progress. Afghan forces are increasingly conducting unilateral operations.²⁶⁴ Moreover, Afghan specialized and conventional units continued to execute operations with support from Afghan interagency elements.

FIGURE 3.27

AFGHAN OPIUM PRODUCED AND SEIZED (2008–2012) (THOUSANDS OF KILOGRAMS)



Note: Numbers have been rounded. A kilogram is about 2.2 pounds.

Sources: UNODC, "World Drug Report 2012," 6/2012, p.28; UNODC, "Afghanistan Opium Survey 2012: Summary Findings," 11/2012, p.3; DOD, response to SIGAR data call, 4/1/2013.

However, all operations continued to be coordinated with and supported by U.S. and Coalition military commanders and the DEA continued to mentor specialized counternarcotics units.²⁶⁵

Challenges to the U.S. Counternarcotics Strategy

The U.S. counternarcotics strategy in Afghanistan faces many short-term challenges, especially high global opium prices and the upcoming Afghan elections.²⁶⁶ Persistent high prices mean that the opium trade will remain lucrative, benefiting corrupt officials, insurgents, and farmers alike.²⁶⁷ The upcoming 2014–2015 election cycle may cause officials to back off from their support for policies like eradication and interdiction that could negatively affect farmers or constituents.²⁶⁸

Corruption, a deteriorating security environment, and decreased aid will make it difficult to achieve U.S. goals in the long-term. The Afghan public loses faith in its government when political elites use eradication to destroy rivals' poppy crops and pay bribes to escape eradication themselves.²⁶⁹ Similarly, public officials' selling of Afghan government-provided agricultural inputs—such as the seeds or fertilizer required to cultivate non-poppy crops—in bazaars delegitimizes the government, according to a 2011 European Commission-funded report.²⁷⁰ Finally, according to a Brookings Institution expert, the U.S.-supported interdiction policy's failure

to consistently target powerful traffickers conveyed “the message that government-linked traffickers have little to fear.”²⁷¹

The withdrawal of U.S. forces from the south and southwest—the geographic center of the narco-insurgency nexus—will “reduce the overall security presence” in these areas, according to the U.S. Institute of Peace.²⁷² This reduced presence will likely dampen ongoing counternarcotics efforts. The institute also warned that decreases in counternarcotics aid will undercut AL efforts, potentially leaving eradication as the Afghan authorities’ primary means to control opium production.²⁷³

SIGAR AUDIT

Due to concerns about the effectiveness and sustainability of the U.S. counternarcotics strategy in Afghanistan, SIGAR has a counternarcotics audit scheduled for FY 2014.

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GOVERNANCE

As of June 30, 2013, the United States had provided nearly \$24.7 billion to support governance and economic development in Afghanistan. Most of this funding, nearly \$16.7 billion, was appropriated to the Economic Support Fund (ESF), which is administered by the State Department and the United States Agency for International Development (USAID).²⁷⁴

KEY EVENTS

At a Senior Officials Meeting held July 3, 2013, in Kabul, donors called upon the Afghan government to fulfill its pledges to fight corruption, hold fair elections, and protect women's rights in order to qualify for \$16 billion in future aid. The Senior Officials Meeting followed up on the Tokyo Mutual Accountability Framework, which was the main outcome of the 2012 Tokyo Conference. Under the Framework, the Afghan government committed to improve governance and its record on human rights, while the international community pledged to provide \$16 billion through 2015. Delegations from 40 countries and eight international agencies as well as senior Afghan government officials and representatives of Afghan civil society attended.²⁷⁵

Participants agreed that credible and inclusive elections in 2014 will be profoundly important for sustaining international support. They said it was vital that the Afghan government safeguard women's rights. They also urged the Afghan government to secure criminal convictions in the Kabul Bank case to allow recovery of stolen assets. And they said the government needed to meet revenue targets as agreed with the International Monetary Fund (IMF).²⁷⁶

Preparations went forward for Afghanistan to hold presidential elections on April 5, 2014. President Hamid Karzai signed a law on July 17, 2013, laying out the composition and rules for Afghanistan's election commission, the Independent Election Commission (IEC), and a separate commission to adjudicate complaints about voter fraud and other irregularities, the Electoral Complaints Commission (ECC).²⁷⁷ The IEC began registering voters in all 34 of Afghanistan's provinces in May.²⁷⁸ On July 9, 2013, the U.S. Senate passed a non-binding resolution urging the Afghan government to hold transparent and credible presidential and provincial elections by adhering to internationally accepted democratic standards,

establishing a transparent electoral process, and ensuring security for voters and candidates.²⁷⁹

The Taliban opened an office in Qatar in June, but the Afghan government and the United States have not yet opened peace talks with the movement. U.S. Special Representative for Afghanistan and Pakistan James F. Dobbins told a press conference that the Taliban's statement opposing the use of Afghan territory for attacks on any other state was sufficient for the United States to begin talks with them. But on June 27, 2013, Dobbins said the Taliban had not given the United States a definitive response about whether its representatives were to meet with the United States or with representatives of Afghanistan's High Peace Council.²⁸⁰

RECONCILIATION AND REINTEGRATION

Long-stalled peace negotiations looked likely to get under way this quarter when the Taliban opened an office in Qatar in June. But plans for talks collapsed after the Taliban put up signs reading "The Islamic Emirate of Afghanistan" and raised their black-and-white flag over the office. Afghan officials considered the actions an affront to their government's legitimacy. President Karzai backed away from plans to send a delegation from the High Peace Council to Qatar for talks and suspended negotiations with the United States on a Bilateral Security Agreement. The Taliban later took down the signs and the flag, but no publicly reported talks with the group were held by the end of the quarter.²⁸¹

High Peace Council

President Hamid Karzai's announcement in June that members of the High Peace Council would soon visit Qatar to open talks with the Taliban offered some hope for jump-starting the reconciliation process.²⁸² It was not clear, however, that the movement was any more receptive to peace talks than in the past. The Taliban also carried out multiple attacks on targets in Kabul in June and July.²⁸³

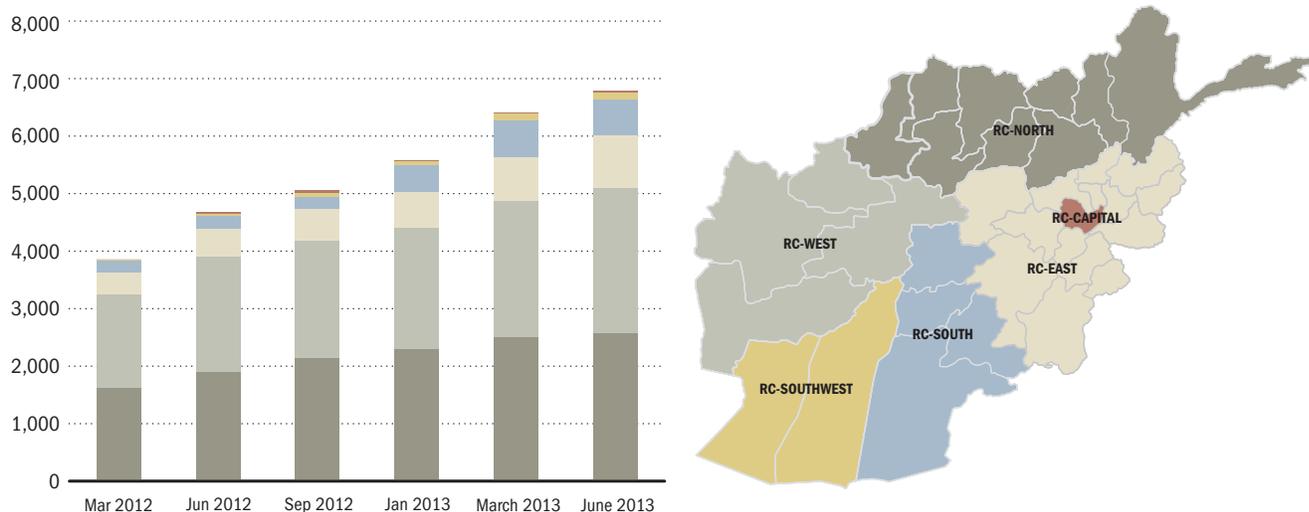
Earlier in the quarter, the High Peace Council held its first meeting with Afghan political parties. More than 45 representatives of various political parties, including influential political figures, attended the meeting to discuss ways to move the peace process forward. The overall aim was to broaden consensus among key political actors to enable the council to enter into negotiations with the armed opposition from a position of strength.²⁸⁴

Afghanistan Peace and Reintegration Program

This quarter was another rocky one for the Afghanistan Peace and Reintegration Plan (APRP). As in the preceding quarter, international donors cut off funds when the APRP's Joint Secretariat (JS) was unable to reconcile financial accounts, the Department of Defense (DOD) said.

