ECONOMIC CONTENTS

ECONOMIC AND SOCIAL DEVELOPMENT

As of September 30, 2013, the U.S. government has provided more than $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 funds, approximately $18 billion had been obligated and $14 billion disbursed as of September 30, 2013.

TABLE 3.9

CUMULATIVE APPROPRIATIONS FOR AFGHANISTAN DEVELOPMENT, AS OF SEPTEMBER 30, 2013 ($ BILLIONS)

Name	Managed by	Appropriated
ESF	USAID	$16.7
CERP	DOD	$3.6
TFBSO	DOD	$0.7
AIF	STATE/DOD	$1.0
Total		**$22.0**

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

Sources: DOD, responses to SIGAR data call, 10/23/2013 and 10/1/2013; USAID, response to SIGAR data call, 10/10/2013; State, response to SIGAR data call, 6/27/2013; OMB, response to SIGAR data call, 7/19/2013; P.L. 113-6, 3/26/2013.

KEY EVENTS THIS QUARTER

Three developments this quarter will affect the U.S. effort to promote economic development in Afghanistan: the United States released a revised Civil-Military Strategic Framework for Afghanistan, the Independent Joint Anti-Corruption Monitoring and Evaluation Committee (MEC) released a new assessment, and the International Monetary Fund (IMF) continued to delay a review of its Extended Credit Facility (ECF) Arrangement with Afghanistan.

The Civil-Military Strategic Framework for Afghanistan for 2015–2024 replaces the October 2012 version. With a heightened focus on transition, it aims to guide U.S. government efforts for achieving U.S. national goals in Afghanistan, and serves to facilitate U.S. civilian and military cooperation.[544]

The MEC, which was established in 2010 to develop anticorruption recommendations and benchmarks, as well as monitor and evaluate Afghan and international community anticorruption efforts, issued its fourth six-month report assessing Afghan and international donor progress in implementing the MEC's anticorruption recommendations. The MEC also completed its tenth mission visit to Afghanistan, where it found, in part, that Afghanistan has not made serious efforts to track and seize money stolen from Kabul Bank or to recover money from other debtors.[545]

Afghanistan made no progress this quarter in implementing economic and financial reforms. The IMF's ECF Arrangement review and disbursement remain delayed due to insufficient Afghan progress toward meeting the agreement's quantitative and legislative requirements.[546] The Afghan government has not held any more people accountable for the Kabul Bank scandal, nor has it made any additional cash recoveries this quarter.[547] The government continues to delay the new mining law, which in turn hinders significant private investment in the mining sector.[548]

Gross domestic product (GDP): is the value of all final goods and services produced in a country in one year.

Gross national product (GNP): is the value of all final goods and services produced in a country in one year (gross domestic product) plus income that residents have received from abroad, minus income claimed by nonresidents.

Source: World Bank, "Beyond Economic Growth," accessed 10/17/2013.

Opium production is not calculated in official GDP figures (nearly $19 billion in 2012), although it figures prominently in the economy. Farm-gate price of the opium economy is estimated at the equivalent of 3.3% of GDP by the World Bank and 4% by the UN Office on Drugs and Crime. Higher-priced opium exports are calculated at 7–8% of GDP by the World Bank and 10–11% by the UN.

Sources: World Bank, "Afghanistan Partnership: Country Program Snapshot," p. 3, 8/29/2013; UNODC, "Afghanistan Opium Survey 2012," pp. 9, 13, 5/2013.

ECONOMIC PROFILE

This quarter, the IMF, the World Bank, and the Asian Development Bank (ADB) all reported that Afghanistan's gross domestic product (GDP) growth has slowed considerably from about 11.8 percent in 2012 to an estimated 3–4% for 2013. They attribute the decline in GDP to increasing uncertainty about the economy because of the volatile political and security environment and a contraction in agricultural production.[549] With an expected reduction in international aid and spending after 2014, World Bank projections show average real GDP growth declining to 4–6% annually during 2011–2018, with slower growth during the transition years.[550]

Fueled by international military spending and development assistance Afghanistan's economy grew an average 9.4% between 2002 and 2012.[551] The services sector has been the most important driver of economic growth, with demand buoyed by increased public spending in 2013.[552]

Non-poppy agriculture remains the second leading contributor to real GDP, typically accounting for between a quarter and a third of GDP, depending on output.[553] But production fluctuates with the weather. Good rains in 2012 led to a near-record-breaking wheat and cereal harvest, but this year a moderate rainfall should yield a more conventional harvest.[554]

Fiscal Sustainability

The Afghan government's revenues declined in FY 2012 at the same time that public spending increased, according to the World Bank. In its latest report the Bank said that public spending increased by about 45% to $3.7 billion in fiscal year (FY) 2012 while revenues decreased.[555] The Bank also stated that budget expenditures are expected to continue rising, largely due to spending on security, service delivery, building essential infrastructure, and operations and maintenance.[556]

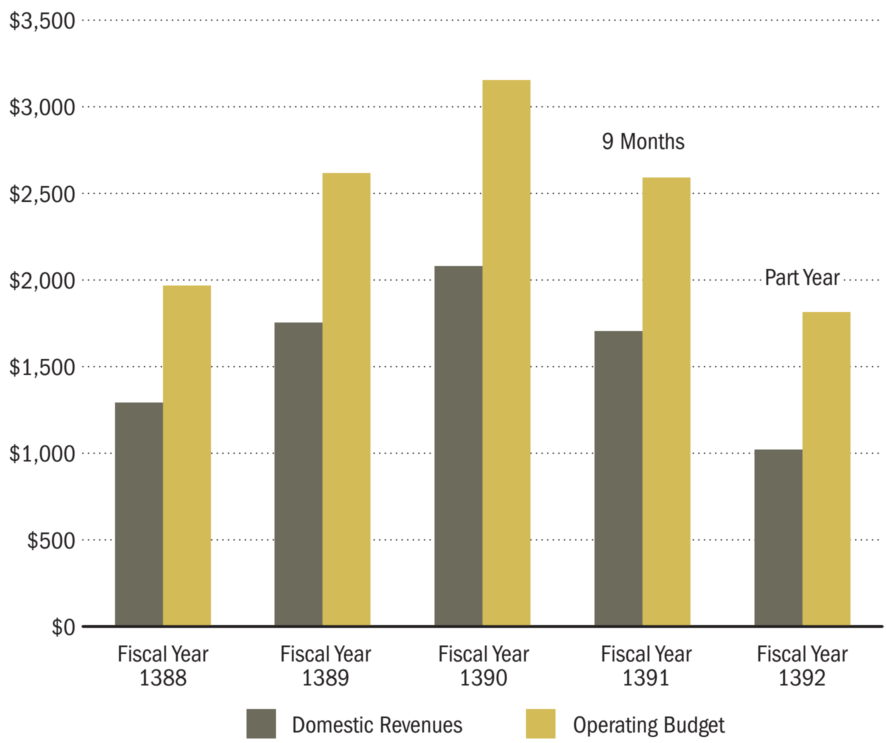
Afghanistan's fiscal sustainability ratio—domestic revenues versus operating expenses—remains one of the lowest in the world, according to the Department of Defense (DOD).[557] Recent World Bank calculations show that Afghanistan's fiscal sustainability ratio declined to 60% in FY 2012 compared to 65% in FY 2011. Low fiscal sustainability ratios limit a country's ability to pay for discretionary services and are likely to delay its progress to self reliance.[558] The Bank describes Afghanistan's fiscal outlook as subpar and likely to delay its progress to self-reliance.[559]

Revenue Generation

Last year, the Afghan Ministry of Finance (MOF) projected domestic revenue for FY 1392 (December 2012 to December 2013) at $2.4 billion

FIGURE 3.33

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



Notes: Until recently, Afghan fiscal years ran approximately March 21 to March 20 of Gregorian calendar years. FY 1388 corresponds to March 21, 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 7," 8/21/2013, accessed 10/17/2013; Da Afghanistan Bank, "Daily Exchange Rates of Selected Currencies to Afghani," 8/21/2013, accessed 10/23/2013.

(calculating the currency exchange rate of 51.6 afghanis (AFN) to $1 in January 2013), an increase of 33% over FY 1391 (March 2012 to December 2012).[560] However, in the first seven months of FY 1392, total domestic revenues decreased by 6.3% from the same period in FY 1391, and missed MOF budget targets by 12%.[561] Figure 3.33 depicts the disparity between the government's domestic revenues—derived primarily from taxes and customs duties—and budget operating expenditures from FY 1388 to FY 1392.

