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ECONOMIC AND SOCIAL DEVELOPMENT

As of March 31, 2014, the U.S. government has provided nearly \$26 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 3.25.

TABLE 3.25

CUMULATIVE APPROPRIATIONS FOR AFGHANISTAN DEVELOPMENT, AS OF MARCH 31, 2014		
(\$ BILLIONS)		
Fund	Managing Agency	Appropriated
ESF	USAID	\$17.5
CERP	DOD	3.7
TFBSO	DOD	0.8
AIF	STATE/DOD	1.2
Total		\$23.2

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 \$23.2 billion appropriated for these funds, approximately \$18.6 billion had been obligated and \$14.7 billion disbursed, as of March 31, 2014.

KEY EVENTS

This quarter saw a number of developments that could have a profound impact on the Afghan economy during the coming year. Afghanistan was downgraded to a “dark-gray” list by the Financial Action Task Force (FATF) for insufficient progress made on improving its anti-money laundering regulations. Afghanistan could be blacklisted to the high-risk, non-cooperative jurisdiction category in June if satisfactory improvement is not made, affecting its banking relationships around the world and further weakening its banking sector.⁵⁵⁰

The Joint Coordination and Monitoring Board (JCMB)—a high-level decision-making body responsible for strategic coordination between Afghanistan and the international community—met in January to measure

Afghan and donor progress on fulfilling Tokyo Mutual Accountability Framework requirements and to provide guidance for the new government. In a statement, the board concluded that both sides made “sound progress” while acknowledging that challenges remain ahead.⁵⁵¹

Afghanistan’s domestic revenues in Afghan fiscal year (FY) 1392 (December 21, 2012–December 20, 2013) missed Ministry of Finance (MOF) budget targets by 11.9%.⁵⁵² Domestic revenues paid for only 37% (\$2 billion) of Afghanistan’s total budget expenditures (\$5.4 billion) in FY 1392; donor grants covered the remainder.⁵⁵³

At the same time, the Afghan government approved its FY 1393 national budget (December 21, 2013–December 20, 2014), totaling \$7.65 billion, a 23% increase over FY 1392.⁵⁵⁴

During this reporting period, the International Monetary Fund’s Extended Credit Facility arrangement review and disbursement remain delayed due in part to insufficient Afghan progress toward meeting domestic-revenue collection and legislative requirements.⁵⁵⁵

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.⁵⁵⁶ Moreover, the government continues to delay passing the new mining law, hindering significant private investment in the mining sector.⁵⁵⁷

ECONOMIC PROFILE

Afghanistan’s GDP growth has slowed significantly over the last year. The International Monetary Fund (IMF), the World Bank, and the Asian Development Bank (ADB) all projected that Afghanistan’s GDP growth (excluding opium production) will fall from about a high of 14% in 2012 (due to a near-record-breaking wheat and cereal harvest) to an estimated 3–4% for 2013. They attribute the decline in GDP growth to increasing uncertainty about the volatile political and security environment. The World Bank, IMF and ADB project GDP growth in 2014 to remain at around 3.5%.⁵⁵⁸ With an expected reduction in international aid and spending after 2014, the Bank projects average real GDP growth at about 5% annually through 2018 under its baseline scenario. More uncertainty, fueled by insecurity and instability, could further dampen growth.⁵⁵⁹ By contrast, Afghanistan’s economy grew by an annual average of 9.4% during the years it was boosted by international military spending and development assistance from 2003 to 2012.⁵⁶⁰

The services and agriculture sectors have been the most important components of GDP. Increased public spending buoyed demand in 2013 for services, the leading contributor to GDP, from 2005–2012, although it slowed considerably in 2013, according to the World Bank.⁵⁶¹ However, in 2013 the ADB found weakened demand in industry and services due to business and consumer uncertainty about insecurity, lower spending by international security forces, and the winding down of a large number

of development projects in advance of the 2014 drawdown.⁵⁶² 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.⁵⁶³

Fiscal Sustainability

The Afghan government's revenues declined as a percentage of GDP in 2013 (9.6%)—compared to 10.3% in 2012 and 11% in 2011—as public spending increased, according to the World Bank.⁵⁶⁴ Afghan government expenditures are expected to continue rising, largely due to spending on security, service delivery, building essential infrastructure, and operations and maintenance.⁵⁶⁵

The World Bank describes Afghanistan's fiscal outlook as subpar and likely to delay progress to self-reliance.⁵⁶⁶ Afghanistan's fiscal gap between government revenue and expenditures is growing. The Bank estimates a large financing gap of 25% of GDP (\$7 billion) in 2018 and a similar gap of 20% of GDP in 2025. This will limit Afghanistan's ability to pay for discretionary services without significant donor support and is likely to delay its progress to self-reliance.⁵⁶⁷

Budget

On January 15, 2014, Afghanistan's parliament approved the country's FY 1393 national budget (December 21, 2013–December 20, 2014), totaling approximately \$7.55 billion—\$4.94 billion for the operating budget and \$2.61 billion for the development budget.⁵⁶⁸ Budget expenditures will focus on security (44% of the total budget), infrastructure (14%), education (13%), agriculture (8%), and health (4%).⁵⁶⁹

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 (AFN) to the U.S. dollar), an increase of 40% over FY 1391 (March 2012 to December 2012), noting a 12 month to nine month comparison.⁵⁷⁰ However, in FY 1392, the MOF reported total domestic revenues missed MOF budget targets by 11.9%.⁵⁷¹ Figure 3.33 on the following page 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 37% or \$2 billion of Afghanistan's total budget expenditures of \$5.4 billion in FY 1392; donor grants covered the rest.⁵⁷² The World Bank and the ADB attributed Afghanistan's weak revenue performance to a slowdown in economic activity, changes in the structure of imports, and corruption, particularly in customs collections.⁵⁷³

Opium production is not calculated in official GDP figures (GDP was 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.

