ECONOMIC CONTENTS

ECONOMIC AND SOCIAL DEVELOPMENT

As of January 17, 2014, the U.S. government has provided more than $25 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 3.19.

TABLE 3.19

CUMULATIVE APPROPRIATIONS FOR AFGHANISTAN DEVELOPMENT, AS OF JANUARY 17, 2014 ($ BILLIONS)

Fund	Managing Agency	Appropriated
ESF	USAID	$16.7
CERP	DOD	$3.7
TFBSO	DOD	$0.8
AIF	DOD/STATE	$1.2
Total		**$22.4**

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.

Of the $22.4 billion appropriated for these funds, approximately $18.6 billion had been obligated and $14.5 billion disbursed as of December 31, 2013.

KEY EVENTS

This quarter saw a number of developments that could have a profound impact on the Afghan economy during the coming year. Afghanistan's domestic revenues decreased by 7.4% in the first nine months of the Afghan fiscal year (FY) from the same period a year ago, and missed Ministry of Finance (MOF) budget targets by 12.2%.[441] Domestic revenues paid for only 40% of Afghanistan's operating budget and development expenditures in FY 2012; donor grants covered the remainder.[442]

At the same time, the Wolesi Jirga approved the FY 1393 national budget (December 21, 2013–December 20, 2014). It totals $7.5 billion, a 10.3% increase over FY 1392.[443]

During this reporting period the International Monetary Fund's Extended Credit Facility Arrangement review and disbursement remain delayed due to insufficient Afghan progress toward meeting the agreement's quantitative and legislative requirements.[444]

Finally, the Afghan government has not held any more people accountable for the Kabul Bank scandal, nor has it made significant cash recoveries this quarter.[445] Moreover, the government continues to delay the new mining law, which in turn hinders significant private investment in the mining sector.[446]

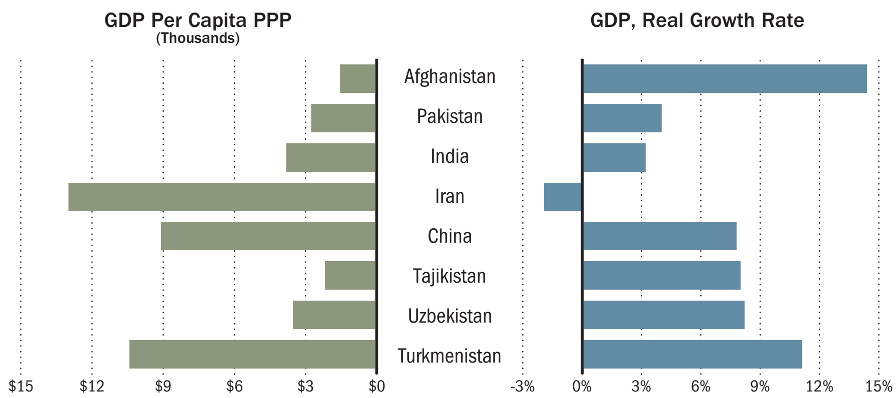
ECONOMIC PROFILE

Between 2002 and 2012, Afghanistan's economy, fueled by international military spending and development assistance, grew by an annual average of 9.4%.[447] Although Afghanistan's gross domestic product (GDP) growth is on par with or exceeds that in many neighboring countries, the country still lags in per capita GDP, as shown in Figure 3.31.

There are indications, however, that GDP growth has reached a negative tipping point. The International Monetary Fund (IMF), the World Bank, and the Asian Development Bank (ADB) all projected that Afghanistan's GDP growth has slowed considerably from about 14% in 2012 to an estimated 3–4% for 2013. The decline in GDP is attributed to increasing uncertainty about the volatile political and security environment and to lower agricultural production and private investment.[448] With an expected reduction in international

FIGURE 3.31

REGIONAL GDP COMPARISONS (2012)



Notes: Numbers have been rounded. 2012 data is in 2012 U.S. dollars. PPP = purchasing power parity, a measure for per capita comparisons. GDP at PPP exchange rates is the value of good and services produced in a country, at prices prevailing in the United States. It requires assigning U.S. dollar values to all goods and services even if they have no equivalent in the United States (for example, an oxcart). GDP per capital, PPP (in current international $). GDP Real Growth (annual %).

Sources: World Bank, "World Development Indicators, World Bank National Accounts Data, and OECD National Accounts Data Files; and International Comparison Program Database," accessed 1/10/2014; International Monetary Fund, World Economic Outlook Database, October 2013, accessed 1/10/2014.

aid and spending after 2014, World Bank projections show average real GDP growth declining to 4–6% annually through 2018.[449]

The services and agriculture sectors have been the most important contributors to real GDP. Increased public spending buoyed demand for services in 2013, according to the World Bank.[450] However, the ADB found periodic weakened demand in industry and services due to business and consumer uncertainty about insurgent attacks leading up to the 2014 full transfer of security to Afghan forces.[451] Non-poppy agriculture remains the second leading contributor to real GDP, typically accounting for between a quarter and a third of GDP, but output and income fluctuate with the weather.[452] Good rains in 2012 led to a near-record-breaking wheat and cereal harvest, but a moderate rainfall in 2013 has led to World Bank expectations of "flat or slightly negative" agricultural growth.[453]

Opium production is not calculated in official GDP figures (more than $21 billion in 2013), although it figures prominently in the economy. Farm-gate price of the opium economy is estimated at 4% of GDP by the United Nations Office on Drugs and Crime (UNODC), which also calculated exports of opium and its derivatives, such as heroin and morphine, at 14% of GDP (almost $3 billion) in 2013.

Source: UNODC, Afghanistan Opium Survey 2013, 12/2013, pp. 10, 12.

Fiscal Sustainability

The Afghan government's revenues declined in 2013 as public spending increased, according to the World Bank.[454] Budget expenditures are expected to continue rising, largely due to spending on security, service delivery, building essential infrastructure, and operations and maintenance.[455]

Afghanistan's fiscal gap between government revenue and expenditures is growing. Its fiscal sustainability ratio—domestic revenues versus operating expenses—remains one of the lowest in the world, according to the Department of Defense (DOD).[456] Recent World Bank calculations show that Afghanistan's fiscal sustainability ratio declined to 60.1% of GDP in FY 2012, compared to 66.5% in FY 2011. It is projected to drop to 56.7% in 2013.[457] Low fiscal sustainability ratios limit a country's ability to pay for discretionary services and are likely to delay Afghanistan's progress to self reliance.[458] The Bank describes Afghanistan's fiscal outlook as subpar and likely to delay progress to self-reliance.[459]

Budget

The Wolesi Jirga, Afghanistan's lower house of parliament, approved the FY 1393 national budget (December 21, 2013–December 20, 2014) on January 15, 2014. The $7.5 billion budget—a 10.3% increase over FY 1392—includes $4.9 billion for the operating budget and $2.6 billion for the development budget.[460]

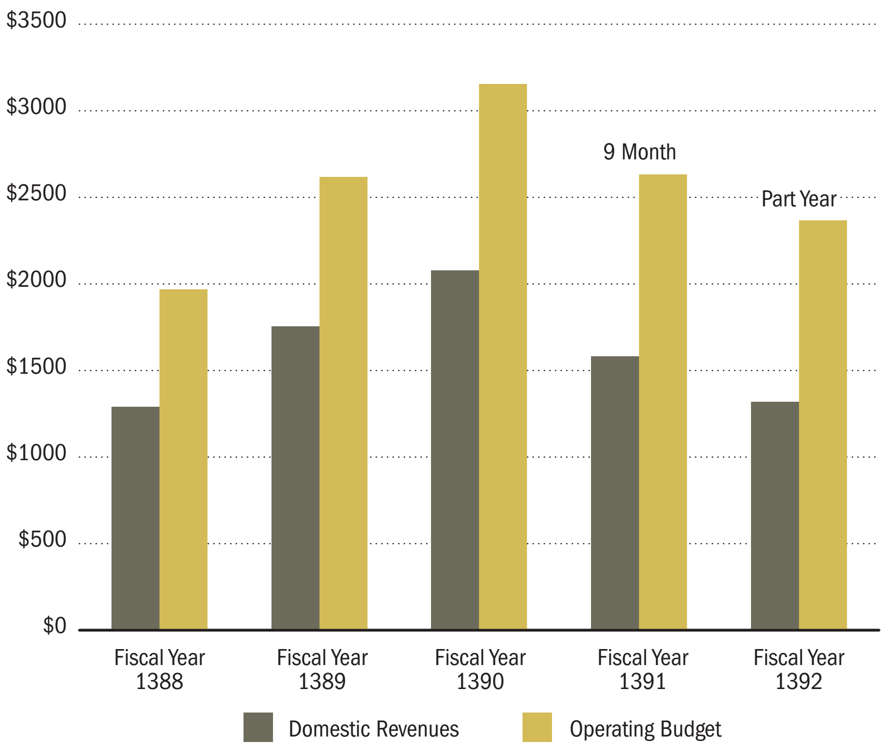
Revenue Generation

Last year, the Afghan MOF projected domestic revenue for FY 1392 (December 21, 2012, to December 20, 2013) at $2.4 billion (at the January 2013 currency-exchange rate of 51.6 afghanis or AFN to the U.S. dollar), an increase of 40% over FY 1391 (March 2012 to December 2012).[461] However, in the first nine months of FY 1392, total domestic revenues decreased by 7.4% from the same period in FY 1391, and missed MOF budget targets by 12.2%.[462] Figure 3.32 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.