In its latest report, the World Bank noted that domestic revenues paid for only 40% of Afghanistan's operating budget and development expenditures in FY 2012; the rest was covered by donor grants.[562]

According to the World Bank, Afghanistan's weak revenue performance continues to be caused by the slowdown in economic activity, changes in the structure of imports, and from corruption, particularly in customs collections. The Bank estimates that domestic revenues will amount to about 10.1% of GDP in 2013. Afghanistan's commitments under the Tokyo Mutual Accountability Framework call for it to increase revenues to 15% of GDP by 2016 and 19% by 2025. The Bank warned that the current decline in revenue poses risks to long-term sustainability and to Tokyo Mutual Accountability Framework targets, upon which donor assistance is predicated.[563]

Trade

In its latest analysis, the World Bank found that Afghanistan's trade deficit is equivalent to 43% of GDP, which was largely offset by foreign aid. This assistance allowed for an overall surplus in Afghanistan's balance of payments and a record $7.1 billion in international reserves at the end of 2012. Reserves have since declined to $6.3 billion in June 2013.[564]

Additionally, Afghanistan's exports declined 5% in 2012 to $2.6 billion, while imports rose 5% to $11.2 billion. Afghanistan has relatively few tradable products, and those are concentrated in a few markets, such as agricultural products. Dry fruits, which typically account for about one third of official exports, declined by 21%, according to the report. Foreign direct investment remained stagnant at 2% of GDP.[565]

EXTENDED CREDIT FACILITY ARRANGEMENT

The Afghan government failed to make sufficient progress on specific banking and financial structural reforms required by the IMF to qualify for the Extended Credit Facility (ECF). The Afghan government has neither submitted an internationally acceptable revised law to parliament to combat money laundering and financing of terrorism, nor met the quantitative macroeconomic targets set forth under the ECF Arrangement. For example, Afghanistan failed to achieve agreed-to revenue targets for SY 1391 and SY 1392 (quarters 1 and 2).[566]

Afghanistan's failure to meet IMF targets once again 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. IMF staff visited Afghanistan this quarter to assess Afghanistan's progress on its agreed-to measurements to determine whether to present its reviews to the IMF Executive Board. Treasury reports that progress was not yet sufficient to trigger a review.[567]

The three-year, $129 million ECF loan agreement signed in November 2011 makes disbursements 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, and the second in June 2012.[568]

U.S. ECONOMIC SUPPORT STRATEGY

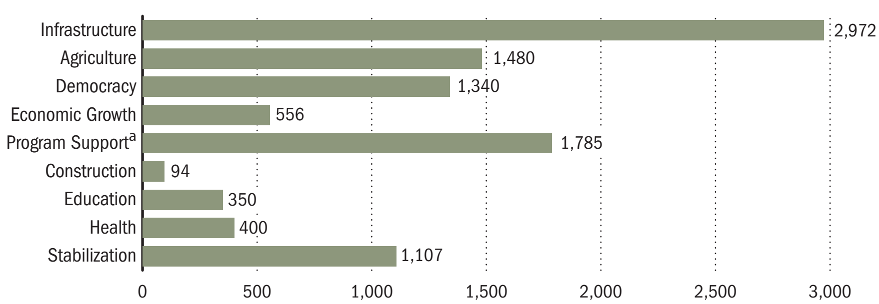
The U.S. economic transition strategy in Afghanistan seeks to mitigate the negative economic impact of the withdrawal of most international security forces by 2014 and the expected accompanying reduction in donor assistance. It also seeks to help Afghanistan develop its resources for sustainable growth.

In its FY 2014 budget request to Congress for Afghanistan, State has asked for $3.1 billion to fund development programs and promote good governance: $2.2 billion for assistance, and $0.9 billion to support embassy operations in Kabul and a diplomatic presence in other parts of the country. The majority of this assistance will be provided through the Economic Support Fund (ESF).[569]

Most ESF support is used for USAID's development programs. Figure 3.34 shows USAID assistance by sector.

FIGURE 3.34

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



Notes: Numbers rounded.
[a] Program Support projects include staffing, salaries, performance metrics, results tracking, technical assistance to ministries, and funding to the ARTF.

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

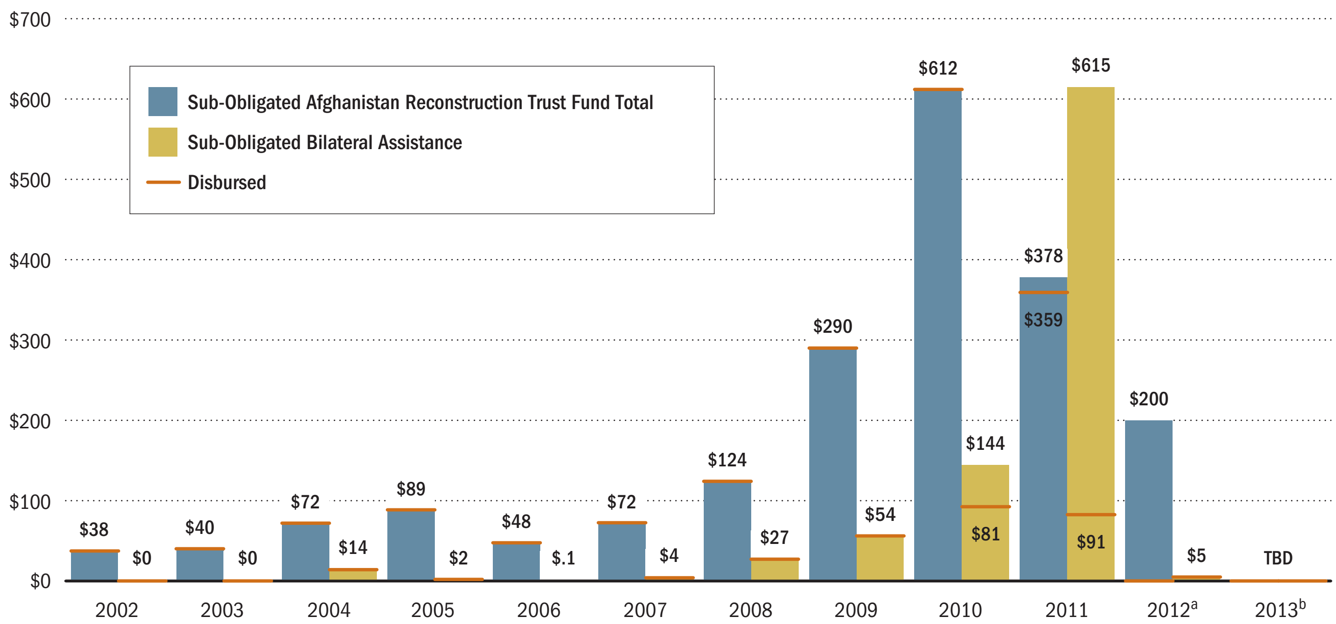
U.S. On-Budget Assistance to the Afghan Government

In line with donor commitments made at the 2010 Tokyo Conference and the 2013 senior officials' follow-up conference to the Tokyo Mutual Accountability Framework, the United States has been gradually increasing the amount of development assistance it provides directly to the Afghan government. This quarter, USAID obligated approximately $400 million and disbursed more than $76 million in on-budget assistance, from prior fiscal-year funds. Cumulatively, USAID obligated $2.83 billion and disbursed $2.02 billion in on-budget assistance, as of September 30, 2013, as shown in Figure 3.35 on the following page.[570]

The United States includes as on-budget assistance multilateral trust-fund contributions to the Law and Order Trust Fund for Afghanistan (LOTFA) and the Afghan Reconstruction Trust Fund (ARTF). These funds,

FIGURE 3.35

USAID ON-BUDGET ASSISTANCE SUBOBLIGATED AND DISBURSED, FY 2002–FY 2013 ($ MILLIONS)



Notes: Numbers have been rounded. Subobligation is funding for project-level agreements.
[a] Most FY 2012 USAID funding for on-budget assistance had not been obligated as of September 30, 2013.
[b] Spending in 2013 is being done from prior fiscal year funds. Suboligations and Disbursements for FY 2013 are not yet known.

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

which are managed by the UNDP and the World Bank respectively, support the Afghan national budget, but aren't fully under the Afghan government's control. See page 78 for details about U.S. and international contributions to the LOTFA and ARTF.

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

This quarter, the United States released an updated U.S. Civil-Military Strategic Framework for Afghanistan, emphasizing transition to Afghan control and preserving gains into the next decade.