FIGURE 3.1

REINTEGREES BY REGIONAL COMMAND, MARCH 2012–JUNE 2013



Sources: SIGAR Quarterly Report, 1/30/2013, p. 97; DoS, responses to SIGAR data call, 4/2/2013, 1/2/2013, 10/2/2012, 7/5/2012, 3/30/2012, and 7/1/2013.

As a result, the JS and Provincial Joint Secretariat Teams could not fund transition assistance, salaries, small grants, or other efforts for long periods in April and May. Funds finally began to flow to the provinces in June. The State Department (State) observed that the delays have damaged the process of reintegration.²⁸⁵ Partly in response to a letter from international donors at the end of May, the JS implemented a series of financial reforms that have the potential to prevent future cash-flow shutdowns.²⁸⁶

During this reporting period, 370 new reintegrees were formally accepted into the APRP for a total of 6,779 since the program began, as shown in Figure 3.1. Regional Command-East had the most growth, with 42% of the new reintegrees coming from its provinces of Bamyán, Ghazni, Kapisa, Khowst, Kunar, Laghman, Logar, Nangarhar, Nuristan, Paktika, Paktiya, Panjshayr, Parwan, and Wardak.²⁸⁷ The introduction of the commander's reintegration program, which raises the amount and duration of transitional assistance for individuals who reintegrate along with combatants under their command, has improved the APRP's ability to attract key brokers. Approximately 370 commanders are now enrolled in APRP.²⁸⁸ Twelve donor countries have given the APRP a total of \$176.3 million. Of this, \$84 million had been expended as of June 27, 2013.²⁸⁹

Afghanistan Peace and Reintegration

Program: the Afghan government's main program for promoting and managing insurgent reintegration. It provides a way for Taliban members and other anti-government elements to renounce violence and become productive members of Afghan society. The program also attempts to link peacefully re-entering society with development opportunities to enhance the attractiveness of the program. It is administered through a Joint Secretariat. The United Nations Development Programme (UNDP) provides operational support.

Sources: UNDR, "UNDP Support to Afghan Peace and Reintegration Program," 7/2/2013; ISAF, "APRP," accessed online 7/2/2013.

National Dispute Resolution Strategy

The APRP had originally intended to interview a wide variety of government officials and members of civil society to determine what drives

disputes in a particular province. The organization then planned to map grievances and develop a National Dispute Resolution Strategy.²⁹⁰ But DOD said grievance mapping remains very much in preliminary stages. Nor has the Grievance Resolution Strategy adopted by the JS in June 2012 been put into practice. According to DOD, one problem is that it is not clear whether the JS or another Afghan government body is responsible for leading grievance resolution.²⁹¹

NATIONAL AND SUBNATIONAL GOVERNANCE

The United States has implemented many programs to help Afghanistan improve its national and subnational governance in such areas as capacity building, local governance, and civil-service training. Nevertheless, an inability to generate sufficient revenues, corruption, limited experience in public financial management, ineffective program monitoring, and budget shortfalls for subnational governance all continue to plague efforts to build a stable Afghan government.

Karzai Decree Implementation

Progress in implementing President Karzai's 164-point plan to reduce corruption under Presidential Decree 45 has slowed in the last quarter, but the government moved forward with implementing two articles relating to the system for collecting customs, the State Department said.²⁹²

One of the decree's articles recommends that the Ministry of Finance (MOF) develop a plan to improve collection of customs duties to boost government revenue. According to the April report of the independent Monitoring and Evaluation Committee (MEC), tasked with evaluating progress on anticorruption aspects of the decree, the finance ministry had developed a credible 40-point plan to improve customs collection, but needed to develop additional administrative controls to keep revenue from being diverted from official accounts.

The second article of the decree called on Da Afghanistan Bank (DAB) to develop a strategy to prevent transfers of bulk cash out of the country, especially through the Kabul International Airport. The report noted that DAB had produced a strategy, but should consult with other agencies involved in detecting and preventing bulk cash transfers, such as the Afghan Border Police.²⁹³

The MEC praised U.S. Embassy Kabul efforts to train border police in anti-money-laundering techniques, but noted that currency counters installed at the airport by the Embassy are not currently in use. SIGAR found the same problem when it inspected the counters in 2012.²⁹⁴

The report assessed as "partially or fully implemented" other MEC recommendations to prevent corruption in the customs regime: the establishment of the Presidential Executive Commission on Transparency and Accountability at Borders, Airports, and Inland Customs Depots;

mechanisms for traders to pay their customs duties electronically; expanded use of the Automated System for Customs Data to consolidate and analyze customs data; restricting access to customs facilities to essential officials; increasing the salaries of customs officials; and revising the Afghan Customs Act to clarify customs procedures and grant non-transferable legal authority to customs and border-control agencies.²⁹⁵

Elections

Two of the United States' highest-ranking former defense officials warned this quarter that "the real make-or-break political event for Afghanistan will likely be the 2014 election." In a paper written for the Center for a New American Security, former International Security Assistance Force (ISAF) commander General John Allen and former Undersecretary for Defense Michele Flournoy, together with Brookings Senior Fellow Michael O'Hanlon, said an illegitimate process or outcome in the elections scheduled for April 5, 2014, could polarize the country ethnically, spark a descent into civil war, and so frustrate donors that they cut off aid or substantially downsize their security commitments.²⁹⁶

David Pearce, Deputy Special Representative to Afghanistan and Pakistan, testified in May before Congress that the State Department has identified three priorities to lay a solid foundation for credible elections. The first was for parliament to pass legislation establishing a truly independent body to adjudicate complaints. Second, the Independent Elections Commission (IEC) charged with running the elections must have a competent and effective chairman. Third, the IEC must implement its operational plan.²⁹⁷

Afghanistan made progress on the first priority when President Karzai signed a law establishing the ECC as the body that will adjudicate electoral complaints. However, the ECC will no longer have two foreigners appointed by the United Nations among its five members. Instead a committee will present the Afghan president with a shortlist of Afghan candidates from which to appoint the ECC's members.²⁹⁸ On the second issue, at press time, Karzai had not yet appointed a new chairperson for the IEC.²⁹⁹ On the third issue, the IEC is moving forward to put its operational plan into action.³⁰⁰

President Karzai is constitutionally prohibited from standing for president again next year and has said many times he does not intend to run. No leading candidates for president have yet emerged.³⁰¹

Independent Elections Commission

The IEC began registering voters for the 2014 presidential and provincial council elections on May 26, 2013. Voter cards issued in previous years will still be valid. New cards are being issued to Afghans over 18 or who will turn 18 by the elections and have not previously registered. The cards are also being issued to Afghan citizens who moved from their previous electoral constituencies, whose voter cards were lost or damaged, or who



525 women voted, representing the largest turn out of female voters ever in a local election in Helmand. Four seats were reserved for women; five female candidates stood for election. (PRT Helmand photo)

recently returned to the country.³⁰² The IEC is consulting with the security ministries to finalize a comprehensive plan to secure polling stations, while the security ministries are starting to assess security at polling stations. According to USAID, the IEC's operational plan for the elections contains a good framework for implementing fraud mitigation measures to improve the fairness and transparency of the election.³⁰³ The current commission chairman's term expired April 15, 2013, but he remains in place pending the appointment of a successor.³⁰⁴

Electoral Complaints Commission

The ECC received a new lease on life when President Karzai signed a law on July 17, 2013, reestablishing it as the country's adjudicator of electoral complaints. The ECC invalidated hundreds of thousands of votes, primarily for Karzai, during the 2009 elections, leading to a runoff that was only avoided when Karzai's opponent withdrew. Earlier this year, Karzai vetoed a law that would have allowed the commission to include two foreigners appointed by the United Nations. Later a compromise was struck in Parliament for a commission that will be composed only of Afghans. The president will appoint its members from a shortlist selected by a committee made up of the two speakers of Parliament, the head of the Afghanistan Independent Human Rights Commission, the head of the Supreme Court, a member of a constitutional watchdog, and a member of civil society. The United States and other donors had pressed the Afghan government to pass the law, saying that continued aid would depend on conducting fair and free elections.³⁰⁵