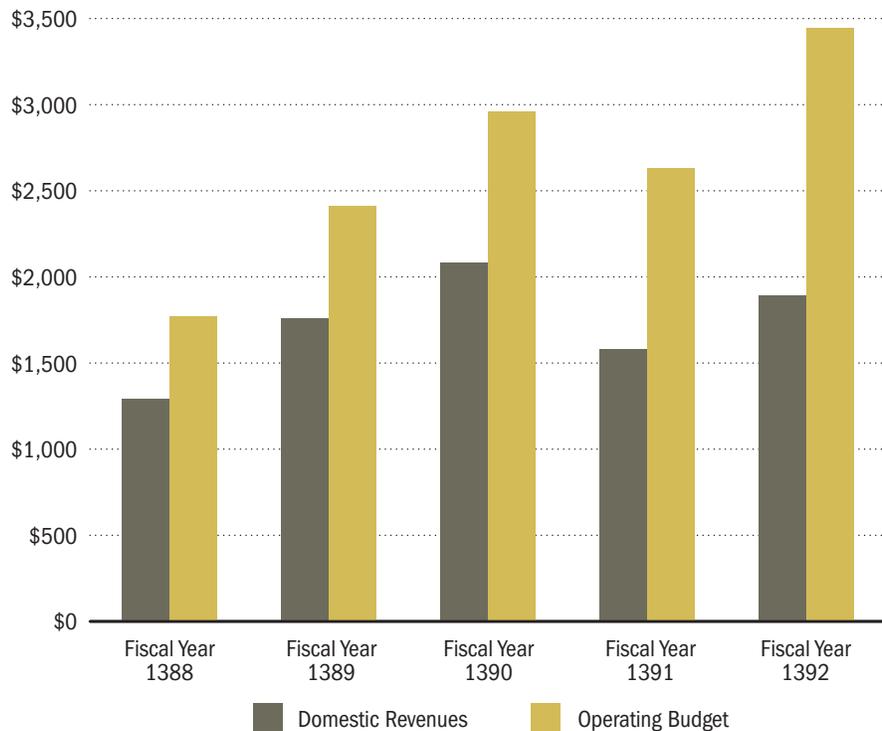
Source: UNODC, Afghanistan Opium Survey 2013, 12/2013, pp. 10, 12.

Donor grants are expected to finance approximately \$4.8 billion of Afghanistan's \$7.55 billion FY 1393 national budget. Of the donor grants, \$2.76 billion will go toward the operating budget and \$2.07 billion will go toward the development budget.

Source: MOF, "1393 National Budget Approved by WJ," 1/18/2014; GIROA, 1393 National Budget, pp.8–9.

FIGURE 3.33

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. Starting in FY 1392, the Afghan fiscal year runs from December 21 to December 20.

Sources: MOF, *Annual Fiscal Report 1391*, accessed 6/20/2013; MOF, *1393 National Budget*, accessed 4/14/2014; MOF, *FY 1392 Monthly Fiscal Bulletin, Month 12*, 2/14/2014, accessed 4/14/2014; Da Afghanistan Bank, *Daily Exchange Rates of Selected Currencies to Afghani*, 2/14/2014, accessed 4/14/2014.

The Afghan economy continues to grow, albeit at a reduced rate of growth, 3–4% in 2013 and 2014 versus approximately 14% in 2012.⁵⁷⁴ The U.S. Central Intelligence Agency (CIA) estimates the Afghan population is growing by 2.29% a year, so real growth of at least that rate is required to prevent per capita GDP, a key measure of economic wellbeing, from declining.⁵⁷⁵

As noted earlier, domestic revenues declined to 9.6% of GDP in 2013, one of the lowest in the world.⁵⁷⁶ Afghanistan's commitments under the Tokyo Mutual Accountability Framework call for it to increase revenues to 15% of GDP by 2016 and to 19% by 2025. The Bank warned that the current decline in revenue poses risks to long-term sustainability and to achieving Tokyo Mutual Accountability Framework targets, upon which donor assistance is predicated.⁵⁷⁷

U.S. officials told SIGAR that corruption is the biggest issue affecting Afghan customs processes and revenues.⁵⁷⁸ USAID added that political will and inefficient systems also affect Afghan customs processes and revenues;⁵⁷⁹ customs revenue is a major component of Afghanistan's national budget.⁵⁸⁰