The framework reiterates the two overarching U.S. strategic goals in Afghanistan: (1) to disrupt, dismantle, and eventually defeat al-Qaeda and its affiliates and prevent their return to Afghanistan; and (2) to strengthen Afghanistan so that it can never again be a safe haven for international terrorism. Under this framework, the United States will focus on shoring up three reconstruction pillars—governance, rule of law, and socio-economic development—all built upon a foundation of security. The framework outlines four priorities in the socio-economic sectors:

- supporting economic growth through development of key industries, including agriculture, extractives, telecommunications, light manufacturing, and services
- improving the health and education of Afghans through advice and assistance to the Afghan government, as well as related investments in health and education
- promoting Afghanistan's regional economic integration through support and assistance to relevant Afghan ministries
- supporting economic growth through development of key economic infrastructure and strengthening Afghan government capacity to manage that infrastructure[571]

According to State, the U.S. government aims to replace the Civil-Military Strategic Framework in 2014 with a multi-year Integrated Country Strategy that will outline policy priorities, objectives, and the means for achieving them.[572]

The Civil-Military Strategic Framework is built upon a set of assumptions that may or may not be valid. For example, it assumes that the Afghan government will make sufficient progress on indicators outlined in the Tokyo Mutual Accountability Framework, resulting in continued financial support from the international community. However, the July 2013 Senior Leaders Meeting Joint Report assessing the Afghan government's progress on meeting Tokyo Mutual Accountability Framework benchmarks concluded that it has not made progress in some key areas, such as improved revenue collection. The senior leaders pointed out that the Afghan government's enforcement of taxation is increasingly hindered by a deteriorating security situation, limitations on the rule of law, and low organizational capacity.[573]

The updated U.S. strategic framework also assumes that the security environment will allow implementing partners to continue development assistance activities as well as conduct adequate oversight. Yet in its 2012 review of USAID/Afghanistan's monitoring and evaluation, the USAID Office of Inspector General stated that managing development programs in high-threat environments like Afghanistan presents special oversight risks and challenges. The review describes the security situation in Afghanistan—even with international forces present—as a "significant and continuing constraint to USAID/Afghanistan's program monitoring and evaluation."[574]

SIGAR SPECIAL PROJECT

SIGAR continues to be concerned about the ability to ensure adequate oversight of the U.S.-funded reconstruction effort as most international combat forces transition out of Afghanistan in 2014. For more information, see Section 2, page 45.

The Tokyo Mutual Accountability Framework, established by the Afghan government and international community at the donors' conference in 2012, was created to structure international development assistance to Afghanistan through 2015. Assistance depends on the Afghan government delivering on its commitments described in the Framework.

BANKING AND FINANCE

Afghanistan's banking and financial sector has not 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 have revealed "systemic fragility and vulnerability in all areas of banking governance and operations," according to a 2013

Loan-to-Deposit Ratio: is used to assess a bank's liquidity (short-term viability) by dividing its total loans by its total deposits, expressed as a percentage. It is used to calculate the financial institution's ability to cover customer demands to withdraw funds. If the ratio is too high, the bank may have insufficient liquidity to cover unforeseen requirements. If it is too low, banks may not be earning as much as they could.

Correspondent Accounts: Accounts maintained by foreign financial institutions at U.S. banks in order to gain access to the U.S. financial system and take advantage of services and products that may not be available in the foreign financial institution's jurisdiction.

Financial Action Task Force (FATF): an intergovernmental policy-making body that sets standards and promotes effective implementation of legal, regulatory, and operational measures for combating money laundering, terrorist financing, and other related threats to the integrity of the international financial system. The United States is a member and Afghanistan is an associate member through the Asia/Pacific Group on Money Laundering.

Sources: Investopedia, "Loan-To-Deposit Ratio," accessed 9/30/2013; Finance Formulas, "Loan to Deposit Ratio," accessed 9/30/2013; Federal Financial Institutions Examination Council Bank Secrecy Act/Anti-Money Laundering InfoBase, "Correspondent Accounts (Foreign)—Overview," accessed 10/1/2013; Financial Action Task Force, "Who We Are," accessed 10/4/2013.

World Bank report.[575] State reports that Afghanistan's banks suffer from political interference and lack of oversight.[576] For example, Afghanistan's anti-money-laundering/combating-terrorism-financing controls are widely viewed as deficient.[577]

The general population distrusts banks, preferring to borrow and save with family and friends, and transfer money through informal, honor-based "hawalas."[578] Consequently, the banking sector's loan-to-deposit ratio dropped from 56.8% in 2010 to 23% in 2012.[579]

Treasury characterizes the sector as generally weak, with few banks operating at international standards, while capacity, including bank supervision, remains low. The sector is also highly dollarized whereby Afghans prefer the use of foreign currency over their national currency, the afghani (AFN), which is depreciating against the dollar (57 AFN to $1). According to Treasury, no single bank poses a systemic risk on par with the Kabul Bank crisis, but the banking sector as whole is vulnerable to future distress.[580]

Meanwhile, some major international banks are limiting their dealings with foreign banks to reduce risk and exposure to heightened regulatory scrutiny. This may jeopardize Afghan banks' correspondent account relationships, according to Treasury.[581]

Money Laundering

Afghanistan's draft Anti-Money-Laundering/Combating the Financing of Terrorism (AML/CFT) legislation—which is pending parliamentary approval— does not meet globally recognized Financial Action Task Force (FATF) standards, despite input from the United States and its international partners. The cabinet approved the draft legislation on July 1.[582]

FATF specifically recommends Afghanistan, which has developed a AML/CFT action plan, address its deficiencies by adequately criminalizing money laundering and terrorist financing; establishing and implementing a legal framework to identify, trace, and freeze terrorist assets; implementing an adequate oversight program for all financial sectors; establishing and implementing adequate procedures for confiscating money-laundering assets; establishing a fully functional and operational financial-intelligence unit; and establishing effective controls for cross-border cash transactions.[583]

If the suggested changes are not made to Afghanistan's action plan and Parliament passes the draft legislation as written, FATF is likely to downgrade Afghanistan, according to State.[584] A FATF downgrade may further weaken Afghanistan's banking sector. In extreme cases where the international financial system is deemed threatened, FATF members may be asked to apply financial countermeasures, such as rejecting correspondent relationship requests from high risk countries to open branches and subsidiaries in their jurisdictions. Currently, only two countries meet that criterion: Iran and North Korea.[585]

State'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." According to the report, hawala methods of transferring money are the source of most of the money-laundering. Afghans rely upon traditional hawala networks because of official corruption and weakness in the banking sector.[586]

The Kabul Bank

Before its near-collapse in 2010, the Kabul Bank had been Afghanistan's largest banking service provider, distributing most civil salaries on behalf of the Afghan government. Over 92% of $935 million that was stolen from the bank went to 19 individuals and companies associated with the bank. Afghanistan's central bank, Da Afghanistan Bank (DAB), covered these losses, equivalent to 5–6% of Afghanistan's GDP.[587]

Cash and Asset Recoveries

During this reporting period, U.S. implementing agencies reported no new recoveries of money stolen from the Kabul Bank.[588] There is also no firm consensus amongst international actors on the amount the Kabul Bank Receivership has recovered so far. DAB reported $168.4 million has been recovered as of June 30, 2013. The Senior Officials Meeting Joint Report on Tokyo Mutual Accountability Framework Implementation recorded $173.2 million as of July 3, 2013. Afghanistan's Independent Joint Anti-Corruption and Monitoring and Evaluation Committee's (MEC) latest six-month report (January 1–June 30, 2013) has cash recoveries at $172.9 million.[589] Whatever the precise number may be, each reported number amounts to less than 20% of the stolen funds.

Appeals

On March 5, 2013, the Special Tribunal of the Supreme Court on Kabul Bank issued its judgment on 21 individuals charged with fraud. The two leaders of the fraud, ex-chairman Sherkhan Farnood and ex-CEO Khalillullah Ferozi, were given modest five-year prison sentences and ordered to pay only partial restitution. Afghanistan's Attorney General's Office (AGO) appealed the verdict on March 16, 2013, seeking longer prison terms and additional convictions for both men.[590]

This quarter two appeals hearings were held before the public-security division of the Kabul Appellate Court, on September 15 and September 29. According to the U.S. Department of Justice (DOJ), the appellate court was dissatisfied with the AGO's submissions, particularly its legal rationale for the appeal and the amount of money outstanding, but has afforded prosecutors the opportunity to modify them.[591] According to the MEC, the deficiencies in the submissions are glaring, especially since technical assistance was available to the AGO.[592] It is not known when the appellate court will render a decision. Following that decision, which could be tougher or lighter than the original verdict, the appeal can go to the Supreme Court for a final review.[593]

Prosecutions

Afghanistan's AGO launched no new investigations, filed no new charges, and indicted no additional defendants this quarter despite the March 2013 order by the Supreme Court's special tribunal on Kabul Bank that it do so. At that time, the special tribunal ordered the arrest and prosecution of 16 individuals with existing warrants—many of whom have since fled the country—and the investigation and prosecution of 16 others as recipients of illegal loans. The DOJ has repeatedly discussed this inaction with various AGO representatives, to no avail.[594]

Independent Joint Anti-Corruption Monitoring and Evaluation Committee

This quarter, the MEC traveled on its tenth quarterly mission to Afghanistan and released its fourth six-month report, which covers January 1–June 30, 2013. In the socio-economic realm, the MEC made the following observations:

- Only four donors have fully complied with its recommendation that donor development projects be registered in the Ministry of Finance's Development Assistance Database (Canada, Norway, Sweden, and the EU). Some donors complained that the database is not user-friendly, but the MEC stated that failure to register will cause oversight and sustainability problems for Afghan agencies after transition.
- The Afghanistan National Standards Authority funded several quality-control laboratories at various border points as well as mobile laboratories to test the quality of goods in stores, storage, and being transported on highways. Yet after a year, the labs are still not operating.
- Afghanistan has not made serious efforts to track and seize Kabul Bank money that was laundered to 28 different countries, or to recover money from other debtors.[595]

New Kabul Bank

The MOF and Afghanistan's central bank renewed their efforts this quarter to privatize New Kabul Bank (NKB), a temporary "bridge bank" containing the good assets and deposits from Kabul Bank. The initial privatization effort failed earlier this year, when the MOF rejected the one bid received.[596]

The MOF and DAB announced a new privatization tender on September 3, 2013; bidder registration ended September 30. The deadline for proposals is October 30; official bids will open November 1.[597] Privatizing NKB, which provides salary payment and direct deposit services to hundreds of thousands of government employees, is an ECF benchmark.