E-taskera

The Ministry of the Interior has postponed the issuance of the e-taskera, an electronic national identification card that can be used for voter registration.³⁰⁶ E-taskera cards are intended to serve as the foundation for voter identification in the medium to long term. The State Department said the advantage of the e-taskera is that a single identification data set can improve the delivery of government services, reduce fraud and corruption, facilitate inclusive voting processes, and improve security through positive identification. The disadvantage in Afghanistan is the difficulty of accessing and recording identification data from all citizens, either because of poor road infrastructure or because of security concerns. Both increase the cost of implementation. The Afghan government has estimated the initial enrolment process will cost \$120 million for a population of approximately 30 million.³⁰⁷

USAID Election Support

USAID is the lead agency in providing assistance and administering programs to build the capacity of Afghan institutions and civil society to manage and participate in electoral processes. The U.S. Government provided \$179 million in assistance from 2009 to 2013 for programs focusing

on effective voter registration, civic and voter education, electoral reform and legislation, and expanding political participation. It will provide an additional \$95 million for the 2014 presidential and provincial council elections and the 2015 parliamentary elections.³⁰⁸ The IEC estimates that the total cost of the 2014 elections will be \$129 million.³⁰⁹ USAID contributes to the United Nations Development Programme's (UNDP) comprehensive electoral support program, the Enhancing Legal and Electoral Capacity for Tomorrow project.³¹⁰

Another major electoral program USAID is funding is Afghanistan Electoral Reform and Civic Advocacy (ACERA). Run by the Maryland-based, small-business contractor Democracy International, ACERA conducts field research on electoral civic education and awards grants to civil society organizations to educate communities on the importance of participating in the electoral process. Some \$25.59 million has been expended on the program to date.³¹¹

This quarter Democracy International announced the results of a survey revealing that Afghans are divided on how well democracy functions overall in their nation. While 39% of Afghans report some level of satisfaction with how democracy works, 33% report dissatisfaction. While 46% of Afghans are satisfied with the election process, common understanding of the institutions that manage Afghan elections is low. Some 62% of Afghans report that they are unfamiliar with the function of the ECC and 33% report that they are not well informed about the role of the IEC. Despite the information gap, 76% of Afghans plan to participate in the upcoming presidential elections. The survey also found that 73% of Afghans did not believe that armed insurgents, either former or present, should be permitted to participate as candidates in elections. About 4,000 randomly selected Afghans from all 34 of Afghanistan's provinces took the 63-question survey from October 1 through November 20, 2012.³¹²

National Assembly

Afghanistan's National Assembly is slowly growing into a stronger, more politically mature institution, State said. While consistently fractious, the Parliament is occasionally capable of protecting its legislative prerogatives and directing a public spotlight on ministries. The legislative branch remains weak in comparison to the executive, but members of parliament appear to be trying to strengthen their hand. However, staffing struggles, corruption, and low levels of education and experience continue to handicap the body.³¹³

State said the most notable bill passed by the National Assembly this quarter was the IEC Structure Law, which outlines the procedures for appointing IEC commissioners and convening an electoral complaints commission. Karzai vetoed the law on April 27, citing constitutional grounds. The IEC Structure Law was resubmitted to the lower house, which passed a revised version on June 10. The upper house passed the draft law on June 23

with further revisions. A joint committee reviewed the two versions to reconcile differences.³¹⁴ On July 17, President Karzai signed the bill into law.³¹⁵

Until this quarter, USAID had been providing aid to the Afghan National Assembly through the Afghanistan Parliamentary Assistance Program. USAID says that program has been replaced by the Assistance to Legislative Bodies of Afghanistan (ALBA) project. ALBA will run through April of 2017 with a possible one-year extension depending upon funding and project success. In the first two years of the ALBA project, efforts will focus on building parliamentary capacity ahead of the 2015 parliamentary elections. Once the new parliament is in place, the project will shift focus to more individualized training for parliamentarians and parliamentary commissions. As of June 30, 2013, USAID had obligated \$4.91 million for assistance to the parliament.³¹⁶

Civil Service Capacity

Afghanistan's Independent Administrative Reform and Civil Service Commission had planned to implement a general entrance exam this year to recruit recent university graduates for civil-service positions nationwide, as President Karzai directed in his anticorruption measure, Presidential Decree 45. The exam was supposed to take place in April, but has been delayed until Parliament approves legislation concerning the exam. For the time being, civil servants are being recruited under previous procedures.³¹⁷

National Budgeting

In January 2013, the National Assembly passed the national budget submitted by the MOF. The submission noted the urgency of ensuring greater self-sufficiency through revenue generation. The total proposed budget is \$6.81 billion (\$3.77 billion in the operational budget and \$3.03 billion in the development budget).³¹⁸

The World Bank reported that Afghan government revenues rose by 13.1% in 2012, but still missed IMF targets, mainly because customs revenue fell by 9.6% in spite of higher import volumes.³¹⁹ The Senior Officials Meeting Joint Report warned that revenue collection faces significant challenges as the enforcement of taxation is hampered by a deteriorating security situation, limitations on the application of the rule of law, and low organizational capacity, all leading to a potential leakage of revenue.³²⁰