The World Bank noted that domestic revenues paid for only 40% of Afghanistan's operating budget and development expenditures in FY 2012; donor grants covered the rest.[463] The Bank attributed Afghanistan's weak revenue performance to a slowdown in economic activity, changes in the structure of imports, and 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 to 19%

FIGURE 3.32

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

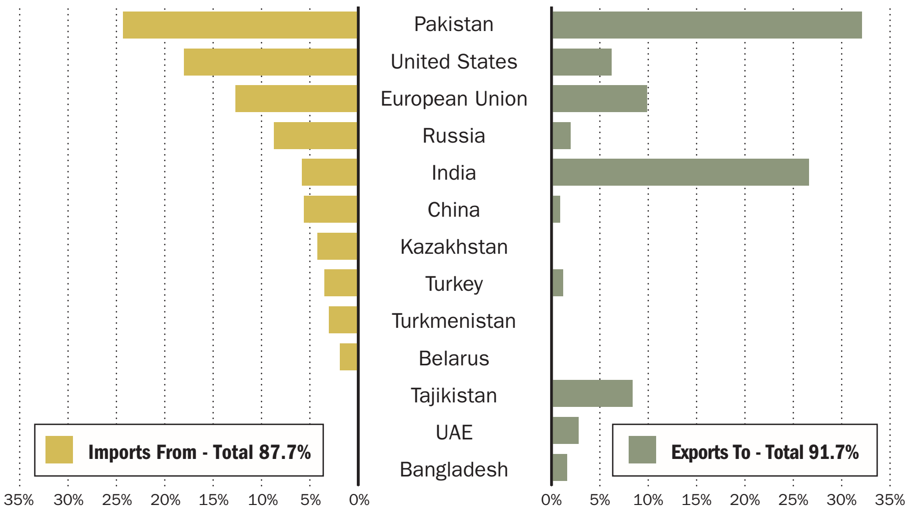


Notes: Until recently, Afghan fiscal years ran approximately March 20 to March 20 of Gregorian calendar years. FY 1388 corresponds to March 20, 2009, to March 20, 2010, and so on. Nine-month data for fiscal year 1391 reflect a change in the timing of the Afghan fiscal year. The most recent MOF data available for FY 1392 cover the first nine months of FY 1392 (2013).

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 9," 10/20/2013, accessed 1/10/2014; Da Afghanistan Bank, "Daily Exchange Rates of Selected Currencies to Afghani," 10/20/2013, accessed 1/14/2014.

FIGURE 3.33

AFGHANISTAN'S TOP TRADING PARTNERS (2012)



Notes: Numbers have been rounded. Percentage indicate imports/exports with top trading partners as percent of each category with all countries.

Source: European Commission, Directorate-General for Trade, "European Union, Trade in Goods with Afghanistan," 7/11/2013.

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.[464]

Trade

As a land-locked nation, Afghanistan is highly dependent on other countries for its trade, transit, security, and stability. As shown in Figure 3.33, Pakistan is Afghanistan's largest trading partner, followed by the United States, the European Union, and regional neighbors.[465]

In its latest analysis, the World Bank found that Afghanistan's trade deficit widened in 2012 to the equivalent of 41.9% of GDP. Total exports in 2012 increased approximately 3% to $2.76 billion, while total imports rose about 11% to $11.4 billion. This gap was largely offset by foreign aid. International 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 declined to $6.9 billion in June 2013.[466]

Total Exports: include official exports, estimated smuggling, re-exports, and sales to non-residents.

Source: World Bank, Afghanistan Economic Update, 10/2013.

World Trade Organization Accession

One milestone that Afghanistan is supposed to achieve under the Tokyo Mutual Accountability Framework is membership in the World Trade Organization (WTO) by the end of 2014.[467] The United States and

Afghanistan completed bilateral negotiations in December 2013 and the next WTO Working Party meeting is anticipated in February 2014, but has not been scheduled as of January 14, 2014. Afghanistan must now pass a series of WTO-compliant laws and regulations. The U.S. government is providing technical assistance in these efforts.[468]

The Extended Credit Facility (ECF): a three-year program that provides financial assistance to Afghanistan, as well as other countries, and is the primary IMF tool for providing medium-term assistance to low-income countries. ECF financial support is generally provided through loans at zero percent interest rates.

Source: SIGAR, Audit 14-16-AR, Afghanistan's Banking Sector: Central Bank's Capacity to Regulate Commercial Banks Remains Weak, 1/8/2014.

EXTENDED CREDIT FACILITY ARRANGEMENT

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. So far, the IMF has released two disbursements of $18.2 million—at the initial ECF approval, and again after the first Board review in June 2012. Neither the second IMF review, originally planned for December 2012, nor the third, originally planned for March 2013, has been completed.[469]

This quarter, the Afghan government again made insufficient progress on the specific banking and financial structural reforms required by the IMF to qualify for another ECF Board review and accompanying disbursement of loans. The Afghan government has neither submitted an internationally acceptable revised Anti-Money Laundering (AML/CFT) law to parliament, nor met the quantitative macroeconomic targets set forth under the ECF Arrangement, according to Treasury.[470]

Additionally, Afghanistan has not made progress on submitting several other pieces of economic and financial legislation to parliament or implementing structural reforms, such as signing a memorandum of understanding (MOU) on information sharing between Da Afghanistan Bank (DAB), the Financial Transactions and Reports Analysis Center of Afghanistan, and Afghan law enforcement agencies.[471]

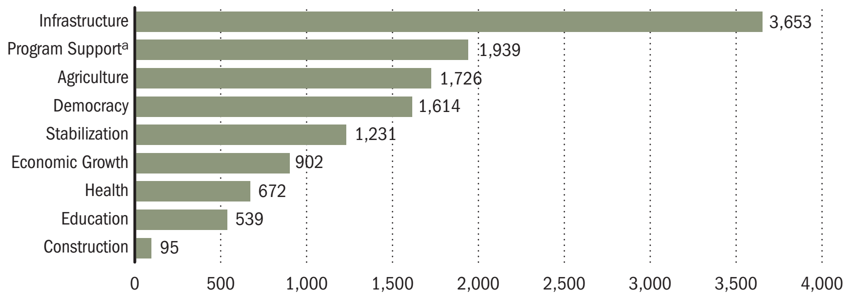
The existence of an ECF agreement is important to the international community because it demonstrates the Afghan government's political will to enact necessary reforms. Adherence to the IMF benchmarks and fulfilling macroeconomic requirements also has a direct effect on the levels of foreign aid the international community contributes to the Afghanistan Reconstruction Trust Fund (ARTF). In solar year 1390 (March 2011- March 2012), the donor community withheld 85% of the total $933 million in donations to the ARTF until the IMF approved a new ECF agreement for Afghanistan in November 2011.[472]

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 in 2014 and the expected accompanying reduction in donor assistance. It also seeks to help Afghanistan develop its resources for sustainable growth.

FIGURE 3.34

USAID DEVELOPMENT ASSISTANCE, CUMULATIVE AS OF DECEMBER 31, 2013 ($ MILLIONS)



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

Although the Consolidated Appropriations Act, 2014, was signed into law on January 17, final FY 2014 funding levels for many Afghanistan relief and reconstruction accounts, including State and USAID accounts like the Economic Support Fund (ESF) are still to be determined. Most ESF support is used for USAID's development programs. Figure 3.34 shows USAID assistance by sector.

USAID said it will concentrate its resources on three development objectives to reduce Afghanistan's dependence on international assistance and consolidate peace and stability in Afghan communities. These include:[473]

1. Supporting the foundations of sustainable economic growth, and targeting economic and agricultural programming in four Regional Economic Zones that are most likely to sustain economic growth into what the Afghan government is calling the Transformation Decade (2015–2024).
2. Helping maintain and make permanent gains in education, health, and women's rights.
3. Supporting continued stability by working to improve government legitimacy and effectiveness.

"The mobility of Department of State and USAID personnel is severely limited due to security constraints, and oversight of programs will become increasingly difficult as the United States military draws down its forces."

Source: U.S. Congress, "Joint Explanatory Statement, Division K–Department of State, Foreign Operations, and Related Programs Appropriations Act, 2014," 1/2014.

USAID On-Budget Assistance to the Afghan Government

In line with donor commitments made at the 2012 Tokyo Conference and the follow-up 2013 Senior Officials Meeting, the United States has been gradually increasing the amount of on-budget development assistance it provides to the Afghan government.

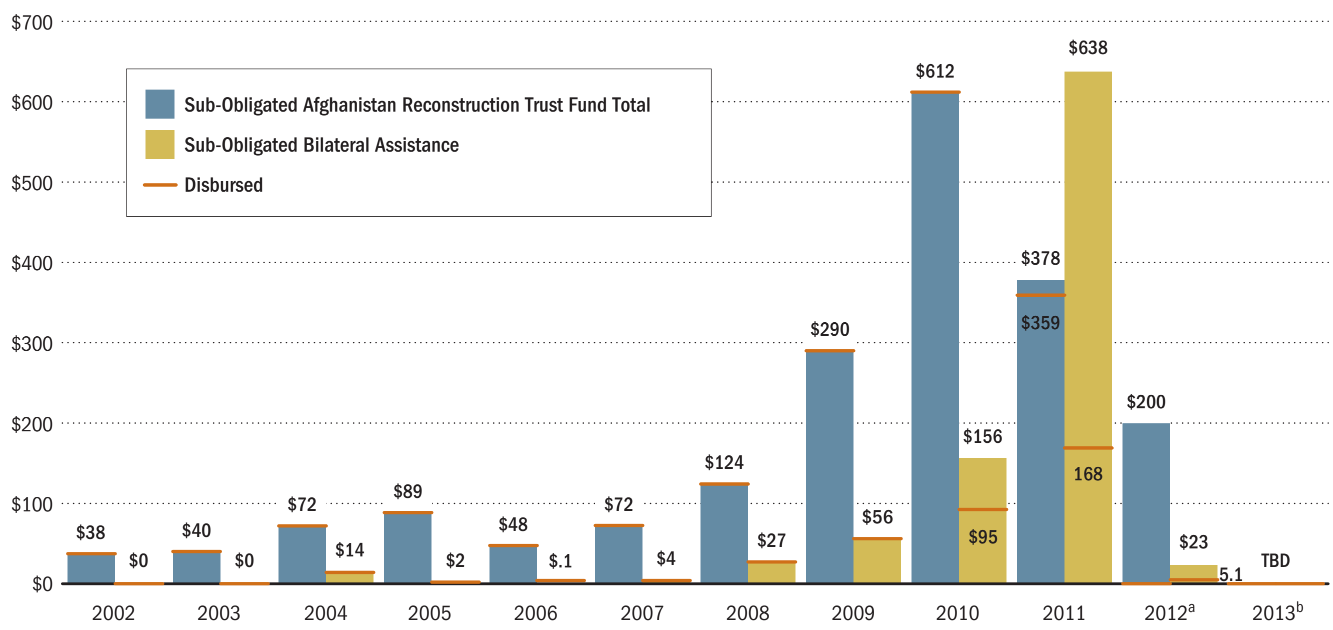
The United States includes as on-budget assistance both direct, government-to-government transfers and multilateral trust-fund contributions to the Law and Order Trust Fund for Afghanistan (LOTFA), the Afghan Reconstruction Trust Fund (ARTF), and the Afghanistan Infrastructure Trust Fund (AITF). These funds, which are managed by the United Nations Development Programme (UNDP), the World Bank, and the ADB respectively, support the Afghan national budget. The Afghan government provides input, guidance and oversight, and some projects are run through the government, but the funds are not fully under the Afghan government's control.[474] See page 64 for details about all U.S. on-budget funding to Afghanistan.