Afghanistan's 2008 National Development Strategy proposed streamlining and automating customs processing procedures in order to reduce corruption. However, as the U.S. Agency for International Development's (USAID) Afghanistan Trade and Revenue (ATAR) program contract documents noted, "a major predictor of sustainability is [Afghanistan's] political will to implement reforms and combat corruption."⁵⁸¹

In one example of the impact of political will on stemming corruption, USAID reported that following the resignation of Nangahar Province Governor Sherzai to run for president, there was a noticeable difference in approach at the Torkham border crossing point (BCP) regarding revenue collection. Illegal taxes, which had been designated as regional construction fees imposed by the "Governor's House" administration, ended. The new governor closed all weigh bridges between Torkham BCP and Jalalabad to stem corruption, and there are no reported instances of threats against any customs staff, according to USAID's ATAR.⁵⁸²

Trade

As a land-locked nation, Afghanistan is highly dependent on other countries for its trade, transit, security, and stability. Pakistan is Afghanistan's largest trading partner, followed by the United States, the European Union, and regional neighbors.⁵⁸³

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 2013.⁵⁸⁴

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 2014.⁵⁸⁵ USAID reported that from a technical standpoint, Afghanistan is positioned to accede to the WTO in time to meet the deadline.⁵⁸⁶ However, a SIGAR audit of Afghanistan's customs revenue collection showed that Afghanistan still requires external assistance to negotiate international trade agreements, as evidenced by USAID support of Afghan accession to the WTO.⁵⁸⁷

This quarter, USAID reported that Afghanistan completed all bilateral market access negotiations as well as circulated draft concessions and commitments schedules on goods and services to its WTO Working Party. The Afghan government postponed a Working Party meeting scheduled for March 31 because of its regulation banning travel by Afghan officials until after the elections. Afghanistan must still pass a series of 24 WTO-compliant laws and seven regulations. The U.S. government is providing technical assistance in these efforts.⁵⁸⁸

Afghanistan Trade and Revenue Project

Project Title	Start Date	End Date	Total Estimated Cost (\$)	Cumulative Disbursement, as of 3/31/2014
Afghanistan Trade and Revenue	11/7/2013	11/6/2017	\$77,754,267	\$1,920,915

Source: USAID, response to SIGAR data call, 4/7/2014.

SIGAR AUDIT

A SIGAR audit of Afghanistan's customs revenue collection found that although a risk management and electronic payment system are highlighted in the TAFAs and ATAR contract documents, the ATAR contract does not require the implementing partner to meet annual targets for the implementation of the systems. For more information, see Section 2, page 25.

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.

The ATAR Project is USAID's most recent effort designed to (1) support Afghanistan's accession to the WTO, (2) facilitate support bilateral and multilateral regional trade agreements, and (3) improve and streamline the government's ability to generate revenue. Expected outcomes include Afghanistan's 2014 accession to the WTO and implementation of its associated legal and regulatory requirements; increased exports to neighboring countries along with expedited cross-border transit; more government revenue from increased customs collections and implementation of a value-added tax; and greater public awareness of trade opportunities.⁵⁸⁹

This quarter, ATAR reviewed the streamlined procedures of its predecessor program, Trade Accession and Facilitation for Afghanistan (TAFAs). It found that a number of extraneous customs clearing processes had worked their way back into the system, negating some of savings to Afghan businesses and the government. ATAR is working to reintroduce best practices and focus on capacity building. It is planning an awareness campaign for traders that will explain the official customs process and promote a hotline to report corruption.⁵⁹⁰

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—one at the initial ECF approval, and the second 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.⁵⁹¹

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

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 IMF has not provided a complete or formal accounting of all ECF benchmarks and performance targets. However, the Afghan government has neither submitted an internationally acceptable revised Anti-Money Laundering/Combating the Financing of Terrorism (AML/CFT) law to parliament, nor met domestic revenue collection targets set forth under the ECF Arrangement, according to Treasury.⁵⁰² Insufficient progress this quarter led the United States to withhold \$15 million in bilateral incentive funding linked to Afghan progress toward its ECF commitments.⁵⁰³

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 2011.⁵⁰⁴

In November 2013, the World Bank and donors discussed whether to disburse some or any ARTF Incentive Program (IP) funds. While Afghanistan achieved several ARTF IP benchmarks, its long delay in sufficiently completing required ECF benchmarks prompted the recommendation to withhold some funds. However, if the donor community determined that this ECF delay constituted a 'lapse' in the program, ARTF IP funds would have to be withheld entirely. Some \$44.8 million was eventually released based on achievement of four ARTF IP benchmarks and IMF guidance that the ECF program is still active.⁵⁰⁵

The current ECF expires in November 2014. The new Afghan government will determine its level of engagement with the IMF, including whether to negotiate a new ECF. In the interim, Treasury said that IMF staff and Afghan authorities have agreed on the continued monitoring of structural reforms and quantitative performance.⁵⁰⁶

Tokyo Mutual Accountability Framework

The Tokyo Mutual Accountability Framework (TMAF), 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 fulfilling 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

Donor assistance through an incentive fund is not new. In 2008, Afghanistan Reconstruction Trust Fund (ARTF) donors agreed to establish an incentive program (IP) to help offset the annual automatic decline in the baseline financing within the ARTF Recurrent Cost Window. A new IP was agreed to in 2012, which allows for a more programmatic, multi-year approach and more frequent technical reviews and disbursements.⁵⁰⁸