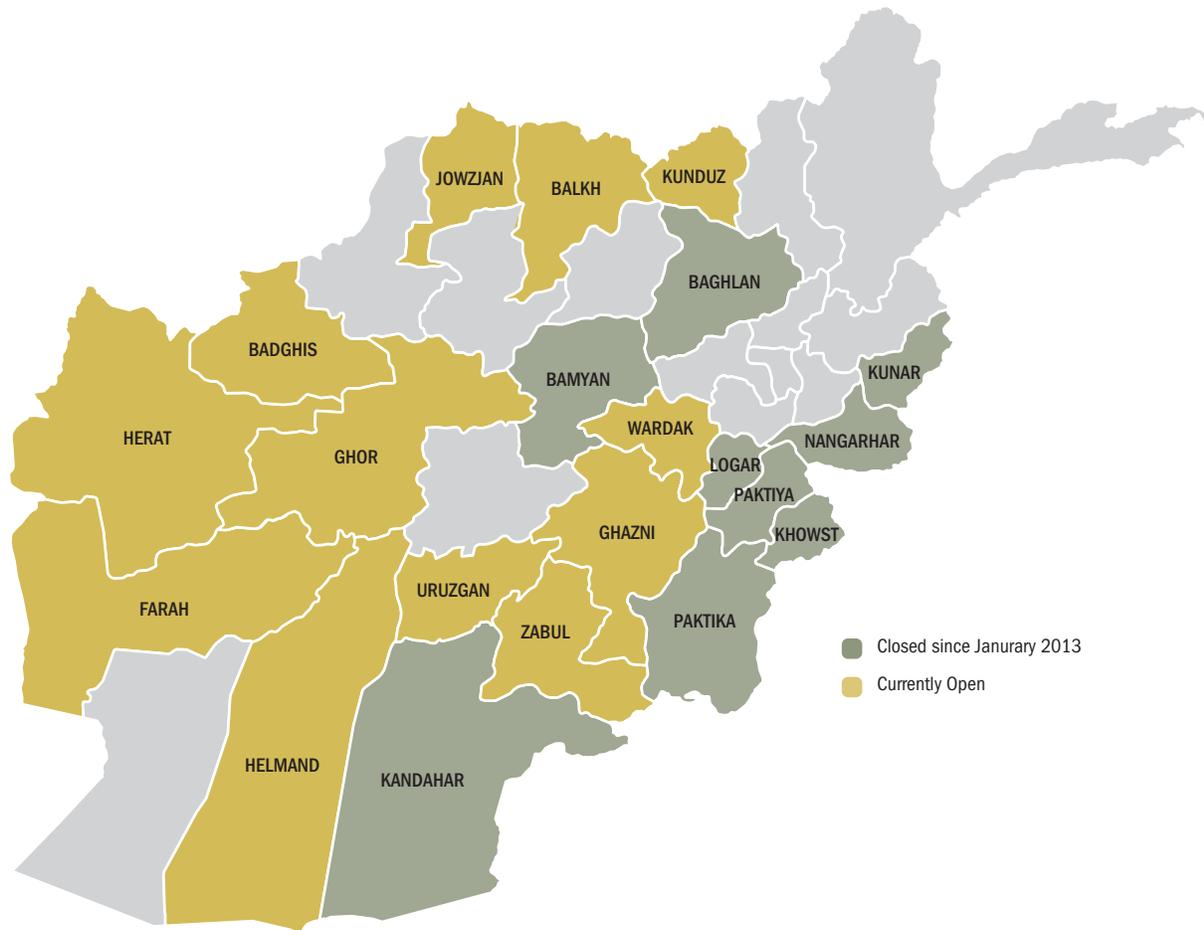
Local Governance

The United States and its allies continue to close the Provincial Reconstruction Teams (PRTs) they originally established to assist Afghanistan's local governments. Nine of the 22 PRTs still operating in January 2013 have since closed: Baghlan, Bamyán, Kandahar, Khowst, Kunar, Logar, Nangarhar, Patika, and Paktiya, as shown in Figure 3.28.³²¹ More closings are expected in the coming year.

GOVERNANCE

FIGURE 3.28

STATUS OF PROVINCIAL RECONSTRUCTION TEAMS



Source: DOD response to SIGAR data call, 6/5/2013.

By the end of 2012, the PRT model of daily mentoring provincial, district, and line-ministry officials had become outdated, State said. As local governments assumed the lead and U.S. officials pulled back, governors, ANSF officials, provincial and district councils, and line ministries began working together to solve local problems. State is using U.S. military support to monitor U.S.-funded programs while this is still possible. The department recognizes that military mobility support will wane and it is moving toward a third-party monitoring system.³²²

USAID's Support to the Sub-National Governance Structure project aims to develop the capacity of Afghanistan's 32 provincial councils and provide

technical assistance to the Independent Directorate of Local Governance. This quarter, the program conducted a number of public hearings, site visits, NGO briefings, cross-regional visits, and trainings on different topics in most of the country's provinces. Of \$18.98 million obligated, the program has expended \$16.75 million. It is scheduled to end September 30, 2013.³²³

U.S. Stability Programs

The Department of Defense and USAID conduct stability programs to extend the reach of the Afghan government into less secure areas, to keep security from deteriorating, and to enable the conditions for transition and long-term development.³²⁴

Stability in Key Areas Program

USAID currently administers the Stability in Key Areas (SIKA) programs throughout Afghanistan. USAID created the four regional SIKA programs—North, South, East, and West—through separate contracts with a total value of over \$203 million. AECOM International Development Inc. received the contracts for SIKA East, SIKA West, and SIKA South. Development Alternatives Inc. received the contract for SIKA North. According to the contracts, the programs would award grants to communities for projects that address sources of stability identified by the community.

Although USAID had disbursed approximately \$47 million for the four SIKA contracts as of March 31, 2013, a SIGAR audit released this quarter found that none of the funds have gone to grants that fund community projects such as those that are “labor-intensive or productive infrastructure projects,” as called for in the SIKA contracts.

The SIKA contracts stressed the importance of the programs being viewed as extensions of the Afghan government. However, USAID did not secure a formal agreement with key Afghan government partners until nine months after it signed the first SIKA contract. In addition, contractors for the four regional SIKA programs cited the lack of an agreement with the Afghan government as the reason for significant delays in program implementation. The delay led USAID to extend the performance periods for three contracts, even though the contractors had executed no grants. The overall delay in awarding grants appears to have created participant dissatisfaction with the programs. For example, the audit found that participants in one of the regional programs are experiencing “fatigue” with the many planning workshops they have attended. Consequently, the program is at risk of undercutting its stated objectives to promote stability and improve Afghan perceptions of their government.³²⁵

Village Stability Operations

Village Stability Operations (VSO) and the Afghan Local Police (ALP) are complementary components of the Afghan government and of the Afghan

SIGAR AUDIT

A SIGAR audit this quarter found that the SIKA program has suffered from serious delays in implementation and has not met contract requirements. For more information, see Section 2, page 36.

National Army (ANA) Special Operations Command's counterinsurgency strategy. DOD said that VSO/ALP has made substantial progress in protecting and mobilizing rural populations, preventing their exploitation by the insurgency, and expanding the influence of the Afghan government. Increased security provided by the ALP improves the ability of the provincial and district government to provide essential services and goods to the populace. According to DOD, ALP is a cost-effective means of achieving relative security in key rural areas. It costs \$6,000 per year to train and maintain each ALP member, or one-sixth the cost of an Afghan policeman and one-eighth the cost of an ANA soldier. At the currently approved number of 30,000 ALP members, the program as a whole costs \$180 million a year. ISAF is submitting a request to expand the current ALP by an additional 5,000 members, which would require an increase of \$30 million per year.³²⁶

U.S. Capacity-Building Programs for Public Administration

A top goal of the U.S. reconstruction effort is to improve the Afghan capacity for administering government. The United States is implementing a number of programs to build Afghan governing capacity at the national, provincial, and local levels. This subsection reviews some of these efforts.

Initiative to Promote Afghan Civil Society

USAID said its Initiative to Promote Afghan Civil Society (IPACS) has three objectives. First, it seeks to improve civil society's accountability and the legal and regulatory framework for it. Second, it seeks to increase civil society's capacity. Third, it seeks to increase citizen mobilization and policy engagement. Counterpart International is the implementer. Some \$45 million has been obligated for the program, of which \$32.3 million had been expended by June 29, 2013.³²⁷

Among the highlights of the program this quarter: Counterpart developed a package of proposed tax incentives that will support the sustainability of Afghan NGOs. Counterpart and its key partners have conducted 76 community dialogues and 16 provincial policy dialogues. And Counterpart selected 34 candidates to participate in its "Emerging Leaders" program and hosted the first in a series of training events for the participants.³²⁸

While the program has made significant inroads, USAID said Afghans continue to lack understanding of the role of civil society, resulting in a lack of trust in civil society at large. IPACS plans to address this next quarter by running a series of short TV and radio spots. The advertisements will give a simple presentation of what civil society is and what it does for citizens and communities at the local and the policy-making level.³²⁹

The World Bank defines civil society as "the wide array of non-governmental and not-for-profit organizations that have a presence in public life, expressing the interests and values of their members or others, based on ethical, cultural, political, scientific, religious or philanthropic considerations."

Source: World Bank, "Defining Civil Society," <http://web.worldbank.org/WBSITE/EXTERNAL/TOPICS/CSO/0,,contentMDK:20101499~menuPK:244752~pagePK:220503~piPK:220476~theSitePK:228717,00.html>, accessed 7/6/2013.

Performance Based Governance Fund

USAID's Performance Based Governance Fund (PBGF) focuses on building the financial-management capacity of provincial governors' offices (PGOs).

Quarterly assessments of the PGOs' capacity are used to determine which receive incentive funding. The assessments show steady improvements in PGO performance.³³⁰

The program faces challenges. Due to security issues, USAID said it cannot operate in one of Afghanistan's 34 provinces. Its work environment is also highly political and subject to change. Last year, 12 governors resigned or were replaced. Changes in governors often affect the budget process. The new governors stop budget execution and implementation while they learn about PBGF. They also seek changes to the budgets their predecessors developed, further disrupting the process. Governors who receive low rankings in the quarterly evaluation have required the project to engage in extensive and difficult discussions about the results. Although the project includes a strong internal audit component, cases of corruption have arisen.³³¹

The total obligated for PBGF to date is \$48.89 million, of which \$45.85 million has been expended.³³²

RAMP-UP and Kabul City Initiative

USAID's Regional Afghan Municipalities Program for Urban Populations (RAMP-UP) and the Kabul City Initiative (KCI) both help municipal governments in Kabul and other urban centers increase the capacity of municipal officials, improve the delivery of municipal services, support economic growth initiatives, and raise revenues.³³³ As of June 30, 2013, USAID had obligated \$251.04 million for RAMP-UP and \$41.43 million for KCI, of which \$198.28 million and \$38.98 million had been expended, respectively.³³⁴

The municipal-support programs work in all of Afghanistan's 34 provincial capitals, plus several district centers. More recently, RAMP-UP has provided limited training and mentorship to 10 district municipalities in Regional Command-East, using the larger provincial capitals as training hubs. The small-scale infrastructure undertaken as a part of these programs includes road and sidewalk repair, drainage-ditch and culvert rehabilitation, street light installation, and construction of markets, latrines, landfills, slaughterhouses, and public parks.³³⁵

USAID said citizens can now hold municipal officials accountable through a host of formal mechanisms such as town hall meetings, budget hearings, and radio call-in shows. USAID is assisting with the formation of Municipal Advisory Boards, representative bodies that monitor municipal activities and solicit citizen concerns. Municipal elections could take place as early as 2015. That would bring the municipal governance structure in line with Afghanistan's constitution. The Integrated Financial Management System, which USAID funded and will eventually expand to include all municipalities, is reducing corruption by making municipal financial transactions automated and transparent.³³⁶ SIGAR plans work with regard to RAMP-UP and KCI in the future.