This quarter, USAID obligated approximately $53 million and disbursed $93 million in on-budget assistance—including ARTF—from prior fiscal-year funds. Cumulatively, USAID obligated $2.88 billion and disbursed $2.11 billion in on-budget assistance, as of December 31, 2013, as shown in Figure 3.35.[475]

SIGAR continues to be concerned about U.S. implementing agencies' ability to ensure adequate oversight of the U.S.-funded reconstruction effort as international combat forces withdraw from Afghanistan in 2014. A SIGAR audit published this quarter reviewed assessments of Afghan ministries receiving direct bilateral assistance from the U.S. government.

FIGURE 3.35

USAID ON-BUDGET ASSISTANCE SUBOBLIGATED AND DISBURSED, FY 2002-FY 2013, AS OF DECEMBER 31, 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 disbursed as of December 31, 2013.
[b] Spending in 2013 was done from prior fiscal year funds. Subobligations and Disbursements for FY 2013 are not yet known.

Source: USAID, response to SIGAR data call, 1/7/2014.

These assessments reviewed the ministries' ability to manage and account for donor funds. USAID subsequently completed its own risk reviews of seven of these 16 ministries. SIGAR's audit found that none of these assessments and reviews identified a ministry capable of effectively managing and accounting for funds without implementing risk-mitigation measures. (See Section 2 of this report for a summary of this audit's findings).[476]

Tokyo Mutual Accountability Framework

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 2017. The donors made their assistance conditional on the Afghan government's delivering on its commitments described in the Framework.

At the Senior Officials Meeting in July 2013, the United States announced the establishment of a $175 million bilateral incentive program to support Afghan reforms with the stipulation that "funds will only be available if specific progress is made." The program is to provide these funds in two tranches—$75 million and $100 million—with disbursements dependent on Afghan progress.[477] State told SIGAR that the U.S. Embassy Kabul is leading the assessment, which includes an evaluation of 17 "hard deliverables" that Afghanistan agreed to before the July 2013 Senior Officials Meeting. State said the reviewers will also use Embassy analysis, reports from international organizations, and other objective sources of information in their assessments.[478]

An initial review of the $75 million tranche occurred on September 30, 2013, with a final review scheduled for January 2014 prior to a meeting of the Joint Coordination and Monitoring Board (JCMB).[479] The JCMB, comprising the Afghan government, donors, and the United Nations, will meet to take stock of progress toward the Tokyo Mutual Accountability Framework benchmarks. It will also identify key focus areas for an international development conference to take place later in 2014.[480] State said it will review disbursement of the $100 million tranche after the 2014 elections.[481]

A SIGAR special project found both the Tokyo Mutual Accountability Framework and the U.S. Civil-Military Strategic Framework both lacked specific goals and objectives with measurable outcomes for anti-corruption activities against which the United States government can measure its progress.[482] See Figure 3.36 on the following page for a list of "hard deliverables."

BANKING AND FINANCE

Afghanistan's banking and financial sector, which has not recovered from the 2010 Kabul Bank crisis, suffers from inadequate regulation and oversight, undercapitalization, and a loss of consumer confidence.[483] The United States has offered assistance to the central bank— Da Afghanistan Bank

FIGURE 3.36

SUMMARY OF AFGHANISTAN'S 17 'HARD DELIVERABLES' UNDER THE TOKYO MUTUAL ACCOUNTABILITY FRAMEWORK

Representational Democracy and Equitable Elections	**1** Develop timeline for election preparation and polling through 2015	**2** Set up a 'qualified and well respected' elections commission	**3** Support a legislative framework including an impartial, independent mechanism for resolving electoral complaints	**4** Ministries cooperate with elections commission on registration, outreach, fraud mitigation, etc.	
Governance Rule of Law and Human Rights	**5** Collect and publish asset declarations from high-ranking officials	**6** Follow international standards for appointment of human-rights commissioners	**7** Prepare inter-ministry report on application of Elimination of Violence Against Women Law		
Integrity of Public Finance and Commercial Banking	**8** Take action on recommendations to improve banking system and recover stolen assets	**9** Implement and follow government finance program supported by International Monetary Fund	**10** Implement public-finance management plan and improve accountability score	**11** Raise transparency of public funds measured by Open Budget Initiative	**12** Implement international recommendations to fight money laundering and terrorist financing
Government Revenues, Budget Execution and Subnational Governance	**13** Develop provincial budgeting process with input to ministries and consultation				
Inclusive and Sustained Growth and Development	**14** Analyze FY 1392 budget allocations re health, gender, education, environment, and food security	**15** Plan for accession to World Trade Organization by end of 2014	**16** Establish road and civil aviation institutions	**17** Approve international-standard mining law to encourage extractive-industry investment	

Source: SIGAR summary of 2012 Tokyo Mutual Accountability Framework.

SIGAR AUDIT

This quarter SIGAR published an audit of the Afghan banking sector. For more information, see Section 2, page 23.

(DAB)—since early 2011, but was rebuffed upon DAB's learning the assistance was conditioned. A SIGAR audit released this quarter concluded that without U.S. assistance, and only limited World Bank and IMF involvement, the banking sector remains unstable and at risk of further instability, threatening sustainable economic and financial growth.[484]

According to Treasury, many banks are undercapitalized and lending is concentrated in a small number of sectors with loans largely to related parties—outside businesses that are controlled by the same individuals or groups that own the bank. This can create a conflict of interest and risk that the bank may incur losses to benefit the businesses. The banking sector is also highly dollarized, which may expose Afghan financial institutions to currency risks.[485] The banking sector's loan-to-deposit ratio dropped from 56.8% in 2010 to 23% in 2012.[486]

Few Afghan banks operate in accordance with international standards. 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 World Bank report.[487] State said Afghanistan's banks also suffer from political interference and lack of oversight.[488] In addition, Afghanistan's controls against money laundering and terrorist financing are widely viewed as deficient.[489]

Consequently, on November 30, 2013, several of Afghanistan's banks lost U.S. dollar correspondent banking relationships with German-based Commerzbank. This major money-center bank ended its dealings with Afghan banks to reduce risk and exposure to heightened regulatory scrutiny in the wake of huge fines several British banks agreed to pay to settle U.S. money laundering accusations against them. According to Treasury, it is possible that other banks could also sever their correspondent relationships with Afghan banks.[490]

The general Afghan population distrusts banks, preferring to borrow and save with family and friends, and transfer money through informal, trust- or honor-based hawala networks.[491] Afghans also prefer to use foreign currency rather than their national currency, the afghani (AFN), which is depreciating against the dollar. In early January 2012, a U.S. dollar cost about 49 AFN; now it costs about 56 AFN, according to the Afghan central bank.[492] Treasury said that both depreciation and the level of dollarization may be a function of the public's preference for borrowing and keeping deposits in dollars, while depreciation is likely a cause for that preference.[493]

Banking Law

The Council of Ministers approved the Banking Law on January 28, 2013, but a year later it remains pending before parliament. The legislation strengthens corporate governance provisions, regulates capital requirements and large exposures, enhances bank supervision, and facilitates bank resolution. If enacted, the law will help prevent, mitigate, and respond to the problems in the financial sector, according to Treasury. Failure to enact it will likely lead to weaker financial-sector governance and supervision. DAB will have less authority to enforce banking regulations, key existing vulnerabilities will remain in the banking sector, and bank supervisors will have less protection and authority in the conduct of their duties. In the event of another bank collapse, there would still not be a clear legal framework in place for the resolution process for that troubled bank.[494]

The Kabul Bank

The case against two individuals charged with fraud in the Kabul Bank case remains pending before the Kabul Appellate Court. The case stems from

Money Center Banks: banks that raise most of their funds from the domestic and international money markets relying less on depositors for funds.

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.

Sources: NASDAQ, "Money Center Banks Definition," accessed 1/14/2014; Investopedia, "Loan-To-Deposit Ratio," http://www.investopedia.com/terms/l/loan-to-deposit-ratio.asp, accessed 9/30/2013; Finance Formulas, "Loan to Deposit Ratio," http://www.financeformulas.net/Loan-to-Deposit-Ratio.html, accessed 9/30/2013; Federal Financial Institutions Examination Council Bank Secrecy Act/Anti-Money Laundering InfoBase, "Correspondent Accounts (Foreign)—Overview," accessed 10/1/2013.

Exhibitors tend their booth at the second Access to Finance Exhibition in Kabul. Thousands of business representatives from across Afghanistan attended the exhibition promoting branchless banking and electronic payments. (USAID photo)

a decision by Afghanistan's Attorney General last year to appeal an earlier verdict that, while finding the bank ex-chairman Sherkhan Farnood and ex-CEO Khalillullah Ferozi guilty of fraud, carried modest five-year prison sentences and required only partial restitution.