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.⁵⁹⁷

Tranche I (\$75 million) is linked to five areas:⁵⁹⁹

1. Elections
2. Governance, Rule of Law & Human Rights
3. Integrity of Public Finance and Commercial Banking
4. Government Revenues, Budget Execution, and Subnational Governance
5. Inclusive and Sustained Growth and Development

On January 29, 2014, the Special Joint Coordination and Monitoring Board (JCMB), comprising the Afghan government, donors, and the United Nations, met to assess progress on fulfilling TMAF requirements and to agree upon required next steps for continuing progress toward unmet commitments.⁶⁰⁰ On March 6, 2014, USAID announced it released \$30 million in Tranche I bilateral incentive funding after determining that the Afghan government made sufficient progress in two of five areas—Elections and Government Revenues, Budget Execution, and Subnational Governance.⁶⁰¹ Fifteen million dollars was disbursed to the World Bank’s ARTF Recurrent Cost Window for progress in Elections—creating election timelines, appointing election committee commissioners, implementing election laws, and cooperating on election security. The United States will also disburse an additional \$15 million for progress in Government Revenues, Budget Execution, and Subnational Governance for developing a draft provincial budgeting policy.⁶⁰²

The United States told Afghanistan that the \$15 million linked to Governance, Rule of Law & Human Rights and the \$15 million linked to Integrity of Public Finance and Commercial Banking will not be disbursed because of insufficient progress in those areas. A significant factor in withholding funds linked to Integrity of Public Finance and Commercial Banking was the lack of progress the Afghan government has made in meeting conditions required for the IMF to conduct its ECF reviews. The remaining \$15 million for Inclusive and Sustained Growth and Development requires Afghanistan to make what the United States deems sufficient progress in passing a new minerals law. The United States will make a final determination on April 16, 2014.

Tranche II funding will be developed with Afghanistan’s new government.⁶⁰³

BANKING AND FINANCE

The World Bank reported that 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.⁶⁰⁴ In State’s view, the banking sector faces both

political and economic risks, which could be mitigated if a draft banking law that enhances oversight and the Anti-Money Laundering/Combating the Financing of Terrorism Law were enacted and implemented.⁶⁰⁵

In 2011, the United States offered conditional assistance to the central bank—Da Afghanistan Bank (DAB)—which was declined. Conditions included:

- Afghanistan staying on track to meet its obligations under the IMF ECF program;
- Kabul Bank shareholders not being involved in the banking sector (formally or informally);
- Clear communication from President Karzai that Treasury advisors would be welcomed;
- Clear roles, objectives, progress benchmarks, and obligations, in writing, for Treasury’s technical advisors;
- The cessation of public statements by Afghan officials that the United States was responsible for the Kabul Bank crisis;
- That Afghanistan’s financial sector plan would need to instill confidence in Treasury in return for its support.⁶⁰⁶

A SIGAR audit released last 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.⁶⁰⁷

Treasury has previously said many Afghan banks are undercapitalized and that lending is concentrated in a small number of sectors with loans largely going 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 increases the risk that the bank may incur losses to benefit the businesses. Treasury has also characterized the banking sector as highly dollarized, which may expose Afghan financial institutions to currency risks.⁶⁰⁸

According to Treasury, these are symptoms of the underlying underdeveloped economy as well as the weak quality of Afghan banks and regulatory institutions. Treasury said most banking systems reflect their host economies to some degree and progress addressing those underlying factors is naturally slow in an impoverished environment such as Afghanistan.⁶⁰⁹

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.⁶¹⁰ State said Afghanistan’s banks also suffer from political interference and lack of oversight.⁶¹¹ In addition, Afghanistan’s controls against money laundering and terrorist financing are widely viewed as deficient.⁶¹²

The general Afghan population distrusts banks, preferring to borrow and save with family and friends, and transfer money through informal, trust- or

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.

Sources: 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.

Financial Action Task Force (FATF): an intergovernmental policy-making body that sets standards and promotes effective implementation of legal, regulatory, and operational measures for combating money laundering, terrorist financing, and other related threats to the integrity of the international financial system.

Source: Financial Action Task Force, "Who We Are," accessed 4/2/2014.

honor-based *hawala* networks.⁶¹³ Indicating a declining banking sector in the wake of the Kabul Bank crisis, commercial loans plummeted, according to the World Bank, and the banking sector's **loan-to-deposit ratio** dropped from 56.8% in 2010 to 23% in 2012.⁶¹⁴ Afghans also prefer to use foreign currency rather than their national currency, the afghani (AFN), which is depreciating against the dollar.⁶¹⁵ In early January 2012, a U.S. dollar cost about 49 AFN; on March 31, 2014, it cost about 58 AFN, according to the Afghan central bank.⁶¹⁶

Banking Law

The Council of Ministers approved a new banking law on January 28, 2013, but more than a year later it remains pending before parliament. Treasury maintains that 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 the troubled bank.⁶¹⁷