Afghan media attend a press conference held by Afghan Defense Minister Bismullah Khan before a shura of the governors of seven provinces north of Kabul. (U.S. Army photo)

Afghanistan Media Development and Empowerment Project

USAID's Afghanistan Media Development and Empowerment Project (AMDEP) was designed to strengthen the capacity of independent media by promoting greater professionalism within and among media institutions in Afghanistan. The implementer is the Internews Network.³³⁷

AMDEP supports the Salam Watander ("Hello Countrymen") radio news and current-affairs service and a network of 58 provincial partner radio stations. AMDEP provides daily radio content, ongoing mentoring, and tailored assistance to enhance the quality of programming, increase the technical capacity of staff, and improve financial sustainability. AMDEP-sponsored Salam Watander programming has an audience reach of an estimated 13 million Afghan citizens through the provincial partner radio network. During this reporting period, six additional radio stations joined the network. AMDEP promotes TV as well as radio, providing technical upgrades to independent TV outlets in Ghazni, Kunduz, Takhar, and Helmand.³³⁸

AMDEP backs Nai Supporting Open Media in Afghanistan (Nai), the leading media advocacy and training organization in Afghanistan, with offices in Kabul, Nangarhar, Kandahar, Herat, and Balkh provinces. Nai brings media representatives together to conduct a range of advocacy initiatives such as press conferences, press releases, and associated events. Nai Media Watch tracks threats against journalists and incidents that impact free speech. The Nai Graduate Club provides a forum for ongoing professional development and support to Nai training recipients and young media enthusiasts. The Nai

Media Institute provides higher-quality vocational education through a two-year diploma course.³³⁹

Internews advisors also provide in-depth technical support and advice in spectrum management and monitoring to the Ministry of Communications and Information Technology and the Ministry of Information and Culture.³⁴⁰

USAID has obligated \$31.8 million for AMDEP, of which \$28.65 million has been spent.³⁴¹

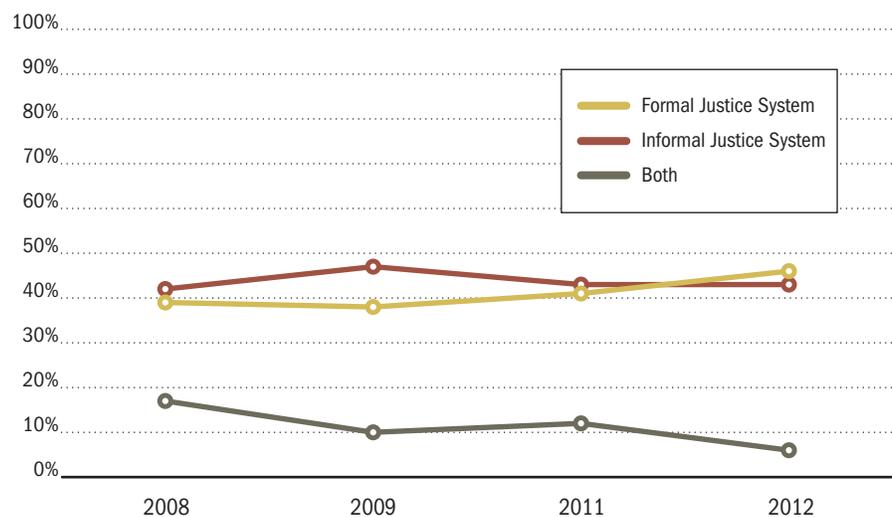
JUDICIAL REFORM AND RULE OF LAW

Establishing the rule of law is an enormous governance challenge for Afghanistan. Justice continues to be administered in Afghanistan by several parallel systems. The government funds a formal system, complete with formal courts and judges trained according to Afghan and sharia law. As shown in Figure 3.29, Afghans for the first time in 2012 used the formal system more often than the informal system, which is composed of elders, local government officials, and religious leaders.³⁴² USAID noted that the formal system is challenged by corruption, while the informal system operates according to traditional beliefs that often violate Islamic law and the Afghan constitution. Finally, the Taliban runs its own courts in the areas it controls.³⁴³

Afghans consider the judiciary the most corrupt segment of their society, Transparency International reported in its annual survey of public opinion

FIGURE 3.29

PERCENT USING AFGHAN JUSTICE SYSTEMS



Note: No data reported for 2010.

Source: Asia Foundation, *Afghanistan in 2012: A Survey of the Afghan People*, 2012, p. 148.

on corruption. The survey found that 60% of Afghans see the judiciary as affected by corruption, or more than any other profession, while 65% reported paying a bribe to the judiciary, also more than any other profession.³⁴⁴ Of the 22 national priority programs the government is using to guide its development, only two remain to be endorsed. One of these is “Law and Justice for All.”³⁴⁵

Supreme Court

Under the Afghan constitution, Supreme Court judges serve set terms. Five of the eight judges’ terms have expired, but they are still on the bench and have not been replaced. The term of the current chief justice and an associate justice expired in August 2010. The terms of another three associate justices expired in July 2013.³⁴⁶ David Pearce, Deputy Special Representative for Afghanistan and Pakistan, told Congress in May that it was important that the Supreme Court justices whose constitutional terms have expired be removed and replaced.³⁴⁷

A suicide bomber attacked the Supreme Court on June 11, 2013. The bomb killed 17 people, most of them court employees. The Taliban later said the attack aimed to punish Supreme Court judges for imposing tough sentences on insurgents.³⁴⁸

Criminal Procedure Code

The lower house of the National Assembly passed the updated Criminal Procedure Code in early June 2013, the State Department said. State was told that it passed substantially intact, and incorporates the recommended amendments. As of mid-July, the bill is pending with the upper house. The Afghan government had pledged at the end of the Kabul Conference in July 2010 to enact its draft Criminal Procedure Code.³⁴⁹

Taliban Justice

The Taliban’s judicial system is the closest thing the movement has to a functioning shadow government, according to a report by Integrity Watch Afghanistan. The system is defined by mobile courts, lean structures, and little recordkeeping. The report found that Taliban courts have suffered from problems like corruption and cronyism, but said the movement has been trying to contain them with tools like multiple channels of reporting on the judges within the Taliban themselves and external oversight, often by village elders and religious figures. Non-Taliban interviewees told the report’s authors that Taliban courts appeared to have achieved a relatively high degree of perceived fairness when judging disputes and criminal cases. However, the Taliban often resort to arbitrary executions or show trials where the defendant does not have a fair chance in the case of charges of spying or collaborating with the Afghan government. Overall, the report

says the Taliban's judiciary has served the group better than any other non-military aspect of their movement.³⁵⁰

U.S. Justice Sector Training

The State Department's Bureau of International Narcotics and Law Enforcement Affairs (INL) cited The Asia Foundation survey which found that, for the first time, more Afghans were using the formal justice system than the informal one as evidence that its justice-sector programs were working.

INL said its Justice Sector Support Program (JSSP) has been operating continuously since 2005, working with ministries in Kabul, providing nearly nationwide provincial training, and implementing other important programs such as legislative drafting help and the case-management system. Moreover, the increasing usage of the formal justice system since 2008 tracks closely with greater appropriations for justice, greater U.S. Embassy engagement on justice issues, and the expansion of INL justice projects. INL noted that while other donors have stopped and started projects since the beginning of Afghan reconstruction, INL has been able to maintain its relationship with the justice ministries for eight years, including relationships with significant cohorts of Afghan JSSP attorneys.