According the U.S. Department of Justice (DOJ), the court held at least two hearings this quarter; at least one was with the defendants, but prosecutors were not invited.[495]

According to DOJ, Afghan prosecutors are receptive to discreet international assistance with their appeal. Additionally, both the court and the prosecutors have accepted the involvement of Kroll & Associates auditors, who have submitted an evidence binder for the court's consideration. Kroll conducted the forensic audit of Kabul Bank in the wake of the scandal. It also provided an asset recovery strategy for the receivership in 2012 and assisted with a liquidation plan.[496]

Before its near-collapse in 2010, the Kabul Bank had been Afghanistan's largest private bank, 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, DAB, covered these losses, equivalent to 5–6% of Afghanistan's GDP at that time.[497]

Afghanistan's Attorney General's Office (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. However, the court ordered that the uncharged shareholders—together with ex-chairman Farnood and ex-CEO Ferozi—appear at a meeting between the defendants, the prosecutors, and the Kabul Bank receiver to resolve disputes over defendants' monetary liabilities. Farnood and Ferozi insist they are not liable for the entire monetary judgment against them—$279 million and $531 million, respectively—since some funds have been paid back by shareholders or by sales of real property.[498]

According to DOJ, the court's order implied that the uncharged shareholders had also violated the law, describing them as being "on the same page" as Farnood and Ferozi. DOJ is unsure whether this is an order to the AGO to charge the shareholders—a move within the appellate court's authority—or merely an attempt to include them in a civil recovery.[499]

In March 2013, 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. DOJ has repeatedly discussed this inaction with various AGO representatives, to no avail.

Source: DOJ, response to SIGAR data call, 9/30/2013 and 6/29/2013.

Cash and Asset Recoveries

During this reporting period, U.S. implementing agencies reported no new information on recoveries of money stolen from the Kabul Bank.[500] DAB—Afghanistan's central bank recorded $6.13 million in cash recoveries from June 30–September 30, 2013, bringing total recoveries to $174.5 million. This includes $16 million in Kabul Bank transfers that were scheduled, but not made after Kabul Bank went into conservatorship, as well as a $1.49 million court ordered deposit and a $0.45 million loan adjustment.[501]

As noted last quarter, the Senior Officials Meeting Joint Report on the Tokyo Mutual Accountability Framework Implementation recorded $173.2 million as of July 3, 2013, while 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.[502] Whatever the precise number may be, each reported number amounts to less than 20% of the stolen funds.[503]

New Kabul Bank

On December 29, 2013, the MOF announced preliminary decisions on two bids to take over New Kabul Bank (NKB). The NKB's privatization evaluation committee gave top score to the United Arab Emirate-based KRU Capital Partners, which offered $28.5 million ($20 million regulatory capital plus $8.5 million for the purchase of NKB). The Constellation Business Group Inc. came in second.

The Afghan Cabinet must approve the final decision and Afghanistan's central bank must evaluate whether the winner satisfies "fit-and-proper" criteria.[504] The IMF defines "a fit and proper bidder" as one who is subject to high standards of corporate governance, including risk management and internal controls; is in a sound financial and risk-management state; and controls adequate resources and has the necessary capital and capability to ensure ongoing salary-payment services.[505]

Grant Thornton LLP's calendar-year 2012 financial audit of NKB expressed unqualified concern regarding the bank's ability to continue business without successful privatization. NKB lost an average of $1.85 million

New Kabul Bank (NKB): a temporary "bridge bank" containing the good assets and deposits from Kabul Bank. Privatizing NKB, which provides salary payment and direct deposit services to hundreds of thousands of government employees, is an ECF benchmark.

Source: IMF, "Islamic Republic of Afghanistan-First Review Under the Extended Credit Facility Arrangement, Request for Waiver of Nonobservance of a Performance Criterion, Modification of Performance Criteria, and Rephasing of Disbursements," 6/19/2012, accessed 1/3/2014.

per month in 2012.[506] Last quarter, Treasury quoted an Afghan government official as saying NKB losses are running at $500,000 per month.[507] 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.[508] After an initial privatization effort failed, the Afghan government decided to allow potential investors to bid for 50% to 100% of the bank.[509]

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 eventually 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.[510]

DOD maintains that Afghanistan's mineral resources could generate significant revenue and create large numbers of jobs. However, SIGAR has long cautioned that the Afghan government may not be able to earn substantial revenues from Afghanistan's natural resources any time soon because of the considerable infrastructure investment required to develop them, especially given the difficult security environment.[511]

"Working on behalf of the Department of Defense and with concurrence of the Department of State, TFBSO identifies and develops strategic economic opportunities in conflict and post-conflict environments that enable the expansion of the private sector, thus setting conditions for long-term economic growth that is critical to sustainable stability."

Source: TFBSO, "Task Force for Business and Stability Operations Fiscal Year 2013 Transition Plan and Report on Transition Implementation," 8/19/2013, p. 1.

This quarter, State said it does not expect the mining sector to contribute significantly to the Afghan budget until after the mining law is passed and implemented.[512] TFBSO also warned that the global mining economy is limiting new investment, and many companies and financiers view Afghanistan as too risky.[513]

Ministerial Transition

On December 25, 2013, Mohammad Akbar Barakzai was confirmed by the Wolesi Jirga, the lower house of parliament, as the new Minister of Mines and Petroleum.[514] Minister Barakzai replaced Wahidullah Shahrani, who resigned in order to run for first vice president on Qayum Karzai's ticket.[515] TFBSO reported no major shift in the minister's strategy or in his willingness to accept U.S. government support, although that may change. According to TFBSO, Minister Barakzai said a new minerals law is one of his priorities, although he stopped short of saying he will push to address international investor concerns about aspects of its current draft.[516]

TFBSO Transition

TFBSO, which will cease its activities in Afghanistan by the end of 2014, will turn over all of its projects to an Afghan ministry, a private business, or another U.S. government agency.[517] In anticipation, Congress required in the FY 2013 National Defense Authorization Act that DOD develop a plan for transitioning TFBSO programs to either State or USAID to be reviewed, revised, and signed by the Secretary of Defense every 90 days. While no TFBSO programs have yet been proposed for transfer to USAID or any other U.S. government agency, transition reports are being prepared for many of its larger, non-mining programs.[518]

New Minerals Law

This quarter, the long-delayed draft of the new minerals law passed through the Natural Resources Committee of the lower house and as of December 23, awaits consideration by the full parliament. Parliamentarians continue to seek clarification on components of the law from Ministry of Mines and Petroleum (MOMP) officials.[519] TFBSO's advisory team held an information session for interested members of parliament to help them better understand the law's provisions.[520] Once passed by both the lower and upper houses, the law will be sent to the president for final approval.[521] TFBSO is not aware of any changes to the law this reporting period, although State reported that parliamentary discussions are ongoing.[522]

Impediments to Investment

Proposed revisions to the minerals law are meant to better protect Afghan resources, encourage investors, and align regulations to international best practices. Passing a new law is an important Tokyo Mutual Accountability Framework benchmark to improve Afghanistan's revenues and overall fiscal and external sustainability.[523] Submitting amendments to the law and to the Ministry of Justice in order to develop a transparent fiscal regime for natural resources is an outstanding IMF structural benchmark.[524] DOD's TFBSO warns that without legislative reform that includes linking investor exploration with extraction rights, and institutes a formal and fixed royalty rate, many companies will not bid on new tenders. The current draft law does not include that linkage.[525] The law also 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.[526]

State and TFBSO differ on the ramifications of the delayed new minerals law. TFBSO said it has significantly hindered private-sector investment, but not the existing contracts still under negotiation, which will be signed under the current minerals law.[527] Unsigned contracts include Hajigak (iron ore, awarded in November 2011);[528] Shaida (copper, November 2012); Badakhshan (gold, November 2012); Balkhab (copper, November 2012); and Zarkashan (copper, gold, December 2012).[529] In contrast, State said that the delay in passing a new mining law has impeded these existing contracts, but not private-sector investment.[532]

In addition to the uncertainty about the mining law, State said private companies also saw the uncertainty caused by the security and political transitions underway as major obstacles to investment. However, TFBSO said investors are more concerned about the global mining economy and limited available capital than about an uncertain security environment post-2014.[533]

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

TFBSO has fully obligated its $17.2 million total for mining-sector development in FY 2013, and $7.5 million in FY 2014, as of December 27, 2013.[530] After more than three years of TFBSO engagement in Afghanistan TFBSO reported this quarter that it created a metrics system to measure the microeconomic impacts of their assistance programs. However, the data contained in the system is limited, only going back an average of six months, and the metrics criteria can vary by project. TFBSO is also creating an economic impact assessment of its efforts that will collect data on a macroeconomic level, which can be transferred to USAID or their Afghan partners. TFBSO's authority is scheduled to expire at the end of 2014.[531]

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 TFBSO and the U.S. Geological Survey (USGS). These organizations are supporting mineral and hydrocarbon tenders as well as oil-and-gas data management. In addition, TFBSO and the USGS are supporting programs to build capacity at the MOMP and AGS through hands-on training and classroom modules in modern data collection techniques.[534]

TFBSO and USAID provides subject-matter-expert support to the APA. This includes technical (oil and gas engineering), legal (contract implementation), and financial (accounting and analysis) to assist 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.[535] Additionally, a TFBSO-funded legal and geology team is working with the MOMP to identify and tender new areas of interest.[536]

Mining Investment and Development for Afghan Sustainability

The Mining Investment and Development for Afghan Sustainability (MIDAS), USAID's only mining program, is an $86.6 million program with on- and off-budget components. The $41.6 million 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 $45 million on-budget Phase II has not yet begun, but is designed to strengthen the MOMP so it can procure, implement, and monitor completion of mining tender packages. As of December 10, 2013, USAID had obligated $6 million and disbursed $1.74 million to begin off-budget implementation.[537]

USAID expects to achieve the following results from MIDAS:

- 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[538]

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.[539]

Capacity of the Ministry of Mines and Petroleum

TFBSO's strategy for promoting economic growth in Afghanistan rests largely on developing Afghanistan's natural resources. In its transition report to Congress, TFBSO claimed that, as a result of its strategy to partner with Afghans at every stage of project planning and execution, "Afghans will have the capability to handle on-going project requirements."[540] TFBSO said the MOMP has either taken or is close to taking the lead in tender evaluation and award, and contract negotiation and award. At the same time, TFBSO acknowledged weaknesses in the ministry, especially in the areas of capacity, monitoring, and oversight. TFBSO said the MOMP's lack of capable employees leaves most of the work in the hands of a small group of knowledgeable and capable, yet overworked, employees.[541]