The MOF intends to sell NKB to private investors or liquidate it by the end of 2013.[598]

An independent, calendar-year 2012 financial audit of NKB by Grant Thornton LLP expressed unqualified concern regarding the bank's ability to continue business without successful privatization. NKB lost an average of $1.85 million per month in 2012.[599] Treasury quoted an Afghan government official as saying NKB losses are currently running at $500,000 per month. The official anticipates losses declining to $300,000 per month in the coming months.[600] According to the IMF and Treasury, NKB's lack of a lending portfolio, restrictions on developing lending before being offered for sale, and the need to maintain a conservative asset-management strategy mean it will continue to suffer modest operating losses prior to sale.[601]

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.[602] However, SIGAR has consistently cautioned that the Afghan government may not be able to earn substantial 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 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. TFBSO has fully obligated its $17.2 million total for mining-sector development in FY 2013, as of September 30, 2013.[603]

New Minerals Law

There was no movement this quarter on the draft new minerals law pending before Parliament. As of September 30, 2013, the draft minerals law is under review with the Natural Resources Committee of the lower house of parliament, which has sought multiple explanations and clarifications from Ministry of Mines and Petroleum (MOMP) officials. Once passed by both the lower and upper houses, it will be sent to the president for final approval.[604] DOD's TFBSO warns that without legislative reform that, in part, links investor exploration and extraction rights, and institutes a formal and fixed royalty rate, many companies will not bid on new tenders and may not sign contracts on existing awards. The delay has significantly hindered private-sector investment, according to TFBSO.[605]

Several major mining contracts remain on hold pending passage of a new minerals law, including: Hajigak (iron ore, awarded in November 2011);[606] Shaida (copper, November 2012); Badakhshan (gold, November 2012); Balkhab (copper, November 2012); and Zarkashan (gold, December 2012).[607]

Passage of a revised minerals law is meant to better protect Afghan resources, encourage investors, and align regulations to international best practices. It is an important IMF and Tokyo Mutual Accountability Framework benchmark to improve Afghanistan's revenues and overall fiscal sustainability.[608] As currently written, however, the draft minerals law requires mining companies to use Afghan labor exclusively and to prioritize purchasing Afghan, rather than foreign, goods. These provisions are unlikely to comply with World Trade Organization rules and could deter private investment, according to State.[609]

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

The United States continued to provide technical assistance this quarter to the MOMP, the ministry's Afghanistan Petroleum Authority (APA), and the Afghan Geological Survey (AGS), largely through the TFBSO and the U.S. Geological Survey (USGS). These organizations are supporting mineral and hydrocarbon tenders, oil-and-gas data management, and are providing engineering, legal documentation, and financial-transaction services for its international mining and hydrocarbon-tender programs. They are also building capacity at the MOMP and AGS through hands-on training and classroom modules in modern data collection techniques.[610]

TFBSO provides subject-matter-expert support to the APA—technical (oil and gas engineering), legal (contract implementation), and financial (accounting and analysis)—primarily assisting in the oversight of the Amu Darya Exploration and Production Sharing Contract. TFBSO helped develop APA's organizational chart, and is advising its human-resources department on recruiting processes.[611]

Additionally, a TFBSO-funded legal and geology team is working with the MOMP to identify and tender new areas of interest, including three cement-making areas and two copper/gold-mining areas. The MOMP announced the cement tenders on September 22, 2013, with submissions due November 5. The copper and gold tenders were expected to be released in October 2013.[612]

Mining Investment and Development for Afghan Sustainability

The Mining Investment and Development for Afghan Sustainability (MIDAS) is a $41.6 million program with on- and off-budget components. The off-budget Phase I is focusing on legal and regulatory reform, technical assistance to the MOMP, small and medium-size enterprise development, and assistance in geo-science field investigation. It will provide other support as needed. The on-budget Phase II is designed to strengthen the MOMP so that it can procure, implement, and monitor completion of mining tender packages. As of September 30, 2013, USAID had obligated $6 million from FY 2010 and FY 2011 funds to begin off-budget implementation.[613]

USAID expects to achieve the following results from MIDAS:

- make amendments to the mining law that reflect the needs of the private sector
- improve capacity at MOMP in governance, internal controls, procurement procedures, and financial management
- improve capacity of Afghan small-to-medium enterprises to provide support services to the mining sector
- establish communications between the MOMP, the private sector, and local communities
- implement programs for small-to-medium Afghan enterprises to participate in research, development, and management of mines
- create a system for effective monitoring of on-budget funding.[614]

USAID will measure MIDAS's success against the following metrics: the political will to foster a business-friendly environment for foreign and domestic investment in the mining sector; a business-friendly regulatory environment, aligned with international standards to attract investment; transparency in tendering and awarding contracts; and gender equality in the extractives industries sector.[615] Prospects for progress in this area, however, will be affected by the difficulties described earlier on page 155.

TFBSO Transition Plan

Congress required that DOD develop a plan for transitioning TFBSO programs to either State or USAID. On September 13, 2013, Secretary of Defense Hagel signed the initial version of FY 2013 National Defense Authorization Act-mandated Task Force for Business and Stability Operations Fiscal Year 2013 Transition Plan and Report on Transition Implementation. It must be reviewed, revised, and signed by the Secretary every 90 days. Currently, no TFBSO mining programs are proposed for transfer to USAID or any other U.S. government agency upon dissolution of TFBSO. Instead, TFBSO said it will wind down all its projects at the MOMP by the end of 2014, either by shutting them down outright or transferring them to the Afghan government or a private Afghan firm. However, projects could be continued and funded by other U.S. implementing agencies beyond 2014.[616]

Mine Security

Providing security for the mining areas continues to be a challenge for the Afghan government. Mine security was supposed to be the responsibility of Afghan Mines Protection Units (MPUs), which still have only 1,500 personnel, according to the MOMP website, even though the ministry planned to ramp up to 7,000. These figures have remained unchanged over the last year despite several attacks in 2011 and 2012 targeting mining interests, including against Aynak, Amu Darya Basin, and Afghan-Tajik Basin, as well as marble quarries, a coal mine, and a gold mine.[617]

State has previously reported that because the MPUs have not developed as anticipated, the Afghan National Police have taken over security for the extractive industries. However, according to State, the Ministry of Interior and MOMP have also failed to adequately address site security issues. TFBSO said it is unclear if the MPUs will be able to provide sufficient protection once Hajigak and the four copper and gold mines begin extraction.[618]

Both State and TFBSO said they are unaware of additional attacks since 2012, but congressionally funded Radio Free Europe/Radio Liberty (RFE/RL) reports that workers came under attack from a local militia in the Amu Darya Basin in September, halting oil production. It also highlighted disputes between local leaders over control of gold and precious stones trade, as well as fights between the central government and provincial and tribal leaders in resource-rich areas. Furthermore, RFE/RL said natural resources are being used by armed groups to fund conflict, while the security environment at major mining operations such as Hajigak, Aynak, and Amu Darya is becoming increasingly unstable due to militant activity.[619]

Aynak Copper Mine

The Afghan government awarded the contract for extraction rights at the Mes Aynak copper mine in Logar province to Metallurgical Corporation of China (MCC) in 2008, but the Chinese company has not been able to begin 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.[620] Despite these problems, the Afghan government is relying on Aynak's revenue stream to meet its future revenue predictions.[621]

This quarter, the Afghan media reported MCC intends to exercise its option to renegotiate the contract. State said that MCC wanted to specifically renegotiate its commitments to build a railroad, a power plant, and a copper smelting plant. TFBSO stated that the government could attempt to cancel and re-tender the mine altogether. Even if there is no renegotiation, State said MCC may defer further investment until it evaluates the results of Afghanistan's 2014 presidential election and post-transition security environment.[622] However, in the wake of the Euro-Asia Economic Forum in Beijing in September, the MOMP announced that President Karzai received assurances from the Chinese president and deputy vice president that China's Aynak and Amu Darya contractual commitments would be "honored and actively implemented."[623]

North Aynak Drilling

TFBSO's $4.5 million North Aynak drilling exploration program, which began in November 2012, ended in spring 2013, and will be followed by a MOMP tender. A follow-on training project started this quarter, combining classroom-based modules and hands-on drill training with equipment owned by the AGS. TFBSO is trying to help AGS drillers and geologists use the equipment in their inventory, rather than buy new drills.[624]

Hajigak Iron-Ore Mine

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.[625] Kilo Iron Ore has consented in principle to all contract-negotiation terms. Both firms continue to await parliamentary approval of the new minerals law before signing contracts. TFBSO, although not involved in the negotiations, reports the eventual deal between AFISCO and the Afghan government is likely to be smaller than initially thought because of Indian investor concerns.[626]