INL said it expects the formal justice system to survive intact after the 2014 transition, largely because it represents the restoration of an accepted Afghan model that predates the Soviet invasion of 1979. INL said Afghanistan now has the ability to deploy a minimally adequate and functioning system that will support continuing reform.

INL has agreed to fund the Justice Training Transition Program, previously implemented by JSSP, at \$47 million over 2.5 years.³⁵¹

U.S. Corrections Sector Training

State listed INL's support for Afghanistan's General Directorate of Prisons and Detention Centers (GDPDC) as among its most successful development programs. State said INL had helped the GDPDC improve its capability to operate safe, secure, and humane Afghan correctional facilities. The department said these improvements were particularly important given sharp increases in arrests and prosecutions, which caused the prison population to grow dramatically from 600 prisoners in 2001 to more than 27,000 in 2013. INL's Corrections Support System Program has trained more than 8,000 corrections officers since 2006 under oversight from INL's program managers and contracting personnel.³⁵²

ANTICORRUPTION

The United States joined other members of the international community at the Senior Officials meeting on July 3, 2013, in calling for Afghanistan to combat corruption. In statement released after the meeting to follow up

SIGAR AUDIT

In an ongoing audit, SIGAR is assessing the Department of State's JSSP. The program aims to train justice-sector personnel and build the overall capacity of the Afghan judicial system.

on the Tokyo Mutual Accountability Framework, participants said continued efforts were necessary in the Kabul Bank fraud case to hold complicit parties accountable and to secure criminal convictions that would allow the Afghan government to recover stolen assets. They said that while Afghanistan had made progress on the declaration and publication of assets of senior government officials, the assets needed to continue to be verified according to Afghan law.³⁵³ Afghanistan's national priority program on transparency and accountability has yet to be endorsed by the Afghan government and the international community.³⁵⁴

The United States' anticorruption efforts received a blow this quarter when President Karzai confirmed a report by *The New York Times* that he received regular cash payments from the U.S. Central Intelligence Agency (CIA). Karzai, who said the CIA had promised him the payments would continue, claimed they had helped pay for rent for various officials, treat wounded members of his staff, and even pay for scholarships. Other officials said the practice undercuts a key goal of the U.S. reconstruction effort: building a clean and credible Afghan government that can reduce popular support for the Taliban.³⁵⁵

Afghan Attorney General's Office

State said the Attorney General's Office (AGO) lacks the political will to prosecute high-level, corrupt officials. The Attorney General was in Germany during the first half of this reporting period recovering from a heart attack. His deputy, serving as acting Attorney General during most of the absence, has been unresponsive.³⁵⁶

The new director of the Anti-Corruption Unit (ACU) at the AGO does not appear to have the support to combat high-level corruption. Generally speaking, morale at the ACU is very low and line prosecutors feel constrained by the lack of political will. According to State, the teams of two to three prosecutors assigned to each case do not share information and an atmosphere of paranoia prevails.³⁵⁷

The Kabul Bank case continues to epitomize the AGO's lack of zeal. Although the AGO has appealed the rather weak convictions handed down by the primary court, the analysis it provided the court does not go much beyond the arguments that failed in the primary court. Moreover, there is no movement toward bringing charges against the remaining shareholders despite a court order to do so.³⁵⁸

Special Cases Committee Cases

As of June 2013, the Special Cases Committee (SCC) is effectively defunct. The Afghan Attorney General created the SCC in December 2011. From the outset, he invited international participation, including the U.S. Department of Justice (DOJ). The committee was meant to be a means for identifying cases of special significance, marking them for special attention by the ACU

and the Military Anti-Corruption Unit (MACU) within the Attorney General's office, and tracking progress and outcomes. In May, DOJ drafted a proposed charter to document the purpose, policies, and procedures for the SCC. This was delivered to the AGO as a means of reinvigorating and formalizing the SCC concept. The initial reaction to the proposed charter was lukewarm.

The National Military Hospital case was the first identified by the SCC for investigation and prosecution. At least one charge has been filed against former ANA Surgeon General Zia Yaftali for crimes committed in connection with his oversight and responsibility for the hospital. The charge, essentially for dereliction leading to waste, relates to Yaftali's failure to enforce the terms of a sales contract for swine flu vaccine. In May, the Anti-Corruption Tribunal returned the case to the MACU for further refinement; it is not clear when it will be re-filed. A second case, involving the unnecessary purchase of a mammography machine, has the potential for a more serious charge of procurement fraud, because the machine was purchased from a company in which Yaftali's brother held a financial interest. MACU prosecutors say this case will be filed "soon," but they have been saying this for nearly eight months.³⁵⁹

Monitoring and Evaluation Committee

USAID's Assistance to Afghanistan's Anticorruption Authority (4A Project) temporarily transferred a team specializing in vulnerability to corruption assessments to the Independent Joint Anti-Corruption MEC this quarter. The team finalized draft reports in the areas of land distribution to repatriates and university-certificate issuance. It also drafted most of an assessment of the civil service commission.³⁶⁰

High Office of Oversight and Anticorruption

USAID said the High Office of Oversight and Anticorruption (HOO) continues to be dysfunctional and ineffective, owing to mismanagement and top leadership's lack of political will to carry out its corruption-fighting mandate. When HOO does take on a case, it selectively targets people who are not politically connected.³⁶¹

Assistance to Afghanistan's Anticorruption Authority

The work of USAID's 4A Project with the HOO is now limited to providing assistance to its Human Resources Directorate. The HOO refuses to share information with the 4A Project since the level of funding it provided over the last two years is no longer available. The 4A Project believes that, given the help the HOO has received, it now has the capacity to function as an effective anticorruption institution. However, it is not functioning effectively because of interventions from ethnic, regional, and political figures.

Despite these problems, the HOO is slowly and steadily registering assets in the provinces, processing corruption complaints, and conducting

vulnerability-to-corruption assessments. The Kabul Municipality has significantly simplified the process of issuing residential and commercial construction permits. The new rules have not been put to the test, but if they manage to simplify the process and reduce corruption, then this would be a success story.³⁶²

Audits

Earlier this year, the National Assembly passed a National Audit Law. The parliament stripped out key provisions that would have strengthened the independence of the Control and Audit office, now renamed the National Audit Office (NAO). USAID said that the NAO is subject to the caprices of the presidency. It lacks the capacity to conduct performance audits and can conduct only the bare minimum of financial audits. Nor can the MOF now conduct internal audits of line ministries. Only the line ministries' internal audit departments are now permitted to undertake such audits. USAID said these changes represent backward steps for transparency and accountability.³⁶³

Corruption in Afghan Security Forces

Afghanistan's security ministries made progress fighting corruption this quarter, DOD said. Transparency International's Government Defense Anti-Corruption Index rates the country's Ministry of Defense (MOD) and Ministry of Interior (MOI) above many of their counterparts in the region and on a par with those of countries such as Bahrain, Oman, and Saudi Arabia.

The MOD continues to push anticorruption reform measures. In March, it held a two-day conference that outlined the ministry's approach to anticorruption and provided detail on the way the Transparency and Accountability Working Group, set up to provide oversight for MOD, will work. Likewise, the MOD Inspector General is now demonstrating a more robust stance against corruption with a number of investigations and, more important, prosecutions. Unfortunately, the MOI did not put forward any new reform measures, according to DOD.³⁶⁴

CJIATF-Shafafiyat

Combined Joint Interagency Task Force (CJIATF)-Shafafiyat, an ISAF-interagency group created in 2010 to coordinate anticorruption efforts, has been encouraging ISAF and Afghan leaders to take corruption and organized crime into account when planning for transition. Dr. Ashraf Ghani, President Karzai's transition lead, is ensuring that transparency and accountability issues are considered throughout the planning process, but tangible progress on tackling wider corruption and organized crime remains to be seen. Suspects in corruption and organized crime cases often have the backing of senior Afghan government officials and are protected by strong patronage

networks. With a reduction in personnel and transition well underway, CJIAF's focus has shifted away from broad-spectrum counter corruption toward hardening Afghan security ministries against corruption.³⁶⁵