Money Laundering

On February 14, 2014, the **Financial Action Task Force (FATF)** noted that Afghanistan had failed to address deficiencies and make necessary progress in improving its Anti-Money Laundering/Combating the Financing of Terrorism (AML/CFT) regime. FATF specifically recommends Afghanistan—which has developed a AML/CFT action plan, but is categorized as a jurisdiction not making sufficient progress—address its deficiencies by taking the following steps:

- adequately criminalizing money laundering and terrorist financing;
- establishing and implementing a legal framework to identify, trace, and freeze terrorist assets;
- implementing an adequate oversight program for all financial sectors;
- establishing and implementing adequate procedures for confiscating money-laundering assets;
- establishing a fully functional and operational financial-intelligence unit; and
- establishing effective controls for cross-border cash transactions.⁶¹⁸

These recommendations are identical to those the FATF issued in June 2013.⁶¹⁹ As such, the FATF plenary in February 2014 downgraded Afghanistan to the "dark-gray list" for failure to address its AML/CFT

deficiencies and pass AML/CFT legislation that would address those deficiencies. If Afghanistan fails to pass AML/CFT legislation that addresses these deficiencies, it faces further downgrading to the FATF Public Statement, known as the “black list,” at the next plenary in June 2014.⁶²⁰ Afghanistan could join nine other countries currently on that list—Algeria, Ecuador, Ethiopia, Indonesia, Myanmar, Pakistan, Syria, Turkey, and Yemen. Iran and North Korea are on a more severe black list and have “countermeasures” in place against them. A FATF downgrade would further weaken Afghanistan’s banking sector. In extreme cases where the international financial system is deemed threatened, FATF members may be asked to apply financial countermeasures, such as rejecting **correspondent account** relationship requests from high-risk countries to open branches and subsidiaries in their jurisdictions.⁶²¹ It may also affect whether aid and assistance can be moved through Afghan banks.⁶²²

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. accusations that they laundered money. According to Treasury, it is possible that other banks will also sever their correspondent relationships with Afghan banks.⁶²³

The Kabul Bank

Afghanistan’s Attorney General’s Office (AGO) filed no new charges, launched no new prosecutions, and indicted no additional beneficiaries in connection with the near collapse of Kabul Bank this quarter, despite both primary and appellate court orders to do so or explain why it did not.

State’s Bureau of International Narcotics and Law Enforcement Affairs (INL) noted the beneficiaries of the fraud have millions of dollars worth of assets that could be subject to forfeiture.⁶²⁴ The U.S. Department of Justice (DOJ) again raised the issue of pursuing additional prosecutions with the AGO this quarter, to no avail. The Attorney General said that “investigations were ongoing,” a claim DOJ told SIGAR was not credible. The evidence needed to prosecute additional shareholders and beneficiaries is the same that has already been used to prosecute the two main perpetrators of the fraud—bank ex-chairman Sherkhan Farnood and ex-CEO Khalillullah Ferozi.⁶²⁵ In January 2014, the AGO convened an appellate court-ordered meeting in which uncharged shareholders—together with ex-chairman Farnood and ex-CEO Ferozi—were to meet with the defendants, the prosecutors, and the Kabul Bank receiver to resolve disputes over defendants’ monetary liabilities. Only two shareholders appeared. A second meeting is planned, but is not yet scheduled. According to DOJ, the Financial Dispute Resolution Commission, which was set up to help settle civil cases that cannot be resolved by the Kabul Bank Receivership, insists

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.

Money-Center Banks: institutions that lend and borrow with governments, large corporations and regular banks.

Sources: Federal Financial Institutions Examination Council Bank Secrecy Act/Anti-Money Laundering InfoBase, “Correspondent Accounts (Foreign)—Overview,” accessed 10/1/2013; Source: Investopedia, “Definition of ‘Money Center Banks,’” accessed 1/10/2014.

it has resolved all accounting disputes and does not understand the need for this meeting.⁶²⁶

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.⁶²⁷

On March 5, 2013, the Special Tribunal of the Supreme Court on Kabul Bank issued its judgment of 21 individuals charged with fraud. The two leaders of the fraud, ex-chairman Sherkhon Farnood and ex-CEO Khalillullah Ferozi were given modest five-year prison sentences and required only partial restitution. The AGO appealed the verdict on March 16, 2013.⁶²⁸ The appellate court's decision is still pending.⁶²⁹

Limited Cash and Asset Recoveries

During this reporting period, no new information was available on recoveries of money stolen from the Kabul Bank.⁶³⁰ The sole source of that information, 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. Total recoveries so far represent less than 20% of the stolen funds.⁶³¹

State INL said the Afghanistan's pursuit of high-level corruption became less likely in the lead up to the April election. The AGO canceled scheduled meetings this quarter.⁶³² Similarly, DOJ observed little political will to recover greater sums of stolen funds from Kabul Bank. For example, the Gas Group, which is owned by ex-Kabul Bank CEO Khalillullah Ferozi and received more than \$100 million in improper loans, entered an agreement with the government to repay those loans in \$20,000 monthly increments. The Kabul Bank Receivership reported to DOJ this quarter that Gas Group stopped making payments months ago. Despite the Receivership's requests for intervention, the AGO has taken no punitive actions.⁶³³

New Kabul Bank

The sale of **New Kabul Bank** (NKB) to private investors has been a long-standing objective of Afghanistan's central bank and the international community.⁶³⁴ The accounting firm Grant Thornton LLP's calendar-year 2012 financial audit of NKB expressed concern regarding the bank's ability to continue business without successful privatization. NKB lost an average of \$1.85 million per month in 2012.⁶³⁵ According to Afghan officials, current monthly operational losses total \$700,000 including depreciation.⁶³⁶

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.