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, Afghanistan's first two oil refineries went online in and around Hairatan in northern Afghanistan. Afghan-based Ghazanfar Group's and Kam International Oil's refineries will produce gasoline, kerosene, diesel, fuel oil, and asphalt for domestic consumption. Both refineries also have phased expansion plans. However, even with both refineries operational, Afghanistan would remain heavily import-dependent for fuels. The country currently imports 10,000 tons of oil products a day from Turkmenistan, Uzbekistan, Russia, Pakistan, and Iran.[627]

Afghan-Tajik Basin Contract

On September 23, 2013, Afghanistan's Council of Ministers approved an Afghan-Tajik oil and gas contract with an international consortium comprising Dragon Oil (UAE), Turkish Petroleum Corporation (Turkey), and Ghazanfar Group (Afghanistan). The contract was signed on October 8. The consortium won exploration and production-sharing rights for the two blocks it was awarded in November 2012. Financial details of the bids have not yet been announced, nor is the value of the tenders available.[628]

TFBSO provided technical, legal, and commercial assistance to the MOMP throughout the tender process, including subject-matter experts to advise the MOMP Contract Evaluation Team and the Inter-Ministerial Commission during the qualification and bid-evaluation processes; transparency consultants; and funding for a MOMP bidder-information conference.[629]

Amu Darya Basin Production

On September 30, 2013, MOMP announced a new tender for the exploration, development, and production of 7,131 square kilometers in the Amu Darya Basin. The contract area contains two known gas fields and 50 proven and prospective mining structures. Expressions of interest are due January 2014.[630]

The three awarded blocks of the Amu Darya Basin are estimated to contain 87 million barrels of crude oil, according to State and TFBSO.[631] The China National Petroleum Corporation Watan Energy Afghanistan (CNPCI-W) produced approximately 14,916 barrels of crude this year from three blocks as of August 31, 2013, approximately 4,200 more than reported last quarter. However, CNPCI-W is not on track to produce the minimum production requirements for FY 2013 of 1.65 million barrels, according to TFBSO. The Afghan government had received $4.67 million in royalty and surface rental fees as of August 31, 2013, representing no change from last quarter.[632]

Because Afghanistan lacks adequate refining capacity, CNPCI is producing below capacity while it works to secure a buyer for its output. According to TFBSO, CNPCI-W has a buyer for 1.75 million barrels, but is waiting for the Afghan government to negotiate cross-border transit agreements so that it can export its crude oil to a neighboring country to be refined.[633]

AGRICULTURE

Agriculture continues to be the main source of employment and subsistence for the Afghan population. Only 12% of the land is arable and less than 6% is cultivated, yet the sector accounts for 31% of GDP and, according to the latest World Bank report, provides employment to about 59% of the labor force.[634] Given its importance, agriculture could be a catalyst for GDP growth, improved food security, and more stable employment opportunities.[635]

Between FY 2002 and FY 2012, USAID has appropriated approximately $2.46 billion for agricultural and alternative development funding to improve production, increase access to markets, and provide alternatives to poppy cultivation.[636] Of that, USAID has obligated about $29 million and disbursed $9 million in direct assistance to build capacity at the Ministry of Agriculture, Irrigation, and Livestock (MAIL).[637]

USAID is currently providing on- and off-budget assistance to the agriculture sector through several programs. USAID's three highest-priority programs, worth more than $350 million total, are:

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

Agricultural Development Fund and Agricultural Credit Enhancement

The 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 ADF staff capacity to manage them. ADF was established to provide loans across the agricultural value chain through banks, farm stores, leasing companies, and food processors, which in turn provide agricultural credits to farmers. ADF-ACE designed and launched nine innovative financial lending products.[638]

ACE is the technical-assistance component that manages all ADF lending activities and helps build MAIL capacity.[639] This quarter, USAID reported that due to delays in registering ADF as a financial institution, MAIL requested ADF be descoped by $25.6 million from its initial $100 million on-budget funding to the ACE USAID contractor (off-budget) to be used for loans made on behalf of ADF.[640]

According to USAID, ADF has over 20,000 clients in 30 of Afghanistan's 34 provinces. A total of $80 million in loans have been approved, and of that, $34 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, affected the number of loans approved and the number of beneficiaries.[641]

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. IDEA-NEW is supposed to help farmers shift from growing poppies 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.[642]

USAID reported over a million households have directly benefitted from IDEA-NEW compared to 52,242 reported last quarter. USAID said that Afghanistan's agricultural exports totaled more than $5.2 million this quarter, a huge jump from the $500,000 reported last quarter. In addition, USAID said the program had put 12,760 hectares of land under alternative crop cultivation and created 47,298 full-time equivalent jobs created. As of September 30, 2013, USAID has obligated $146.1 million to IDEA-NEW ($15 million more than reported last quarter) and has disbursed approximately $118.3 million ($6.8 million less than reported last quarter).[643] USAID did not respond to SIGAR's inquiry about the remarkable 19-fold surge in household beneficiaries reported between last quarter and this one.

A USAID Office of Inspector General audit of IDEA-NEW in June 2012 found a number of problems, concluding that: the program was unfocused, program directives were not followed, program goals were deleted from the performance management plan, and evidence of progress could not be produced. The audit also found that staff turnover brought about frequent changes in vision, priorities, and operating style; activities were insufficiently monitored or documented by USAID and its implementing partners; program assistance efforts were unsustainable; and there were no standard policies and procedures for its cash-for-work projects.[644]

The program's fast-approaching end date precludes a full poppy-impact assessment. However, USAID is discussing geospatial-mapping support to gauge the program's impact and supplement IDEA-NEW's end-of-project survey.[645]

According to USAID implementers, oversight continues to be a challenge. USAID acknowledges that concerns about safety and site access are becoming more acute as provincial reconstruction teams and foreign combat forces leave Afghanistan.[646] SIGAR has repeatedly raised concerns about oversight as the international footprint in Afghanistan shrinks.

Commercial Horticulture and Agricultural Marketing Program

The 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 by enhancing crop quality and promoting export and trade corridors. The program also works with traders to improve harvesting, packing, cool storage, and shipping methods.[647]

USAID reported more than 13,000 households have directly benefited from CHAMP, while 2.8 million fruit trees have been planted on over 6,000 hectares of land. As CHAMP approaches the 2014 transition, it will shift focus to post-harvest commercialization of high-value crops. It seeks to increase exports through marketing, and promote import substitution. However, USAID said insecurity continues to challenge full implementation of CHAMP. Insurgent groups threaten both CHAMP staff and farmers, particularly in Kandahar, Helmand, Zabul, Wardak, Logar, and Ghazni provinces.[648]

As of September 30, 2013, USAID has obligated $30.3 million to CHAMP (no change from last quarter) and has disbursed $29.7 million ($3.2 million more than last quarter).[649]

ESSENTIAL SERVICES/DEVELOPMENT

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

Energy

The latest World Bank report noted that Afghanistan has one of the lowest rates of energy usage in the world, with only 28% of its population connected to the grid. Of those who are connected, an estimated 77% live in urban areas.[650]

Because electricity is critical to Afghanistan's development, the United States in collaboration with the Afghan government and the international community has made developing an integrated energy sector one of its top reconstruction priorities since 2002.[651] 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 $500 million more over the next few years.[652] In addition, DOD has provided approximately $292 million for electricity projects through the Commander's Emergency Response Program (CERP) and roughly $700 million through the Afghanistan Infrastructure Fund (AIF), which is jointly managed by DOD and State.[653] This assistance has lifted the number of Afghans with access to electricity from 5% of the population in 2001 to 30% in 2012.[654]

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. DOD is contributing to both NEPS and SEPS through AIF projects. The Afghan government, coordinating closely with USAID and DOD, prioritized these programs with the goal of increasing the availability of affordable, grid-based power.[655] Connecting the power grids is intended to promote the best use of lowest-cost generation, reduce duplicative generating reserves, and improve system reliability.