SIGAR AUDIT

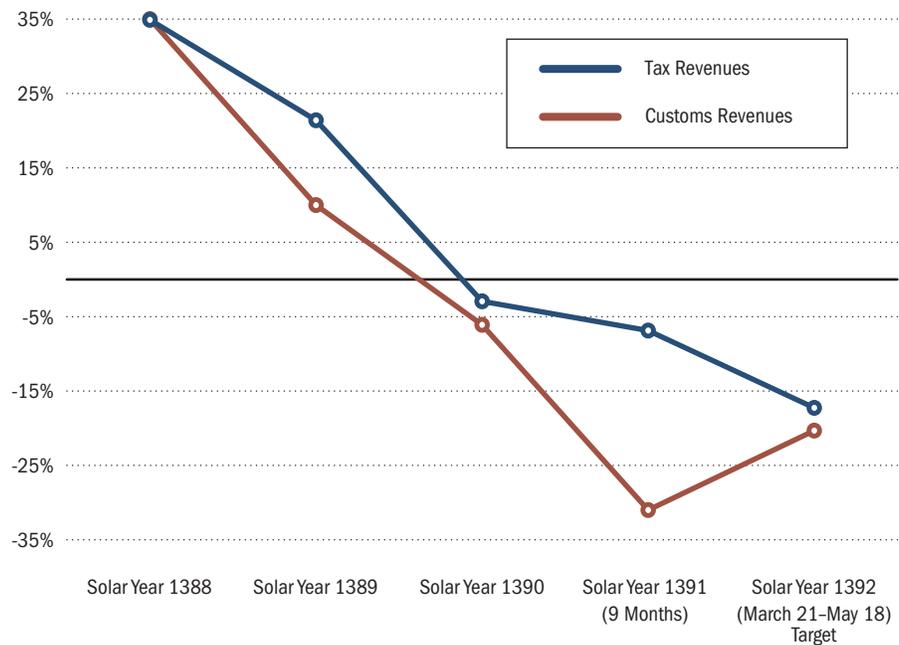
SIGAR is reviewing USAID and the Department of Homeland Security Customs Border Protection programs to develop and strengthen Afghanistan's capacity to assess and collect customs revenue. For more information, see Section 2, page 40.

Corruption in Customs Collections

Fraud and corruption in customs continue to threaten the Afghan government's ability to fund itself. Customs revenues fell in 2012 as a result of increased corruption and in 2013 the Afghan government missed its IMF revenue targets by nearly 30%.³⁶⁶ In its April edition of its *Afghanistan Economic Update*, the World Bank stated although a variety of factors could explain shortfalls in revenue collection, it is likely that a deteriorating customs governance environment contributed to the problem.³⁶⁷ Figure 3.30 shows the increasing disparity between budgeted customs and tax revenues and actual revenue collection.

FIGURE 3.30

COLLECTED TAX AND CUSTOMS REVENUES: PERCENTAGE GREATER OR LESS THAN BUDGETED



Notes: Solar years run approximately March 20 to March 20 of Gregorian calendar years. SY 1388 corresponds to March 20, 2009, to March 20, 2010, and so on. Nine-month data for solar year 1391 reflect a change in the Afghan fiscal year. SY 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.

As a result of this underperformance, the MOF lost \$13 million in funding from the Afghanistan Reconstruction Trust Fund Incentive Program.³⁶⁸ Partially because of this loss, the MOF undertook a large-scale restructuring of the Afghan Customs Department.³⁶⁹ To prevent customs officials from building local corruption networks, the MOF also replaced a large number of high-ranking officials and rotated most provincial customs directors. The Minister of Finance expressed confidence in the capabilities of the new senior officials. At the end of the quarter, it was too early for the State Department to know how effective this move was, but it has the potential to reduce corruption.³⁷⁰

HUMAN RIGHTS

Afghanistan failed to improve its human rights record in this quarter. Human rights organizations warned that women's rights were in danger. More civilians were killed, mostly in anti-government attacks. The United Nations found that 533 civilians were killed and 882 injured between February 1 and April 30, a 25% increase over the same period in 2012. Antigovernment elements were responsible for 73% of the civilians killed or wounded in this period; government-affiliated elements were responsible for 12%.³⁷¹

Gender Equity

Human Rights Watch warned this quarter that women's rights face a darker future in Afghanistan with the drawdown of foreign forces in 2014. On May 18, 2013, a female lawmaker attempted to strengthen Afghanistan's 2009 Law on the Elimination of Violence Against Women (EVAW) by having Parliament endorse it. Instead, conservatives so harshly castigated the law that it was withdrawn. The law's opponents, including religious leaders serving in parliament, attacked key provisions such as shelters for female victims of violence and a minimum marriage age. The criticism was so vociferous that the speaker halted debate after 15 minutes and sent the law back to parliamentary commissions.³⁷²

At the Senior Officials Meeting on the Tokyo Mutual Accountability Framework, participants noted that implementing EVAW and monitoring its progress was one of the Afghan government's commitments to the international community.³⁷³ In a July submission to the United Nations Committee on the Elimination of Discrimination Against Women, Human Rights Watch said that extreme forms of discrimination remain part of the day-to-day experience of most Afghan women, and violence against women is common and largely unpunished. Half of girls are not in school and female literacy remains extremely low. Child marriage and forced marriage are common, with 39% of girls married before age 18, according to the UN Population Fund.³⁷⁴

USAID plans to address these issues in the coming year with its Promoting Gender Equality in the National Priority Program (PROMOTE). PROMOTE will assist the Afghan government in working toward the goal of achieving a rate of 30% female staff in the Afghan civil service laid out in the Tokyo Mutual Accountability Framework. It will also support the networking among established women's rights groups. And it may establish professional business development services and market-driven technical and vocational education for women. Some \$214.4 million in funding is planned for PROMOTE through fiscal year (FY) 2014.³⁷⁵

Women's Shelters

The State Department listed an INL program to support operations of nine women's shelters across Afghanistan and the Afghan Women's Shelter Network, which brings together Afghan shelter providers to discuss best practices and advocate for victims, as one of its most successful reconstruction projects. State said that INL's support had expanded the number of provinces where services are available to victims of gender-based violence and discrimination and facilitated an Afghan-led campaign to increase public acceptance of women's shelters. State has seen an increase in government referrals to and political support for the shelters, indicating that the Afghan government is starting to accept shelters as legitimate resources for women seeking legal and protective services. Shelters have been provided multi-year funding that extends into 2014 and 2015. In 2012, INL-funded shelters benefitted approximately 2,000 women and children in 30 of Afghanistan's 34 provinces.³⁷⁶

Refugees

Pakistan agreed to extend the validity of the registration cards held by 1.6 million Afghan refugees beyond a June 30, 2013, deadline. The decision means that Afghan cardholders in Pakistan will continue to have legal status until the approval of a National Policy for Afghan Refugees. That policy is pending approval by the Pakistani Cabinet and Prime Minister.³⁷⁷

Afghanistan Independent Human Rights Commission

After more than 18 months' delay, President Karzai appointed a group of new commissioners to the Afghanistan Independent Human Rights Commission (AIHRC) on June 15, 2013. The president extended Sima Samar's tenure as the head of the commission, and gave five others five-year appointments as commissioners.³⁷⁸

Human Rights Watch complained that most of the new commissioners appeared to have little human rights experience and that the president had made his appointments without consulting civil-society organizations involved in defending human rights.³⁷⁹ The United Nations High Commissioner for Human Rights warned that the appointments

The AIHRC was established in accordance with the 2001 Bonn Agreement as the main institution within the Afghan government responsible for promoting human rights. Although the commission is a government body, with commissioners appointed by the president, it is by law independent. The commission's responsibilities include monitoring the general human rights situation in Afghanistan, making recommendations to the government on human rights, investigating specific human rights violations, and assisting individual Afghans whose rights have been violated.