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.⁶³⁷ One revenue stream available to NKB is its distribution of government salaries—approximately 450,000 accounts for the Ministries of Interior, Defense, and Education. NKB receives approximately \$550,000–\$600,000 per month from the MOF for this service.⁶³⁸

Afghanistan's Council of Ministers has yet to endorse the MOF's December 29, 2013, decisions on two bids to take over NKB.⁶³⁹ According to State, the Council of Ministers is concerned the bid offers were too low and that the government salary payment service was too important for a private bank to handle. They asked for a report detailing the costs to the government of maintaining ownership of NKB.⁶⁴⁰ Afghanistan's central bank must also evaluate whether the winner satisfies “fit-and-proper” criteria. This process has reportedly begun, according to Treasury.⁶⁴¹

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.⁶⁴² In contrast, Afghanistan's draft Banking Law defines “a fit and proper bidder” as someone that has not been “convicted by an authorized court of an offense for which he was sentenced to imprisonment unless such sentence was motivated by his religious or political views or activities.” According to Treasury, the FATF raised this as possibly presenting a subjective loophole in the criteria.⁶⁴³

U.S. ECONOMIC SUPPORT STRATEGY

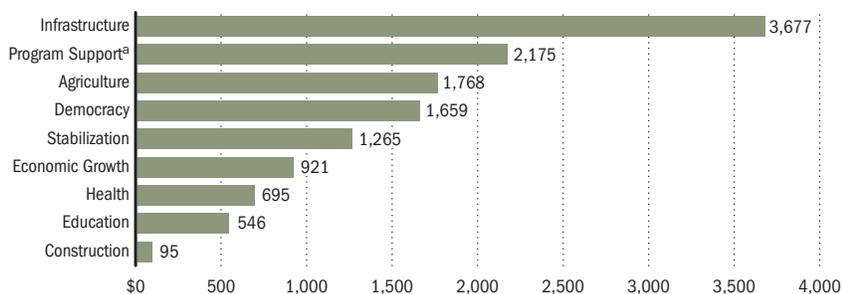
The economic transition strategy in Afghanistan as called for in the 2013 U.S. Civil-Military Strategic Framework seeks to mitigate the negative economic impact of the withdrawal of most international security forces in 2014 and the expected accompanying reduction in donor assistance. It also seeks to help Afghanistan develop its resources for sustainable growth.⁶⁴⁴ Most ESF support is used for USAID's development programs. Figure 3.34 on the following page shows USAID assistance by sector.

This quarter, USAID announced three new development initiatives worth almost \$300 million intended to help prevent Afghanistan's economy from reversing hard-won gains post-2014. The programs will focus on three areas:⁶⁴⁵

1. The agricultural sector, including agribusiness development and getting crops to market (\$125 million)

FIGURE 3.34

USAID DEVELOPMENT ASSISTANCE, CUMULATIVE AS OF MARCH 31, 2014 (\$ MILLIONS)



Notes: Numbers rounded.

^a Program Support projects include staffing, salaries, performance metrics, results tracking, technical assistance to ministries, and funding to the ARTF.

Source: USAID, response to SIGAR data call, 4/7/2014.

2. Fiscal sustainability, including improved tax and revenue collection, and opening up Afghanistan to greater international trade and investment (\$77 million)
3. The education sector, including funding to 10 Afghan universities—in partnership with three American universities—to train a young workforce in the practical skills needed for jobs in the public and private sectors (approximately \$100 million)

SIGAR AUDIT

A SIGAR audit published last quarter reviewed assessments of Afghan ministries receiving direct bilateral assistance from the U.S. government. 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.

USAID On-Budget Assistance to the Afghan Government

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. 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.