A SIGAR audit this quarter of assessments of Afghan ministries found that USAID/Afghanistan identified 16 risks and 33 corresponding mitigation measures needed for the MOMP before it receives U.S. direct-assistance funds. Despite USAID's own conclusion that MOMP controls are inadequate to mitigate the risk of corruption, USAID obligated $30 million for one active direct-assistance program. USAID also committed $45 million for a proposed mining investment and development project, as of August 1, 2013.[542]

Mine Security

It is uncertain who is providing mine security and in what numbers. 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.[543]

However, this quarter, State reported that the Afghan Public Protection Force (APPF) is responsible for mine security, and that the Ministry of Interior (MOI) and APPF recruit and train security personnel after a contract is signed with the MOMP. As of this reporting period, the MOMP has only contracted APPF services for Mes Aynak, the northern Amu Darya Basin, and the Sheberghan gas fields.[544]

Both State and TFBSO said they do not record attacks on mining interests beyond tracking open-source news. Radio Free Europe/Radio Liberty (RFE/RL) reported that workers came under attack from local militia in the Amu Darya Basin in September 2013 (presumably with APPF assigned to secure the area), halting oil production. The news report also highlighted disputes between local leaders over control of gold and precious stones, 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.[545]

TFBSO said because no major mining sites are active, little mining security is currently needed.[546] However, as shown in Figure 3.37, former MOMP Minister Shahrani prepared a list of potential sites that would be tendered between 2012 and 2014 and the number of APPF personnel needed for each.[547]

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.[548] The contract's details have never been fully disclosed, but according to the MOMP's published summary, MCC's total investment is to be $2.9 billion. Afghanistan is to receive $808 million upon approval of a feasibility study, $565.6 million upon commencement of commercial production, and a 19.5% maximum royalty rate.[549] Last quarter, Afghan media reported MCC's intention to exercise its option to renegotiate the contract.[550]

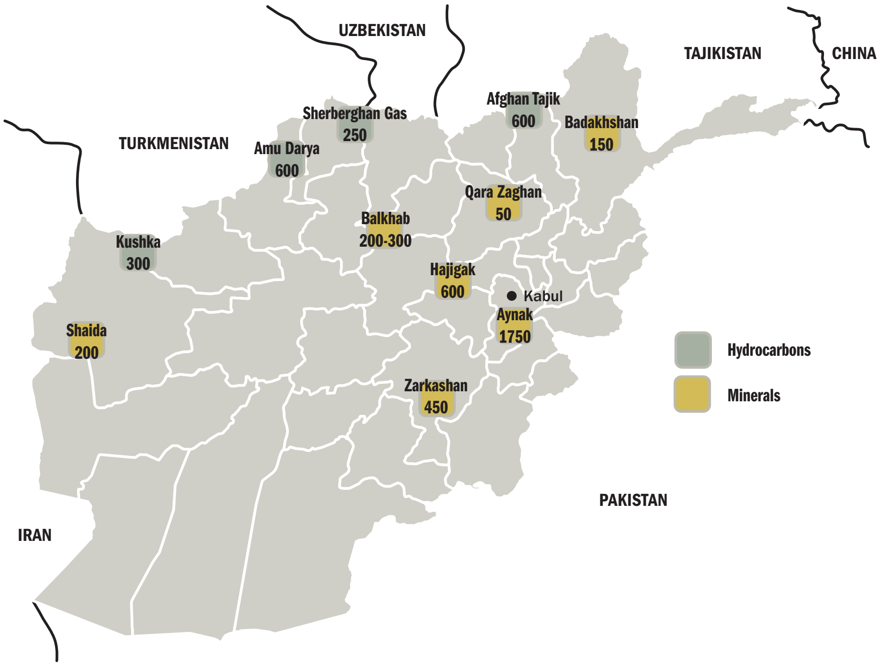
Development of the Mes Aynak copper mine remains delayed by the discovery of cultural relics in the area, difficulties in land acquisition, lack of primary infrastructure, and security concerns.[551] TFBSO suspects other contributing factors include unwieldy contract terms, continuing volatility in the minerals market, and China's penchant for arranging mineral projects, then "shelving" them for the future use.[552] Despite these problems, the Afghan government is counting on Aynak to meet its future revenue predictions.[553]

North Aynak Drilling

TFBSO's $4.5 million North Aynak drilling exploration program, which began in November 2012, ended in spring 2013. It was to be followed by a MOMP tender. However, the MOMP decided not to tender the area at this time even though it has a completed technical report, according to TFBSO. No explanation or timeline was forthcoming.[554]

FIGURE 3.37

APPF PERSONNEL REQUIREMENTS FOR EXTRACTIVE SECTOR SECURITY



Note: APPF = Afghan Public Protection Force
Source: State, response to SIGAR data call, 12/29/2013.

In November 2013, 35 Afghan Geological Survey (AGS) employees completed a three-month drilling and maintenance training program facilitated by TFBSO. It combined classroom-based modules and hands-on drill training with AGS-owned equipment that had been sitting dormant since its purchase in 2009. The training sought to continue training AGS employees on operating their own equipment and drilling in their own country, and to demonstrate Afghan capability to the international minerals industry. TFBSO said a variety of exercises and tests were used to track participants' progress, but did not share the results.[555]

Hajigak Iron-Ore Mine

Contract negotiations for the Hajigak iron-ore concessions continued this quarter. The MOMP awarded three blocks to Afghan Iron and Steel Consortium (AFISCO), a seven-member 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.[556]

AFISCO is considering cutting its initial investment from $11 billion to $1.5 billion, according to a news report, due to uncertainty about security once U.S. troops leave in 2014.[557] 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.[558]

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. Even with two newly operational refineries, Afghanistan lacks adequate refining capacity, and remains heavily import-dependent for fuels. The country imports 10,000 tons of oil products a day from Turkmenistan, Uzbekistan, Russia, Pakistan, and Iran.[559]

Amu Darya Basin

The latest available data provided to SIGAR showed that CNPCI-W produced approximately 14,916 barrels of crude as of August 31, 2013, missing its minimum production requirements for FY 2013 of 1.65 million barrels. From that, the Afghan government received $4.67 million in royalty and surface rental fees.

Sources: TFBSO, response to SIGAR data call, 9/30/2013; TFBSO, response to SIGAR data call, 7/3/2013; TFBSO, response to SIGAR vetting, 7/17/2013.

The three blocks of the Amu Darya Basin awarded to the China National Petroleum Corporation Watan Energy Afghanistan (CNPCI-W) in 2011 are estimated to contain 87 million barrels of crude oil, according to State and TFBSO.[560] State and TFBSO reported little to no production this quarter because CNPCI-W is still waiting for the Afghan government to negotiate cross-border transit agreements so it can export its crude to a neighboring country to be refined. Without such agreement, buyers are not interested. According to State, the Afghan government is negotiating an agreement with Uzbekistan.[561] In the meantime, the MOMP announced a tender on December 31, 2013, for the sale of 230,000 tons minimum per annum of CNPCI-W crude oil.[562]

On January 7, 2014, the MOMP officially opened a new tender for exploration, development, and production in the Totimaidan block, comprising 7,131 square kilometers in the Amu Darya Basin.[563] The contract area contains 28 billion cubic meters of reserves in two known gas fields and 50 proven and prospective subsurface structures. Expressions of interest are due February 8, 2014.[564] TFBSO will follow up on its tender preparation assistance to the MOMP and provide technical, legal, commercial, and transparency advisory services, as it did with the Afghan-Tajik tender.[565] Afghan-Tajik tender assistance included 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.[566]

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.[567] Given its importance, agriculture could be a catalyst for GDP growth, improved food security, and more stable employment opportunities.[568]

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.[569] Of that, USAID has obligated about $29 million and disbursed $29 million in direct assistance to build capacity at the Ministry of Agriculture, Irrigation, and Livestock (MAIL).[570]

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)

SIGAR ALERT LETTER

SIGAR last quarter alerted USAID that it had not used 27 watershed assessments—for which it paid $3.5 million—that were intended to guide its future water sector development in Afghanistan.

Agricultural Credit Enhancement and Agricultural Development Fund

Project Title	Start Date	End Date	Total Estimated Cost ($)	Cumulative Disbursement, as of 12/31/2013
Agricultural Credit Enhancement	7/15/2010	1/15/2015	$75,175,296	$61,542,072
Agriculture Development Fund	7/18/2010	12/31/2014	$74,407,662	$29,000,000

Source: USAID, response to SIGAR data call, 1/7/2014.

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. ACE is the technical assistance component that manages all ADF lending activities and helps build MAIL capacity.[571]

This quarter, ACE-ADF finalized loan applications and disbursed $2 million to six clients. It organized an agricultural credit shura on lending opportunities and value chain assistance for 43 farmers. Seventeen ADF client agribusinesses also participated in the Kabul International Agricultural Exhibition. 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 its programs.[572]

Incentives Driving Economic Alternatives-North, East, and West

Project Title	Start Date	End Date	Total Estimated Cost ($)	Cumulative Disbursement, as of 12/31/2013
Incentives Driving Economic Alternatives-North, East, and West	3/2/2009	3/1/2014	$159,878,589	$138,072,218

Source: USAID, response to SIGAR data call, 1/7/2014.

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.[573]

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.

Source: USAID OIG, Audit of USAID/Afghanistan's Incentives Driving Economic Alternatives for the North, East, and West Program, Audit report No. F-306-12-004-P, 6/29/2012.

USAID reported this quarter that 14,000 hectares are under alternative crop cultivation due to IDEA-NEW.[574] In addition, USAID said thousands of people have benefitted from agricultural productivity and business skills training, as well as program-supported agricultural inputs. However, USAID also acknowledged low crop production, limited food processing opportunities, and shifting security conditions as challenges to IDEA-NEW.[575] Afghanistan had 209,000 hectares of opium under cultivation in 2013, a 36% increase over 2012.[576]

Commercial Horticulture and Agricultural Marketing Program

Project Title	Start Date	End Date	Total Estimated Cost ($)	Cumulative Disbursement, as of 12/31/2013
Commercial Horticulture and Agricultural Marketing Program	2/1/2010	12/30/2014	$40,320,139	$30,522,754

Source: USAID, response to SIGAR data call, 1/7/2014.