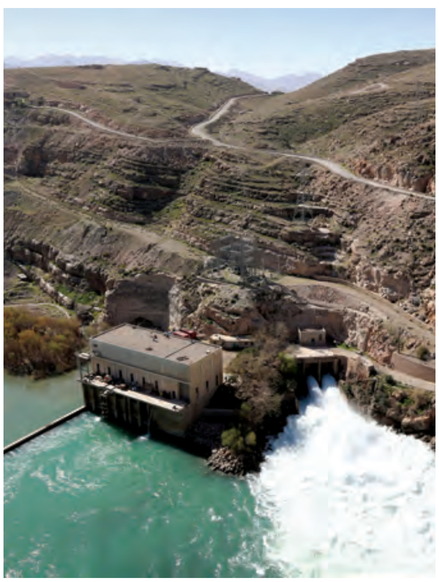
Sheberghan Program

Afghanistan currently imports more than 70% of its energy needs, according to USAID.[656] Together with the ADB, the Overseas Private Investment Corporation (OPIC), and the MOMP, USAID is supporting the Sheberghan project to help Afghanistan identify and manage gas resources to be used for power generation.[657] Gas reserves are expected to be confirmed in early 2014.[658] 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.[659]

As of September 17, 2013, $30 million has been obligated for SGDP, with $0 disbursed, representing no change from last quarter; while approximately $12 million has been obligated for Sheberghan Gas Generation Activity, of which almost $9.2 million was disbursed, representing $1.8 million more than last quarter.[660]

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 ADB will support construction of the associated transmission lines (22% of total funding); and the MOMP will cover the remaining 5%.[661]

Kandahar-Helmand Power Project



The Kajaki hydroelectric station in Helmand Province. (U.S. Embassy Kabul photo)

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.[662]

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 funding the fuel for the U.S. Army Corps of Engineers-installed generators through 2014 using AIF, and Da Afghanistan Breshna Sherkat (DABS) is providing fuel for the other existing generators in the area. The U.S. fuel subsidy may 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.[663]

Improving revenue collection will be challenging. A SIGAR audit found that despite USAID investments that resulted in some commercialization successes for DABS-Kabul, including increasing cash collections by 60%, the Afghan utility is still operating at a financial loss. DABS may not be able to pay its bills without continued government subsidies, set to expire in 2014. Additionally, USAID did not enforce a contractual requirement for installing a billing system in DABS-Kandahar that would be compatible and coordinated with DABS-Kabul. The different system was deemed a failure by USAID and DABS; nearly $700 million was wasted. Finally, SIGAR found that millions in taxpayer-funded electricity distribution equipment for Kandahar and Helmand sat unused in U.S. government-controlled storage with no clear plan for installation.[664] USAID has since developed an installation plan, according to DOD.[665]

In May 2013, USAID signed a bilateral, on-budget implementation letter with the Afghan government, and committed $75 million that was descoped from the initial Black & Veatch contract, for DABS to assume responsibility for installing the third turbine at the Kajaki hydropower station. The turbine parts, transported to the power station by a U.S.-British military mission in 2008, have sat unassembled under tarps since 2008. This quarter DABS selected the CM-AR firm to install the third turbine and provide a construction-management consultant. Contract negotiations are ongoing. A third-party monitoring contract will be funded off-budget by USAID.[666] Until that contract is signed and CM-AR is able to take over Kajaki site security, Black & Veatch's contract has been extended for three months beyond its September 30, 2013, expiration in order to provide security via the Afghan Public Protection Force (APPF).[667]

As of September 17, 2013, USAID had obligated $229.6 million of ESF funds for the KHPP, and of that, approximately $191.4 million had been disbursed, an increase of $14.8 million from last quarter.[668]

SIGAR SPECIAL PROJECT

In an ongoing special project, SIGAR is examining USAID's safeguards for on-budget assistance it is providing to DABS for the installation of Kajaki's third turbine.

Power Transmission Expansion and Connectivity Program

The U.S.-funded Power Transmission Expansion and Connectivity (PTEC) program was designed to strengthen and expand the power-generation, transmission, and distribution systems. This program 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.[669]

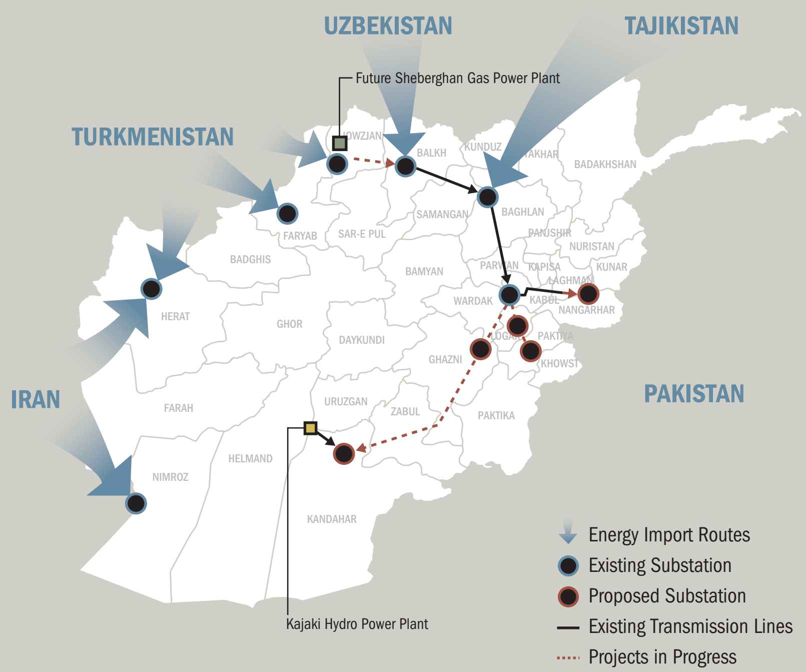
A key component of PTEC is funding to construct a transmission line between Kabul and Kandahar to connect NEPS with SEPS as seen in Figure 3.36 on the next page. This 530 km connection, together with the rehabilitation of the Kajaki Hydropower Plant, was identified in 2010 as the only viable, long-term solution to displace costly and unsustainable diesel-power generation in Kandahar.[670]

Connecting NEPS to SEPS is a multi-donor effort. The ADB is responsible for the first 40 km Kabul-Arghandi substation connector, and the 332 km Ghazni-Kandahar East substation connector will be constructed by ADB with substantial USAID funds.[671] USAID will fund construction of the 120 km section from Arghandi to Ghazni with $101 million in on-budget aid to DABS provided by DOD's AIF. USAID, the MOF, and DABS formalized the bilateral agreement for this segment in February 2013. This quarter, USAID warned that security is deteriorating in Regional Command-East and on Route 1, in particular, which PTEC will follow.[672]

DOD, through the U.S. Army Corps of Engineers (USACE), is expanding NEPS by constructing the transmission line from Arghandi to Pul-e Alam and Gardez.

FIGURE 3.36

POWER TRANSMISSION POWER PROGRAM



Sources: USAID, response to SIGAR data call, 7/1/2013, 9/30/2013; USAID, response to SIGAR vetting, 7/15/2013.

USAID plans to contribute $417.6 million from its $814 million PTEC project to ADB's Afghanistan Infrastructure Trust Fund (AITF). Of this, 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 (DFID) and the Japanese Embassy. As of September 17, 2013, USAID has obligated $180.3 million to AITF and disbursed $45 million, representing no change from last quarter. USAID has also obligated $263.3 million in on-budget assistance to the MOF and DABS for PTEC, but has not yet disbursed any funds.[673]

DOD-Funded Programs

Reliable and sustainable power generation, transmission, and distribution are the linchpins 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:[674]

- 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 is providing fuel for the diesel power generators in Kandahar City until affordable, sustainable power becomes available through the joint DOD-USAID effort to expand and connect NEPS and SEPS systems.[675] The generators at Shorandam Industrial Park and Bagh-e-Pol have a combined average output of 8–13 MW. 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.[676]

The president's FY 2014 budget request includes $100 million for the diesel power generators and to integrate prior DOD and USAID power projects. This will improve overall power management in Kandahar by consolidating Kandahar's "power islands" into an integrated grid. DOD plans to continue purchasing fuel and providing O&M support into FY 2015, but intends to transfer the generators to DABS in December 2013, along with six months of spare parts. DOD said it will provide technical support for one year following the transition.[677] 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 central to the Afghanistan Electrification Plan and the State Department's development plan for Afghanistan.[678]

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 cost for this projects, which began in 2012, remains $40 million in FY 2012 funds. This transmission line constitutes a key element for the larger PTEC project linking SEPS and NEPS and addresses the need for reliable electricity in Afghanistan's south and southeast. DOD's goal is to promote economic growth, security, stability, and capacity-building efforts within DABS to help it 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.[679]

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. It will also build three power substations to expand NEPS. DOD has allocated $38 million in FY 2012 funds and $33 million in FY 2013 funds for the project, for a total estimated cost of $71 million, according to an updated DOD notification to Congress this quarter. Annual estimated O&M costs for the transmission lines and substations 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. Consistent with all AIF-funded projects, and by formal agreement, this project will be transferred to the Afghan government upon completion. DABS will assume responsibility for O&M. Increased revenue from an expanded customer base and improved collection capabilities will help DABS provide long-term sustainment, according to DOD.[680] However, SIGAR has raised questions about DABS's capacity, and other audits have said Afghanistan lacks the resources necessary to pay for O&M.[681]

Kajaki Dam to Musa Qalah Transmission Lines

This project is building new transmission lines from the Kajaki Dam hydropower plant to Musa Qalah in Helmand Province. The $12 million in FY 2013 funds allocated for Phase I of the project will construct approximately 15 km of new 110 kV transmission line from Kajaki to a new substation that will join with the existing 20 kV transmission line. Phase II plans to use $49 million in FY 2014 funds to build 37 km of 110 kV transmission line from the substation to Musa Qalah, build a new 110 kV substation, and rehabilitate the existing 20 kV substation at Musa Qalah. The project aims to benefit the approximately 60,000 residents of Musa Qalah, according to DOD.[682] Other components of the project are designed to help integrate SEPS projects into a single, interconnected system. Consistent with all AIF-funded projects, and by formal agreement, this project will be transferred to the Afghan government upon completion. DABS will assume responsibility for O&M. Increased revenue from an expanded customer base and improved collection capabilities will help DABS provide long-term sustainment, according to DOD.[683] As noted above SIGAR audits have raised concerns about DABS' capacity and resources.