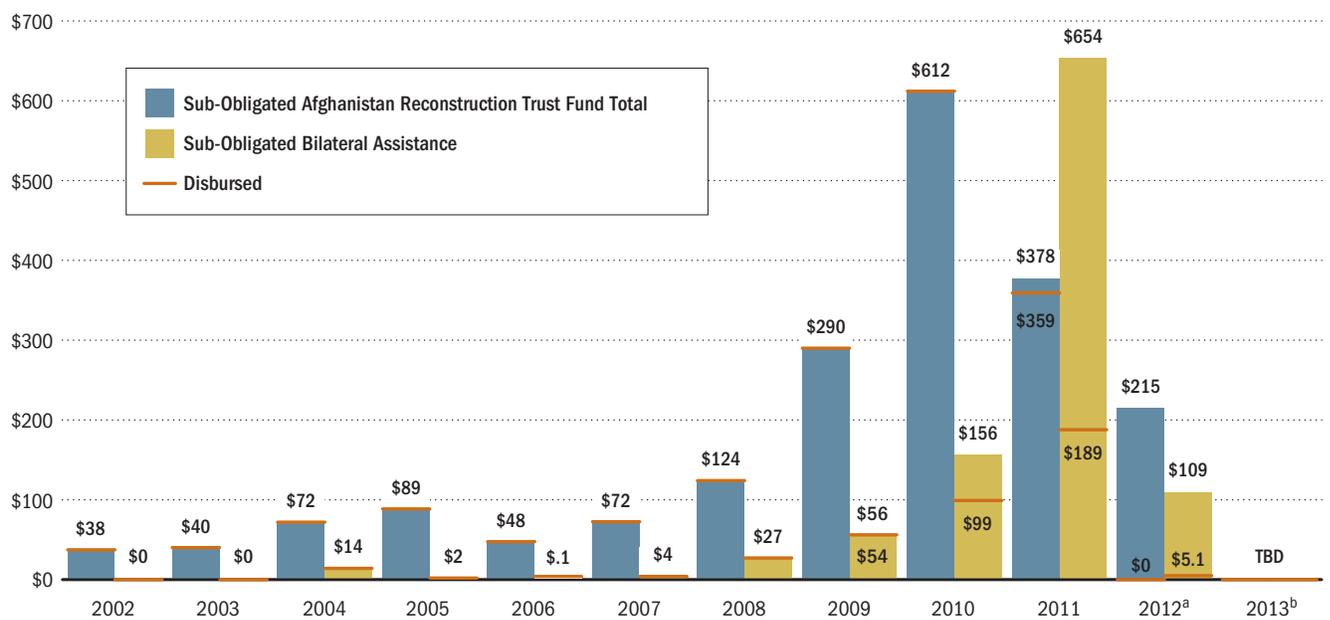
Most U. S. government agencies include as on-budget assistance direct, government-to-government transfers and multilateral trust-fund contributions to the Law and Order Trust Fund for Afghanistan (LOTFA), the Afghan Reconstruction Trust Fund (ARTF), and the Afghanistan Infrastructure Trust Fund (AITF). 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 control of the Afghan government.⁶⁴⁶ See page 67 for details about all U.S. on-budget funding to Afghanistan.

ECONOMIC AND SOCIAL DEVELOPMENT

This quarter, USAID obligated approximately \$117 million and disbursed \$24 million in on-budget assistance—including ARTF—from prior fiscal-year funds. Cumulatively, USAID obligated \$3 billion and disbursed \$2.14 billion in on-budget assistance, as of March 31, 2014, as shown in Figure 3.35.⁶⁴⁷

FIGURE 3.35

USAID ON-BUDGET ASSISTANCE SUBOBLIGATED AND DISBURSED, FY 2002-FY 2013, AS OF MARCH 31, 2014 (\$ 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 March 31, 2014.
^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, 4/7/2014.

DEVELOPMENT OF NATURAL RESOURCES

The United States, the Afghan government, and the international donor community count on the development of 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.⁶⁴⁸

DOD maintains that Afghanistan’s mineral resources could generate significant revenue and create large numbers of jobs.⁶⁴⁹ However, SIGAR has long cautioned that the Afghan government may not be able to earn

“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.” Cumulative Appropriations total \$804 million, as of March 31, 2014.

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

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.

This quarter, the Task Force for Business and Stability Operations (TFBSO) repeated its warning that the global mining economy is limiting new investment, and many companies and financiers view Afghanistan as too risky.⁶⁵⁰

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.⁶⁵¹ In anticipation, Congress required in the FY 2014 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 180 days.⁶⁵² 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.⁶⁵³

New Minerals Law

Last quarter, the long-delayed draft of the new minerals law passed through the Natural Resources Committee of the lower house but it still awaits consideration by the full parliament. Parliament was on a 45-day recess mid-January to end of February 2014. Although President Karzai said he would implement the new minerals law by decree in January during the legislative break, he failed to do so.⁶⁵⁴

Parliamentarians continue to seek clarification on components of the law from Ministry of Mines and Petroleum (MOMP) officials. TFBSO’s advisory team to the MOMP has helped answer questions, mostly dealing with tenure of mining rights and royalty rates. It also held several information sessions for interested members of parliament on geological and investment best practices.⁶⁵⁵

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 TMAF benchmark to improve Afghanistan’s revenues and overall fiscal and external sustainability.⁶⁵⁶ TFBSO believes delayed passage is likely due to parliamentarians’ unwillingness to take political risks, explaining that a lack of understanding of geological and other tender structures like royalty rates causes some parliamentarians to think the law is exploitative and weighted toward foreigners at the expense of Afghanistan. A vote for any legislation that can be construed as opening up the country to outside investment can be dangerous and detrimental to their position in their districts.⁶⁵⁷

DOD's TFBSO previously warned 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.⁶⁵⁸ It is unclear if the latest draft law includes that linkage.⁶⁵⁹ 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.⁶⁶⁰

TFBSO believes that the new minerals law must be comparable to those in other countries in order to attract Western investment. The law's delayed passage is causing investors to be more cautious, but is not the only impediment to investment in Afghanistan's extractive industries. Private mining companies are obviously concerned about the country's lack of security. There is also a lack of available capital in the mining industry. If more money was available, TFBSO said passing a new mining law would be less of an issue.⁶⁶¹

While the law remains unpassed, a number of contracts remain unsigned, including Hajigak (iron ore, awarded in November 2011);⁶⁶² Shaida (copper, November 2012); Badakhshan (gold, November 2012); Balkhab (copper, November 2012); and Zarkashan (gold, December 2012).⁶⁶³

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

The United States continued to provide technical assistance this quarter to the MOMP, the ministry's Afghanistan Petroleum Authority (APA), and the Afghan Geological Survey (AGS), largely through TFBSO, the U.S. Geological Survey (USGS), and USAID. These organizations are supporting mineral and hydrocarbon tenders as well as oil-and-gas data management.