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.[577]

Kabul International Agricultural Fair attendees display products from a company assisted by IDEA-NEW. (USAID photo)

As CHAMP approaches the 2014 transition, USAID said it will shift focus to post-harvest commercialization of high-value crops. The program seeks to increase exports through marketing and to 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.[578]

Kandahar Food Zone

Project Title	Start Date	End Date	Total Estimated Cost ($)	Cumulative Disbursement, as of 12/31/2013
Kandahar Food Zone	7/31/2013	7/30/2015	$19,695,804	$990,000

Source: USAID, response to SIGAR data call, 1/7/2014.

This quarter, USAID announced it was launching the Kandahar Food Zone (KFZ) program with two major components: capacity building at the Ministry of Counter Narcotics (MCN) and alternative livelihood projects. The capacity-building component seeks to build up the MCN's ability to design, implement, and manage alternative livelihood projects. The alternative-livelihood component aims to improve community infrastructure and increase legal economic opportunities. As of December 8, 2013, KFZ had not yet begun any community-level projects. The initial cooperative agreement has an estimated value of $19.7 million, of which $611,000 was disbursed as of December 8, 2013.[579]

Although it is partly modeled on the Helmand Food Zone (HFZ), USAID said the KFZ program is taking a different approach. The HFZ program implementers focused on crop substitution and eradication, an input-driven and unsustainable approach, according to USAID. In contrast, the KFZ program engages with communities to identify the social, political, and economic drivers of poppy cultivation, and then tailor appropriate projects to them. Finally, unlike HFZ, KFZ was designed to treat the MCN as an active partner.[580]

Afghan Agriculture Research and Extension Development Program

Project Title	Start Date	End Date	Total Estimated Cost ($)	Cumulative Disbursement, as of 12/31/2013
Afghan Agricultural Research and Extension Development (AGRED)	7/7/2012	7/16/2017	$23,638,611	$3,227,399

Source: USAID, response to SIGAR data call, 1/7/2014.

Afghan Agriculture Research and Extension Development (AGRED) is an on-budget program (with an off-budget mechanism) in partnership with MAIL designed to increase agricultural production and benefit rural livelihoods through the use of improved agricultural technologies. AGRED is rehabilitating research and extension centers for MAIL and the Directorate of Agriculture, Irrigation, and Livestock (DAIL) and across seven provinces and 50 districts. AGRED also provides training to MAIL and DAIL personnel so that they can, in turn, provide technology and advisory services to Afghan farmers and herders.[581]

After a slow start that required shifting some funding off-budget due to MAIL's limited capacity, USAID reported that AGRED now has a detailed budget, implementation benchmarks, and means of verification approved by MAIL. In addition, AGRED has conducted inventories of targeted research and extension facilities and completed 21 trainings for 504 MAIL/DAIL personnel.[582]

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 electric-service connection in the world, with only 28% of its population connected to the power grid. Of those who are connected, an estimated 77% live in urban areas.[583]

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.[584] In 2002–2011, USAID alone 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.[585] 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.[586]

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; the 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 to increase the availability of affordable, grid-based power. Connecting the power grids is intended to promote the best use of lowest-cost generation, reduce the need for duplicative generating reserves, and improve system reliability.[587]

NEPS: brings imported electricity from the Central Asian Republics to provide power to Kabul and the communities north of Kabul.

SEPS: draws most of its power from the Kajaki Dam and from diesel generators in Kandahar City. It provides power in the Helmand and Kandahar areas.

Source: DOD, *Report on Progress Toward Security and Stability in Afghanistan*, 11/2013, accessed 12/29/2013.

Sheberghan Program

Afghanistan currently imports more than 70% of the energy it needs, according to USAID.[588] Together with the ADB, the Overseas Private Investment Corporation, and the MOMP, USAID is supporting the Sheberghan project to help Afghanistan identify and manage gas resources to be used for power generation.[589]

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 (SGGA).[590] USAID will pay $30 million on-budget through SGDP for the rehabilitation of two wells and the drilling of one well in the Juma and Bashikurd field in the Amu Darya Basin. An additional $7 million will come from Afghanistan's national budget. The National Petroleum Company of Turkey signed a contract with the MOMP on December 14, 2013, to perform the work. Gas reserves are expected to be confirmed in August/September 2014. If, in the end, the wells have sufficient capacity to run a 200 MW gas-fired power plant, USAID will fund a gas gathering system and gas processing plant to fuel it with its remaining $60 million, on-budget through SGDP. No disbursements have yet been made.[591]

The off-budget SGGA component is being implemented under a contract task order with Advanced Engineering Associates International to provide technical assistance to the MOMP for the drilling portion of this project and to help the MOMP tender the Engineering/Procurement/Construction contract for the gas-gathering system and gas-processing plant. As of December 18, 2013, approximately $23 million has been obligated, of which more than $10 million was disbursed.[592]

USAID is funding 21% of the Sheberghan program; the Overseas Private Investment Corporation is expected to back 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%.[593]

Kandahar-Helmand Power Project

The Kandahar-Helmand Power Project (KHPP) is intended to increase power supply and reliability in Kandahar and Helmand provinces. It was designed to support interim diesel power for critical needs, increase long-term sustainable hydro power, and reduce losses while strengthening the SEPS transmission and distribution system.[594]

On October 29, 2010, USAID signed a $266 million contract with Black & Veatch to rehabilitate and build power substations, upgrade the medium-voltage distribution system in Kandahar City, install, test, and commission a third turbine at the Kajaki Dam, and design and install new diesel-powered generators for interim power supply until lower cost, more sustainable power becomes available from the Kajaki Dam and/or the NEPS-SEPS connector.[595] The turbine parts, transported to the power station by a U.S.-British military mission that had to fight its way to the dam site in 2008, have remained unassembled in containers and under tarps ever since.[596]

On April 22, 2013, USAID signed a bilateral, on-budget implementation letter with the Afghan government, and sub-obligated $75 million for installing, testing, and commissioning the third turbine at the Kajaki hydropower station, which had not occurred under the Black & Veatch KHPP contract, as required.[597] The turbine installation requirement contained within the Black & Veatch KHPP contract has been descoped.[598]

Afghanistan's national utility, Da Afghanistan Breshna Sherkat (DABS), has assumed responsibility for carrying out the terms and conditions of the Implementation Letter.[599] On December 9, 2013, DABS signed a $6 million contract with Dubai-based GFA Consulting for the up-front engineering, procurement, and tendering services pertaining to the installation of Kajaki's third turbine, in addition to security and site support services.[600] Meanwhile, on December 17, 2013, USAID announced that it intends to negotiate a sole-source contract extension of KHPP with Black & Veatch for technical support services to DABS and USAID in support of the third turbine installation. Black & Veatch would provide project documentation and

SIGAR ALERT LETTER

This quarter, SIGAR issued a letter to USAID alerting them about possible weaknesses in oversight provisions in their agreement for providing direct assistance funds to Afghanistan's national utility, Da Afghanistan Breshna Sherkat (DABS), for the installation of an additional turbine at Kajaki Dam. For more information, see Section 2, page 48.

Kajaki hydropower plant design support. USAID based its decision on Black & Veatch's experience with the Kajaki hydropower plant.[601]

DOD is funding fuel for the U.S. Army Corps of Engineers-installed generators in Kandahar City through 2014 using AIF. DABS is providing fuel for other existing generators in the area. The U.S. fuel subsidy may be extended, but USAID expects it to decrease as DABS takes the required steps to secure revenue needed to sustain the fuel costs. One step is contracting for the installation of Kajaki's third turbine, which when operational should generate additional power and revenues.[602]

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. Also, DABS may not be able to pay its bills without continued government subsidies that are set to expire in 2014.[603] As of December 18, 2013, USAID had obligated $229.6 million of ESF funds for the KHPP, and of that, approximately $209.3 million had been disbursed, an increase of $17.9 million from last quarter.[604]

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, which calls for improving the collection rate against energy billings and increasing the supply of power.[605]

In addition to strengthening and expanding NEPS, a key component of PTEC is funding 304 miles of the 329-mile transmission line between Kabul and Kandahar to connect NEPS with SEPS. The NEPS-SEPS connector will include eight substations located at major population centers along the way. This 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.[606]

Connecting NEPS to SEPS is a multi-donor effort. The ADB is responsible for the first 25-mile section from Kabul to Arghandi.[607] USAID will fund construction of the next 75 mile section from Arghandi to Ghazni, which includes $101 million of DOD's AIF that was transferred to USAID. USAID, the MOF, and DABS formalized the bilateral agreement for this segment in February 2013.[608] USAID plans to contribute $417.6 million from its $814 million PTEC project to ADB's Afghanistan Infrastructure Trust Fund (AITF) with a portion used to construct the remaining 230-mile section of transmission line from Ghazni to Kandahar connecting NEPS with SEPS. Completion of the NEPS-SEPS connector will be delayed by two years to 2017/2018. Of USAID's contribution to AITF, approximately $290 million will be used to construct the remaining transmission line from Ghazni to Kandahar to complete the NEPS to SEPS connection.[609]

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.[610]

As of December 31, 2013, USAID has obligated $180.3 million to AITF and disbursed $105 million of which $45 million was disbursed concurrently with the signing of the Program Contribution Agreement in March 2013 and $60 million was disbursed in December 2013 pursuant to an ADB request. USAID has also obligated $263.3 million in on-budget assistance to the MOF and DABS for PTEC, but disbursed no funds in the last two quarters.[611] That is because USAID set 12 conditions for DABS to fulfill. In an implementation letter dated December 5, 2013, USAID declared that DABS recently met the conditions for funds disbursal, so DABS is submitting contracts to USAID for approval.[612]

DOD-Funded Programs

DOD has viewed establishment of reliable and sustainable power generation, transmission, and distribution as the linchpins to security, stability, and economic growth in Afghanistan. This quarter, DOD continued implementing several priority energy-sector projects using FY 2012 and FY 2013 AIF money. These included:[613]