Gardez to Khowst Transmission Lines

This project is supposed to expand NEPS by designing and installing approximately 95 km of single-circuit 220 kV transmission lines and 30 km of 20 kV distribution lines. In his FY 2014 DOD budget submission requests, the President has asked Congress to provide $130 million for these efforts. The transmission lines will go from Gardez to Khowst in the east, and new substations will be built at Waza-Khvajeh and Khowst.[684]

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. Nearly $100,000 in FY 2013 funds has been obligated and disbursed as of June 30, 2013 (the most recent data available).[685]

TRANSPORTATION

Afghanistan's lack of transportation infrastructure hinders internal commerce, foreign trade, and economic growth. The World Bank said restoring the transportation sector is imperative for economic recovery and development.[686] Afghanistan's infrastructure shortcomings particularly constrain 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.[687] This quarter, the United States continued its efforts to assist Afghanistan in developing transportation laws, ministry capacity, and compliance with international standards.[688]

Civil Aviation

Since 2002, the U.S. Air Force has operated air traffic control in the Kabul region under an agreement signed with Afghanistan's Ministry of Transport and Civil Aviation (MOTCA). The U.S. Air Force intends to transfer its air traffic control (ATC) and communications, navigation, and surveillance (CNS) infrastructure system to the Afghan government no later than December 2014. The U.S. Air Force and the U.S. Embassy Kabul assisted the MOTCA to prepare a contract for the Afghan government to assume responsibility of Afghanistan's airspace, but contract signing has been delayed for five months waiting for Afghan government funding and a release of a request for proposal.[689]

The U.S. Air Force spends approximately $49 million per year on ATC/CNS services, and has spent approximately $447 million in Global War on Terror/Overseas Contingency Operations funds to build civil aviation capabilities and improve flight safety in Afghanistan since 2002. Title 10 USC funding prevents the U.S. Air Force from training civil aviation personnel or developing training facilities. That support comes instead from U.S. Embassy Kabul, USAID, and International Civil Aviation Organization programs.[690]

The U.S. Department of Transportation (DOT) Office of the Transportation Counselor (OTC), in conjunction with USAID, has been developing the Kabul Air Traffic Control System and Safety Oversight Training Program for Afghan aviation professionals since 2012. According to DOT, its goal is to bring Afghanistan into compliance with international standards and prepare Afghans to operate and provide oversight for their national civil-aviation program in advance of the transition of Afghan airspace from the U.S. military to civilian control. The U.S. program is focused on safety oversight, technical operations, and air traffic control. Out of the $4.6 million currently obligated from FY 2011 USAID funds, $824,000 has been disbursed as of September 30, 2013.[691]

OTC has developed a comprehensive training curriculum for Afghan aviation professionals, including for high-level administrative directors of the Afghanistan Civil Aviation Authority in air traffic control and communications, navigation, and surveillance familiarization. After completing on-the-job training, the controllers can become watch supervisors, able to assume managerial supervision of the air traffic environment. According to DOT, this capability did not exist prior to OTC involvement. As of September 30, 2013, DOT reported 49 Afghan aviation trainees have received classroom training. DOT is also measuring the career-track progress of trainees and the amount of training provided.[692]

DOT also reported several challenges. All aviation career tracks require on-the-job training after completing classroom training. However, Afghanistan does not have qualified instructors, so training must be contracted out. For its part, DOT/OTC has not been able to bring in qualified instructors because there is no entity to sponsor them or provide support services such as country clearances, secure housing and transportation, threat protection, and Status of Forces Agreement protection. On-the-job training opportunities are being explored in International Civil Aviation Organization-compliant countries in the region. It can take up to two years to build up sufficient skills, according to DOD. Therefore, during the airspace transition, Afghanistan will have to outsource radar control and other aviation services.[693]

EDUCATION

According to the data available to USAID last quarter from the Ministry of Education's (MOE) Information Management System (EMIS), Afghanistan had a total of 13,562 primary, lower secondary, and upper secondary schools in solar year (SY) 1390 (March 2011–March 2012). The same data showed more than 185,255 teachers employed across all education programs in

Afghanistan, and approximately 7.5 million students enrolled in primary, government lower secondary, and government upper secondary schools.[694]

However, USAID said it was concerned about the reliability of MOE/EMIS data, which is the only database tracking education metrics. USAID told SIGAR it cannot verify the data. With more USAID assistance now going on-budget, USAID relies primarily on EMIS—but without real-time update access—for its information. However, USAID said it also uses internal reports from its officers, ISAF, and implementing partners to check certain levels of field information.[695] SIGAR is concerned that U.S. government agencies and international donors are unable to verify Afghanistan's oft-cited gains in education. Moreover, SIGAR is concerned about providing more direct assistance to the Ministry of Education in light of USAID's view that the ministry lacks sufficient capacity to adequately and properly manage and account for USAID funds.[696]

SIGAR AUDIT

In a newly announced audit, SIGAR is examining the U.S. government's efforts to assist and improve the education sector in Afghanistan. For more information, see Section 2, page 34.

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

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

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

Basic Education, Literacy, and Technical-Vocational Education and Training (BELT) is a three-year (December 2011–October 2014), $173 million on-budget program funded through the ESF. It aims to improve access to quality basic education in communities typically beyond the reach of the government. The program provides textbooks, technical-vocational education, and training, as well as community-based education programs. As of September 30, 2013, USAID has obligated $88.9 million, compared to $20 million last quarter. Of that, USAID disbursed $23.7 million, compared to $5.8 million last quarter, an increase of $17.9 million.[697]

BELT has five components: capacity building for the MOE, textbook printing, teacher training, community-based education, and Technical Vocational Education and Training (TVET).

BELT TVET aims to build the quality and professionalism of TVET educators by providing students with nationally accredited and certified skills, as well as equivalency for TVET in the MOE. The overall objective of BELT is to improve access to quality education and training, focusing on girls and other marginalized populations, according to USAID. An implementation letter spelling out substantive matters—student targets, performance milestones, means of verification, and funding levels for the program—remains delayed. BELT TVET is in the milestone development stage. USAID expects to sign an implementation letter and forward it to the MOE next quarter.[698]

USAID did, however, sign an implementation letter with the Minister of Finance and the Minister of Education on July 28, 2013, amending the amount of funds used to print and distribute textbooks that follow an approved curriculum from $26.7 million to $27 million. Of this, $1.13 million in USAID funds will be used to distribute the textbooks. ($833,187 obligated from the original implementation-letter agreement and $296,813 in new funding).[699]

USAID did not contemplate having to fund textbook distribution, but will because the MOE said it did not have enough money in its budget.[700] The distribution challenges are not new. Insecurity, textbook transit delays, and winter weather that made some areas unreachable have hampered distribution of textbooks in some provinces in the past.[701]

The textbook-implementation letter contains “conditions precedents” that must be met before funds are disbursed. Furthermore, USAID contracted Ernst and Young to conduct an external audit to verify the quantity and quality of textbooks printed, and the distribution of textbooks to the school level. The audit will cover 20% of schools and reach all 34 provinces, according to USAID.[702]

Finally, performance milestones under the community-based education program have been agreed to this quarter, culminating in an implementation letter signed in September 2013. The agreement sets targets for the number of classes established, students reached, means of verification, and funding levels for each milestone.[703]

Higher Education Project

Since the Higher Education Project (HEP) project began in 2006, it has supported the Ministry of Higher Education to execute its National Higher Education Strategic Plan. HEP’s latest phase, extended to February 28, 2014, provides technical assistance to increase ministry capacity through professional training, quality assurance and accreditation, curriculum review, university partnerships, academic policies, and regulation.[704] As of September 30, 2013, USAID had obligated $21.2 million toward HEP (no change from last quarter) and disbursed $15.6 million, an increase of approximately $2 million from last quarter.[705]

USAID used two past program analyses to help design Strengthening Tertiary Education Program-University Partnerships (STEP-UP), a $92.7 million follow-on higher education program that aims to improve the quality and relevance of the Afghanistan higher education system, and the institutional capacity of the Ministry of Higher Education. STEP-UP will work with up to 10 universities to improve university management systems, academic programs and student services; will continue operational support for the American University of Afghanistan; and will strengthen Ministry of

Higher Education systems and management capacity. STEP-UP is an off-budget program, currently under procurement.[706]

USAID has previously reported that it did not have significant outcome data to quantify the impact of the more than $15 million spent on HEP. However, an impact assessment of its faculty-development and teacher-training activities for its master's degree program, as well as an independent gender assessment, were completed. USAID is reviewing the findings.[707]