Source: HRW, "Afghanistan: Weak Appointments Undermine Rights Body," 6/18/2013.

compromised the commission's independence and effectiveness and undermined its standing with the public and international partners.³⁸⁰ Karzai had been under pressure from donors to appoint new commissioners. In the Tokyo Mutual Accountability Framework, the Afghan government had committed to allowing the AIHRC to perform its "appropriate functions."³⁸¹

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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

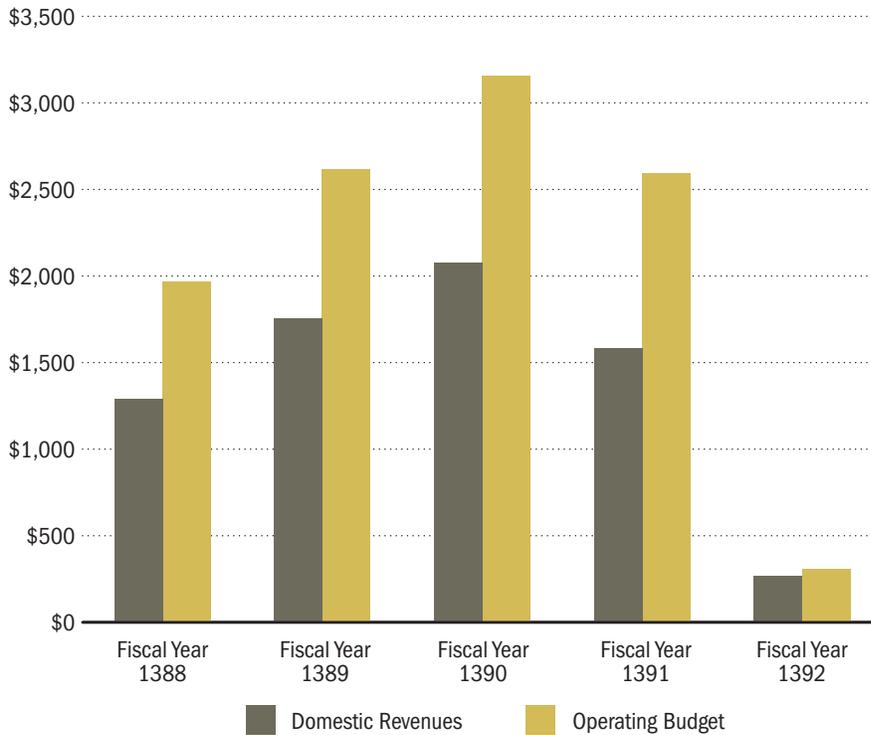
Afghanistan's fiscal sustainability ratio—domestic revenues versus operating expenses—remains one of the lowest in the world, according to DOD.³⁹⁰ The Ministry of Finance (MOF) projected domestic revenue for Afghan fiscal year (FY) 1392 (December 2012 to December 2013) at \$2.4 billion, an increase of 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.

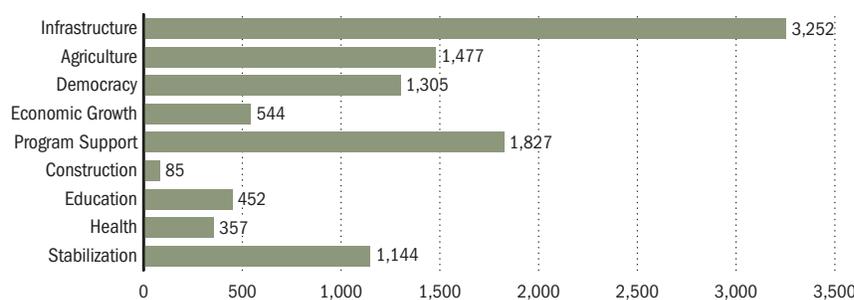
Source: Treasury, response to SIGAR data call, 6/26/2013.

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)

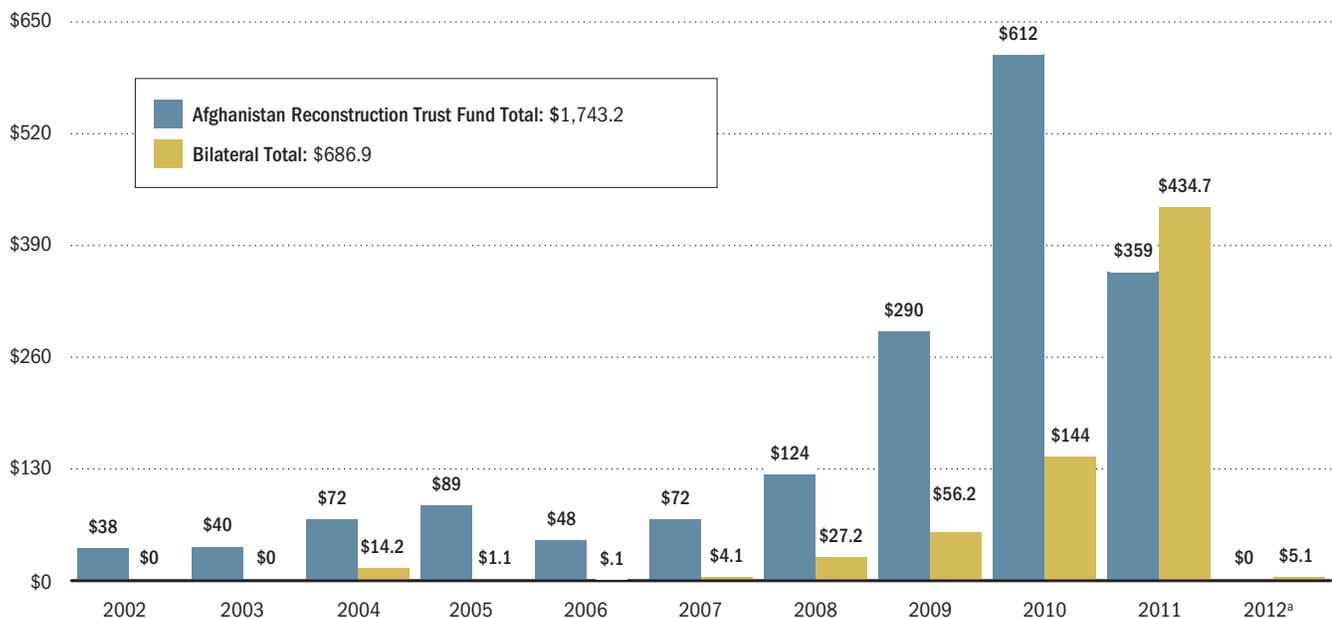


Note: Numbers rounded.

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

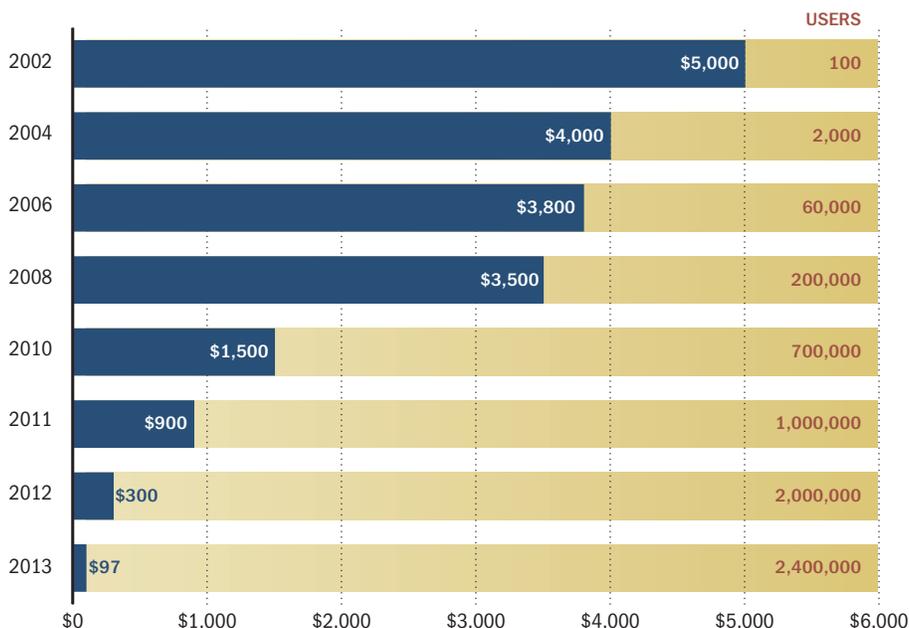
With the steady reduction of internet prices, the Ministry of Communications and Information Technology (MCIT) expects the number of users to reach 2.4 million in 2013. The cost of 1 mbps (megabyte per second) access was \$5,000/month in 2002, dropping to \$97/month in 2013, as shown in Figure 3.35 on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

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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)