- Kandahar Power Bridging Solution
- Kandahar–Durai Junction transmission lines
- Charikar–Bazirak and Charikar –Mahmood Raqi transmission lines and power substations
- Kajaki Dam to Musa Qalah transmission lines

Kandahar Power Bridging Solution

This project is providing fuel for the diesel generators in Kandahar City until affordable, sustainable power becomes available through the joint DOD-USAID effort to expand and connect NEPS and SEPS systems.[614] 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.[615]

Based on the president's FY 2014 budget request of $279 million for AIF, DOD proposed to spend $100 million for the diesel power generators and to integrate prior DOD and USAID power projects. DOD will reevaluate this plan based on the final FY 2014 appropriation.[616] 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 intended 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.[617] 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.[618]

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 project, 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.[619]

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

This project will install 52 miles 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 a DOD notification to Congress last quarter. Annual estimated O&M costs for the transmission lines and substations are $580,000.[620]

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.[621] However, SIGAR has raised questions about DABS's capacity, and other audits have said Afghanistan lacks the resources necessary to pay for O&M.[622]

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 9 miles of new 110kV transmission line from Kajaki to a new substation that will join with the existing 20kV transmission line. Phase II plans to use $49 million in FY 2014 funds to build 23 miles of 110kV transmission line from the substation to Musa Qalah, build a new 110kV substation, and rehabilitate the existing 20kV substation at Musa Qalah. The project aims to benefit the approximately 60,000 residents of Musa Qalah, according to DOD.[623]

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.[624] As noted above, SIGAR audits have raised concerns about DABS' capacity and resources.

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.[625] USAID's top ongoing economic-growth project, funded through the ESF, is Assistance in Building Afghanistan by Developing Enterprises (ABADE).

Assistance in Building Afghanistan by Developing Enterprises

Project Title	Start Date	End Date	Total Estimated Cost ($)	Cumulative Disbursement, as of 12/31/2013
Assistance in Building Afghanistan by Developing Enterprises	10/16/2012	10/15/2016	$104,997,656	$12,515,789

Source: USAID, response to SIGAR data call, 1/7/2014.

USAID's $105 million Assistance in Building Afghanistan by Developing Enterprises (ABADE) program focuses 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.[626]

Since ABADE's launch in February 2013, USAID reported that 25 public-private alliances—compared to five reported seven months ago—and 16 applications are awaiting approval, as of January 14, 2014. Additionally, business-outreach and government capacity-building efforts continued this quarter.[627]

ABADE implementation continues to face 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, according to USAID.[628]

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.[629] Afghanistan's infrastructure shortcomings particularly constrain the service and agriculture sectors, which currently contribute most to GDP. They also hold back the mining industry, whose future revenues the Afghan government and international donor community are counting on to supplement declining aid.[630] This quarter, the United States continued its efforts to assist Afghanistan in developing ministry capacity, sustaining operations and maintenance, and complying with international standards.[631]

Roads

USAID approved its Road Sector Sustainability (RSS) project design on July 14, 2013. The project has four main activities:[632]

- Activity 1 - Emergency O&M. This is in the RFP development phase.
- Activity 2 - Technical Assistance to the Ministry of Public Works (MOPW). Firms were pre-qualified to bid in September/October 2013, the RFP was released on November 27, 2013 and proposals are expected January 15, 2014.
- Activity 3 - Capacity Building for the MOPW. The Statement of Work is being finalized and a Request for Task Order Proposal is in development.
- Activity 4 - Road O&M Activity. USAID is continuing discussions with ADB's AITF to determine funding options and proposed activities.

USAID's technical assistance to the MOPW is focused on Activity 2, helping the MOPW establish a Road Authority, Road Fund, and Transportation Institute. USAID said the primary challenge for establishing a road authority is political. The president and the cabinet finally approved establishing a Road Authority and Road Fund on August 12, 2013. Maintaining political support will be challenging given the country's political and security uncertainties in 2014.[633]

Rail

In November 2013, the Afghan Rail Authority (ARA) received the final U.S. Central Command (CENTCOM) rail study and is reviewing the document along with rail master plans developed by other international donors. According to the U.S. Department of Transportation, ARA's immediate priorities are to finalize its legal and regulatory framework legislation and have parliament approve it so that its roles and responsibilities in developing Afghanistan's rail sector are clearly defined.[634]

Currently, Afghanistan has no meaningful railroad development, operational experience, or capacity. Only one completed rail line exists—a 47-mile line from Hairatan, on the border with Uzbekistan, to Mazar-e-Sharif.[635] The country needs to expand the 47-mile line if it is to further the U.S. government's New Silk Road vision of regional and economic connectivity. Development of an interlinking 249-mile line between Afghanistan, Turkmenistan, and Tajikistan was inaugurated in June 2013.[636]

For a detailed discussion on CENTCOM's national railway plan, see pp. 164–166 in SIGAR's July 2013 Quarterly Report.

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.[637]

However, USAID said it was concerned about the reliability of the MOE/EMIS, which is the only database tracking education metrics at the MOE. USAID relies primarily on EMIS for its information, but told SIGAR it cannot verify the data. With more USAID assistance now going on-budget, USAID is working to support the MOE to improve the reliability of EMIS data. USAID said it also uses internal reports from its officers, the International Security Assistance Force (ISAF), other donors, and implementing partners to help verify and check information.[638] SIGAR is concerned that U.S. government agencies and international donors are unable to verify Afghanistan's oft-cited gains in education.

A SIGAR audit this quarter of assessments of ministries receiving direct bilateral assistance from the U.S. government found that USAID/Afghanistan identified 12 risks and 39 corresponding mitigation measures needed for the MOE before it receives U.S. direct assistance. Despite USAID's own conclusion that the U.S. government cannot rely on MOE internal controls to manage donor funds, USAID disbursed $11.8 million for

SIGAR INSPECTION

A SIGAR inspection this quarter of the Balkh Education Facility found that it has not been completed or constructed in accordance with contract requirements and technical specifications; it cannot be turned over to Afghan authorities five years after construction began; and Afghan faculty and students were using the facility although it was not approved for occupancy. For more information, see Section 2, page 40.

one active direct-assistance program. USAID also committed $206.1 million for two planned basic-education and workforce-development programs, as of August 1, 2013.[639]

Since 2002, USAID has supported education through aid for building and refurbishing schools, developing curricula, and conducting teacher 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)

SIGAR AUDIT

In an ongoing audit, SIGAR is examining the U.S. government's efforts to assist and improve the education sector in Afghanistan.

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

Project Title	Start Date	End Date	Total Estimated Cost ($)	Cumulative Disbursement, as of 12/31/2013
Basic Education, Literacy, and Technical-Vocational Education and Training	11/16/2011	12/31/2014	$43,296,813	$18,829,265
BELT-Community Based Education	10/29/2013	10/28/2017	$56,000,000	$0

Source: USAID, response to SIGAR data call, 1/7/2014.

Basic Education, Literacy, and Technical-Vocational Education and Training (BELT) 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.[640]

BELT has five separate components: capacity building for the MOE, teacher training, Technical Vocational Education and Training (TVET) to meet unmet labor-market needs, procurement of MOE textbooks for grades 1–6, and community-based education.[641]

For BELT CBE, Implementation Letter Number 39-01 was signed with the MOE and MOF on September 18, 2013, and spells out substantive matters such as student targets, performance milestones, means of verification, and funding levels. BELT TVET is currently being redesigned to focus on youth development and aims to provide quality basic skills, workforce readiness and TVET training for out-of-school youth.[642]

A U.S. Navy chaplain helps an Afghan girl with an English lesson at Bagram Airfield. (DOD photo)

Higher Education Project

Project Title	Start Date	End Date	Total Estimated Cost ($)	Cumulative Disbursement, as of 12/31/2013
Higher Education Project	2/23/2011	2/28/2014	$21,216,813	$16,499,985

Source: USAID, response to SIGAR data call, 12/31/2013.

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, 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.[644] This quarter, the Wolesi Jirga did not approve the Higher Education Law, which grants, in part, public universities the autonomy to generate and manage revenues and donations. However, an associate-degree program for Kabul Polytechnic University was finalized with HEP's assistance and the first class convened in January 2014.[645]

American University of Afghanistan

Project Title	Start Date	End Date	Total Estimated Cost ($)	Cumulative Disbursement, as of 12/31/2013
American University of Afghanistan	8/1/2013	8/31/2018	$40,000,000	$2,054,928

Source: USAID, response to SIGAR data call, 1/7/2014.

USAID's second, five-year cooperative agreement is 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 forthcoming STEP-UP program 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.[646]

Other Active USAID Education Programs

Project Title	Start Date	End Date	Total Estimated Cost ($)	Cumulative Disbursement, as of 12/31/2013
Global Partnership for Education	10/11/2012	3/31/2015	$2,500,000	$290,158
Afghanistan Reads	6/30/2013	5/31/2015	$625,000	$150,000
Afghanistan Technical Vocational Institute	6/15/2013	1/14/2015	$1,000,000	$355,000

Source: USAID, response to SIGAR data call, 1/7/2014.

SIGAR AUDIT

A SIGAR audit of MOPH capacity to account for U.S. direct assistance 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.[643]

HEALTH

Afghanistan has experienced significant improvements in its health indicators since 2002, according to USAID. Although the country still has some 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.[647] However, other institutions have cited more modest gains. The CIA *World Factbook* gives the Afghan life expectancy from birth as 50 years, while the World Bank calculated life expectancy at 48.[648]

From FY 2002 through FY 2012, U.S. on- and off-budget assistance to Afghanistan's health sector totaled $1.06 billion.[649] On-budget assistance to the MOPH includes salary payments to workers in U.S.-funded facilities, medical and non-medical supplies, in-service training, minor renovations of facilities, medical equipment, and monitoring and supervision. Off-budget assistance includes activities to strengthen health systems, engage the private sector, and procure pharmaceuticals and contraceptives.[650]

USAID's highest-priority programs in the health sector this quarter include:
- Partnership Contracts for Health (PCH) Services
- Health Policy Project (HPP)
- Leadership, Management, Governance Project (LMG)

Partnership Contracts for Health Services

Project Title	Start Date	End Date	Total Estimated Cost ($)	Cumulative Disbursement, as of 12/31/2013
Partnership Contracts for Health Services	7/20/2008	1/31/2015	$236,455,840	$151,913,665

Source: USAID, response to SIGAR data call, 1/7/2014.