American University of Afghanistan

This quarter, USAID finalized a new $40 million, five-year cooperative agreement (August 2013–July 2018) designed to continue support for developing the American University of Afghanistan's (AUAF) English-language undergraduate and continuing-education programs. Support will come from USAID's STEP-UP program using ESF and ESF-OCO funds, and will help introduce new science, education, and management curricula, as well as a new master's program, distance learning, and on-line resources. The four components of this agreement aim to strengthen academic and professional development programs, enhance program quality, expand programs for women, and increase financial self-sufficiency. As of September 30, 2013, USAID had obligated $10 million but had not disbursed any money.[708]

AUAF is a private institution that continues to receive substantial assistance from the United States. So that the university can sustain itself after the transition, this new five-year cooperative agreement is a cost-share arrangement with clear, explicit sustainability components, according to USAID. It requires AUAF to contribute more than $62 million in non-U.S.-government funds.[709] A performance-measurement plan has not yet been finalized by the university or approved, but the cooperative agreement contains a series of specific reporting and evaluation requirements, including the need to maintain "appropriate, adequate and accurate documentation," citing SIGAR, the USAID Office of Inspector General, and the Government Accountability Office's interest in U.S. government programs in Afghanistan.[710]

HEALTH

Afghanistan has experienced significant improvements in its health indicators since 2002, according to USAID. Although the country still has one of the highest maternal-and-child mortality rates in the world, the USAID-funded Afghanistan Mortality Survey 2010 found that life expectancy has increased by as much as 20 years to an average of 62–64 years.[711] However, other institutions have cited more modest gains. The CIA World Factbook gives the Afghan life expectancy from birth as 50.11 years, while the World Bank calculated life expectancy at 48.[712]

From FY 2002 through FY 2012, U.S. on- and off-budget assistance to Afghanistan's health sector totaled $1.06 billion.[713] 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 includes activities in health systems strengthening, private sector engagement, and procurement of pharmaceuticals and contraceptives.[714]

This quarter, SIGAR released an audit of the MOPH's capacity to account for U.S. direct assistance. It found that despite financial-management deficiencies at the MOPH, USAID continues to provide millions of U.S. taxpayer dollars in direct assistance with little assurance that the ministry is using these funds as intended.[715]

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.[716]

SIGAR INSPECTIONS

SIGAR published two inspections of Afghan medical facilities this quarter: a Gardez hospital and a Walayatti medical clinic. For more information, see Section 2, pages 38 and 41.

Partnership Contracts for Health Services

The five-year (2009–2014), host-country contract Partnership Contracts for Health (PCH) program supports the MOPH's efforts to provide the Basic Package of Health Services (BPHS) and the Essential Package of Hospital Services (EPHS) in 13 provinces. The United States supports 547 of these health facilities, including:[717]

- 5 Provincial Hospitals
- 27 District Hospitals
- 13 Comprehensive Health Centers+
- 157 Comprehensive Health Centers
- 271 Basic Health Centers
- 64 Health Sub-Centers, and
- 10 Prison Health Facilities

USAID also supports 6,279 Health Posts throughout Afghanistan.[718]

The PCH allocation is $236 million. As of September 30, 2013, USAID had obligated $190.2 million to this program—representing no change from last quarter—and disbursed $146.8 million, an increase of approximately $11 million from last quarter.[719]

PCH delivers health care ranging from primary health care services to highly specialized diagnostic and treatment services. It also supports the Community Midwifery Education program, which helps to increase the number of female healthcare workers and contributes to reduction in both maternal and child mortality. USAID, through its forthcoming semi-annual report in October 2013, will update PCH programmatic challenges and successes.[720] Specific metrics and performance evaluation standards were not provided to SIGAR.

As noted above, SIGAR's audit of the MOPH also found that the ministry internal control deficiencies put U.S. funds provided under the PCH program at risk of fraud, waste, and abuse. USAID officials stated that they have not verified what, if any, actions the MOPH has taken to address these deficiencies. One USAID official determined that USAID has no obligation to address the deficiencies identified, or to verify any of the corrective actions that the MOPH may have implemented for the ongoing PCH program.[721]

Health Policy Project

The Health Policy Project (HPP), a 28-month (June 2012–October 2014) program, is building MOPH capacity to address basic health needs through design, negotiation, and management of hospital public-private partnerships (PPPs). The project also aims to build the capacity of local private-sector organizations to partner with the Afghan government in the generating of demand for and delivery of high-quality health services through social media marketing. HPP allocations this quarter increased to $28 million, a $10 million increase over last quarter, due to a one-year extension of the project. As of September 30, 2013, USAID had obligated $15.5 million to the program (no change from last quarter) and disbursed $13.7 million through ESF and Global Health funding accounts for the program.[722]

HPP's lack of access to qualified international consultants to help support PPPs, as well as lack of a central PPP unit at the MOF, has resulted in delays of PPP activities. However, HPP is actively recruiting for these positions. Additionally, insecurity in several provinces limited outreach activities and sales of social-marketing products. However, HPP was able to conduct training programs this quarter, including on the correct use of socially marketed health products aimed at reducing maternal and child mortality, gender-based-violence training for health providers, and several HIV workshops. HPP also completed feasibility studies of two hospitals, and helped establish a system to collect health data from private hospitals to report to the MOPH.[723] USAID did not provide specific metrics and performance evaluation standards for HPP to SIGAR.

HIV/AIDS

HPP supports the advocacy component of Afghanistan's National AIDS Control Program (NACP) through the HIV and AIDS Coordination Committee of Afghanistan (HACCA). HACCA is a national, multi-sector advisory body to NACP. According to NACP, there are 1,250 officially reported HIV cases in Afghanistan, with the highest prevalence among injection drug users. Other tracked groups at high risk are female sex workers, road transport workers and their assistants, prisoners, and men who have sex with men. The 2012 Integrated Biological and Behavioral Surveillance study found that while the risk of infection is high among these groups, the overall prevalence is low, and that Afghanistan is not at risk for an outbreak among the general population.[724]

Leadership, Management, Governance Project

The 26-month (September 2012–October 2014), $26 million Leadership, Management, Governance (LMG) Project works with the MOPH and the MOE 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 September 30, 2013, USAID had obligated $20.6 million (no change from last quarter) and disbursed $10.6 million through ESF and Global Health funds for the program.[725]

This quarter, through LMG assistance, the MOPH launched three Health Information Systems assessments, including a household survey and census in USAID and EU-funded provinces, and a data quality and use assessment in all 34 provinces. MOPH also completed mapping all In-Service Training (IST)—also known as on the job training—providers, to help create guidelines and standards for all IST activities at the BPHS and EPHS levels. Moreover, the MOPH provided standardized training for the first time to 700 community health supervisors.[726] USAID did not provide SIGAR with specific metrics and performance evaluation standards for the program.

Despite advances in hospital autonomy at 14 national hospitals, USAID reported that LMG efforts to provide technical assistance to the hospitals in rationalizing human resources—the next step in the autonomy process—were challenged by social and political factors affecting hospitals' internal staffing decisions this quarter.[727]

Additionally, the MOPH provincial liaison department has yet to define, clarify, or reinforce the role of the Provincial Liaison Department in strengthening provincial health systems. And thus far, implementing LMG partners have limited capacity to respond to Community-Based Health Care needs throughout Afghanistan, making it a challenge to LMG to help the ministry ramp up interventions nationwide.[728]

PRIVATE SECTOR DEVELOPMENT

The United States is supporting private-sector development through the ESF, TFBSO, and CERP. From FY 2002 to FY 2012, USAID appropriated $1.06 billion for economic growth in Afghanistan.[729] USAID's top ongoing priority economic-growth project, funded through the ESF, is Assistance in Building Afghanistan by Developing Enterprises (ABADE).

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 alliances. It does so through three components: implementing public-private alliances once they are approved, identifying, selecting and supporting the alliances, and working with the Afghan government to improve the environment for business.[730] In one case, ABADE entered into an alliance with a PVC and aluminum production company, procuring approximately $515,000 in equipment, which helped leverage $2.4 million invested by the company. According to USAID, the company can triple its production capacity, improve product quality to international standards, and employ 200 people.[731]

As of September 18, 2013, USAID obligated $29.6 million in Economic Support Funds to support the ABADE program—$12 million more than last quarter—and disbursed approximately $9.3 million—$1.8 million more than last quarter.[732]

Since ABADE's launch in February 2013, USAID reported that 12 public-private alliances have been approved and awarded—compared to five reported last quarter, and 30 applications are awaiting approval. Additionally, business-outreach and government capacity-building efforts continued this quarter, as did two Business Development Services (BDS) surveys to identify BDS capabilities and unmet demand for such services.

ABADE implementation is facing restrictions from Presidential Decree 62, which requires the use of APPF and Risk Management Companies for security. The APPF is unable to provide adequate mobile escort units or vehicles, making it difficult for ABADE staff to travel across the region.[733] Moreover, USAID now depends upon commercial flights, which travel only to major city centers. This effectively puts programs outside of these areas either out of reach, or forces implementing partners to use more expensive charter flights. Risk Management Companies cannot carry weapons to protect U.S. government staff on commercial air. Charter flight companies have yet to respond to USAID requests for such accommodations.[734]