The 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 553 of these health facilities—26.4% of total health facilities in Afghanistan—including:[651]
- 5 Provincial Hospitals
- 27 District Hospitals
- 13 Comprehensive Health Centers+ ("+" indicates expanded services)
- 157 Comprehensive Health Centers
- 271 Basic Health Centers
- 64 Health Sub-Centers
- 10 Prison Health Facilities

USAID also supports 6,402 health posts throughout Afghanistan—48.5% of all health posts. On average, over 1.3 million patients are served each month.[652]

PCH delivers health care ranging from primary care to highly specialized diagnostic and treatment services. It also supports the Community Midwifery Education program, which helps to increase the number of female health-care workers and contributes to reducing maternal and child mortality.[653]

SIGAR INSPECTION

A SIGAR inspection this quarter found that CERP-funded Salang Hospital was not built in accordance with contract requirements and suffered from significant safety issues; the deficiencies identified earlier by U.S. Forces-Afghanistan were not corrected; and the hospital was not providing many of its intended services. For more information, see Section 2, page 41.

USAID reports the growing health demands of communities cannot be addressed through existing BPHS and EPHS. Furthermore, turnover of PCH staff within the Grants and Contracts Management Unit, as well as deteriorating security conditions, have temporarily closed health facilities, delayed management activities, staff deployment, monitoring, and supervision activities.[654]

PCH reports semi-annually to USAID.[655] Yet, SIGAR's audit of the MOPH found that USAID provides advance, incremental funding to cover operational expenses every 45 days. These and other MOPH internal-control deficiencies put U.S. funds provided under the PCH program at risk of fraud, waste, and abuse. The audit also noted that USAID officials said they have not verified what, if any, actions the MOPH has taken to address these deficiencies.[656]

USAID Oversight

USAID funds a team within MOPH's Grants and Contracts Management Unit (GCMU), which is responsible for monitoring USAID-funded facilities through regular site visits and monthly reports from implementing NGOs. USAID reported that the GCMU team conducted 55 field monitoring visits in FY 2013, visiting 242 (44%) health facilities supported by the PCH program. The NGOs are supposed to provide routine monitoring of each health facility and their monthly reports are supposed to document the number of active health facilities, and the number of staff on hand.[657] The numbers of patients present, the type, quality, or outcome of health services were not included.

For now USAID relies on the MOPH's Health Management Information System (HMIS) for Afghan health data, as it does for the MOE's EMIS. Unlike with EMIS, USAID, through its Leadership, Management, and Governance (LMG) project is assisting the MOPH implement a data-quality assessment tool to better ensure that HMIS data is more complete, timely, and accurate. USAID also helped the MOPH conduct a data-quality assurance sampling survey this quarter. Data collection was completed in October 2013; results are forthcoming.[658] For more information about the LMG program, see page 181.

Health Policy Project

Project Title	Start Date	End Date	Total Estimated Cost ($)	Cumulative Disbursement, as of 12/31/2013
Health Policy Project	6/2012	10/2014	$28,000,000	$13,700,000

Source: USAID, response to SIGAR data call, 12/31/2013; USAID, response to SIGAR vetting, 10/13/2013.

The Health Policy Project (HPP) 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 generating demand for and delivery of high-quality health services through social-media marketing.[659]

USAID said MOPH and other stakeholders have a poor understanding of market economies, and there is insufficient political support for private health-sector initiatives, which is a major barrier for private health-sector investment. Limited availability of qualified international consultants to help support hospital PPPs; lack of office space within MOPH to house a central PPP unit; insecurity; and a lengthy legislative process to reform private health sector price fixing regulations are delaying PPP activities.[660]

Despite these challenges, HPP continued its training programs this quarter, including on the correct use of socially marketed health products aimed at reducing maternal and child mortality, and gender-based-violence training for health providers. Also, MOPH's Directorate of Private Sector Coordination, with HPP assistance, established a commission to streamline the medicine licensing process, which aims to reduce transaction costs and encourage private health sector growth.[661]

An Afghan family waits to receive care from Afghan National Army (ANA) medics at an ANA aid center in Kandahar Province. (DOD photo)

Leadership, Management, and Governance Project

Project Title	Start Date	End Date	Total Estimated Cost ($)	Cumulative Disbursement, as of 12/31/2013
Leadership, Management, and Governance	9/25/2011	9/24/2016	$26,000,000	$13,612,927

Source: USAID, response to SIGAR data call, 1/7/2014.

The 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.[662]

This quarter, with LMG help, two data-quality analyses were conducted, the results of which will be forthcoming next quarter; the Financial Management Information System (FMIS) was introduced at four Kabul-area hospitals so expenditure information can be uploaded directly to the MOF system; and a community-shura guide was finalized and is being presented to MOPH leadership for endorsement.[663]

Despite advances at 14 national hospitals, USAID said hospital staff currently has poor capacity to operate autonomously. USAID hopes that human-resources autonomy—the right to hire and fire staff—will pave the way for additional reforms. This quarter, the MOPH agreed to delegate human-resource authority to a Kabul-based hospital. A proposal to the Civil Service Commission is awaiting approval.[664] Last quarter, USAID reported that LMG efforts to provide technical assistance to the hospitals specifically for human resources autonomy were challenged by social and political interference affecting hospitals' internal staffing decisions.[665]

Additionally, the MOPH technical departments and implementing LMG partners are having difficulty aligning their respective roles to respond to Community-Based Health Care needs throughout Afghanistan, making it a challenge to LMG to help the ministry ramp up health initiatives nationwide. Increasing insecurity and limited air transportation options are also reducing LMG efforts in the field.[666]

Other Active USAID Health Programs

Project Title	Start Date	End Date	Total Estimated Cost ($)	Cumulative Disbursement, as of 12/31/2013
Strengthening Pharmaceutical System	8/29/2011	8/27/2015	$24,499,936	$10,951,500
Polio Eradication Activities	7/20/2008	1/31/2014	$10,750,000	$9,415,102
TB = Field Support	9/29/2010	9/28/2015	$4,600,000	$600,000
University Research = Field Support	9/30/2009	9/29/2013	$13,950,000	$12,950,000

Source: USAID, response to SIGAR data call, 1/7/2014.

COMMUNICATIONS

Building an adequate national telecommunications infrastructure has been a top priority for the Afghan government since 2002. Over the past few years, the Information and Communication Technology (ICT) sector has grown to become one of the largest revenue-generating sectors for the Afghan government, contributing roughly $140 million annually in revenue and accounting for nearly 12% of total government revenues.[667]

A SIGAR audit this quarter of assessments of ministries receiving direct bilateral assistance from the U.S. government found that USAID/Afghanistan identified 13 risks and 56 corresponding mitigation measures needed for the Ministry of Communications and Information Technology (MCIT) before it receives U.S. direct-assistance funds. Yet despite the auditing firm's 2012 conclusion that MCIT is a high-risk entity and USAID's own conclusion that the U.S. government cannot rely on MCIT systems operation and internal controls to manage donor funds, USAID committed $3.9 million for a planned on-budget E-Government program, as of August 1, 2013.[668]

The U.S. Defense Information Systems Agency (DISA) supports Afghanistan's telecommunications efforts through its support to the Afghanistan Telecom Advisory Team (ATAT). The total cost of this support for DISA in Q1 FY 2014 was $930,116, which was funded with FY 2013 funds. $866,166 was for contractor support; $64,000 was used for government/military travel and overtime.

Source: TFBSO, response to SIGAR data call, 12/30/2013.

ATAT primarily helps develop the fiber-optic network used by U.S. forces, which in turn supports Afghanistan's ICT sector. This benefits governance, stability, and social development, according to DOD. Goals include improving cyber security, spectrum, support to government regulatory authorities and the ANSF, mobile-money implementation, and emergency calling services.[669]

While the lack of a skilled ICT workforce and insufficient training are challenges, inadequate cyber security threatens the entire ICT sector, according to TFBSO. Moreover, fiber-optic network access is monopolized by Afghan Telecom, which struggles to meet reliability, responsiveness, and availability demands.[670]

Afghan Telecom is 100% owned by the MCIT. Afghan Telecom's management responds to the company's board of directors, which is chaired by MCIT Minister Amirzai Sangin and composed of MCIT and MOF officers, as well as representatives of other Afghan corporations. According to State, Afghan Telecom operates in line with its commitments under its business license and all applicable Afghan laws. It owns and operates all infrastructure transferred to it by the MCIT, including networks constructed with donor funding and infrastructure it acquired through its own financial means. It is also profitable, and receives no subsidies from the Afghan Government.[671]

State did not respond to SIGAR on whether Afghan Telecom's relationship with the MCIT constituted a conflict of interest or whether its sole national unified license gave it an unfair advantage over other telecom operators.[672] It is unsurprising that Afghan telecom is profitable while using and setting prices on networks built and funded by donors. DOD cited Afghan telecom's fiber monopoly as a challenge and risk to the ICT sector, and the World Bank said Afghan Telecom's management of the national backbone network (tying together interconnecting networks) helped keep internet prices artificially high compared to regional countries. At least one internet service provider has expressed concerns to SIGAR about the lack of fair competition in the ICT sector.[673]

According to State, Afghan Telecom offers managed-bandwidth services to Mobile Network Operators (MNOs), Internet Service Providers (ISPs), and other organizations on commercial terms. State also said MNOs and ISPs can, and often do, use alternative transmission infrastructure (based on satellite and their own terrestrial microwave networks). Additionally, MNOs are allowed to build and operate their own fiber networks where there is no Afghan Telecom fiber.[674] This does not, however, address the advantage Afghan Telecom currently enjoys from its official-monopoly status.

SIGAR AUDIT

This quarter SIGAR initiated a sector-wide audit of U.S. government efforts to assist in the reconstruction and commercialization of Afghanistan's information and communication technology (ICT) sector. For more information, see Section 2, page 29.