The USGS is conducting ongoing on-the-job training at the AGS, including data compilation and data packages on mining areas of interest using mapping and illustrative software, geophysics, and hyperspectral imaging training. Older Russian reports and maps produced in the 1970s and 1980s provide AGS geologists with locations for potential mineral wealth. On March 10, 2014, the USGS and TFBSO released 60 sets of hyperspectral maps that reveal detailed imagery of Afghanistan's topographic layout and mineral wealth. The MOMP can use these maps to attract future investment. TFBSO said Afghanistan is now one of the most geologically mapped countries in the world.⁶⁶⁴

TFBSO and USAID provide 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.⁶⁶⁵

TFBSO had obligated \$8.6 million in FY 2014 for mining sector development, as of March 31, 2014. TFBSO's authority is scheduled to expire at the end of 2014.⁶⁶⁶



SIGAR staff and Special IG Sopko visit a carpet cleaning facility set up by TFBSO. (SIGAR photo by Smythe Anderson)

SIGAR AUDIT

A SIGAR audit announced this quarter will focus on the extent to which TFBSO and USAID programs met their goals to develop Afghanistan's extractives industry and the challenges, if any, to creating a stable and lasting source of extractives revenue for Afghanistan. For more information, see Section 2, page 30.

Mining Investment and Development for Afghan Sustainability

USAID's only mining program—the Mining Investment and Development for Afghan Sustainability (MIDAS)—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 March 31, 2014, USAID had obligated \$16 million and disbursed approximately \$5.05 million to begin off-budget implementation.⁶⁶⁷

This quarter, MIDAS held several workshops for MOMP officials, communities, civil society, and the private sector, on topics ranging from mining basics, mineral economics, business value chains, and legal and regulatory reform. Exploration plans were completed for three areas and donor coordination meetings were held to reduce project overlap. The MOMP and MOF made limited progress on a memorandum of understanding for on-budget activities, and developing terms and conditions to be included in an Implementation Letter with USAID.⁶⁶⁸

Capacity of the Ministry of Mines and Petroleum

One part of TFBSO's strategy for promoting economic growth in Afghanistan is 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."⁶⁶⁹ TFBSO reported that incremental progress is being made, saying the MOMP has either taken or is close to taking the lead in tender evaluation and award, and contract negotiation and award. As issues arise in these areas, TFBSO provides assistance and oversight, but not formal training.⁶⁷⁰

TFBSO acknowledged weaknesses in the ministry, especially with monitoring, and oversight. It recommended that USAID focus its MIDAS program in these areas. 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. It suggests putting in place a long-term hiring and capacity-building program.⁶⁷¹

Mine Security

On February 17, 2014, President Karzai directed the Afghan Public Protection Force (APPF)—responsible for mine security—to be disbanded. The functions performed by the APPF will remain within the scope of the Afghan National Police under the Ministry of Interior (MOI). It is unclear

who will actually provide security for not only extractives sector sites, but also U.S. and international development projects and associated personnel more broadly.⁶⁷²

Currently, the 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.⁶⁷³ It is unclear how these APPF changes may affect extractives-sector site security.

The United States has spent \$51.3 million cumulatively on the APPF, which has 22,727 personnel, as of March 31, 2014. Some 1,557 APPF are assigned to protect mining sites and more than 1,400 of those were at Mes Aynak in 2013.⁶⁷⁴ Former MOMP Minister Sharani estimated approximately 5,200 APPF would be needed for 11 major extractives sites across Afghanistan. However, since there are currently no major active mining sites in Afghanistan, TFBSO said heavy security is not needed at this time.⁶⁷⁵ For more information about the APPF, see pages 87 and 96.

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 2008.⁶⁷⁶ 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.⁶⁷⁷

However, development of the Mes Aynak copper mine remains delayed by the discovery of cultural relics in the area and associated archeological work, difficulties in land acquisition, lack of primary infrastructure, and security concerns.⁶⁷⁸ 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.⁶⁷⁹ Media reports suggest that MCC intends to renegotiate the contract.⁶⁸⁰ Afghanistan's FY 1393 national budget does not anticipate any revenue from Aynak, as opposed to the FY 1392 budget, which anticipated \$50 million in revenues that never arrived.⁶⁸¹

Hajigak Iron-Ore Mine

There is no reported change in contract negotiations for the Hajigak iron-ore concessions this quarter.⁶⁸² 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.⁶⁸³ New reports indicate that AFISCO is considering cutting its initial investment from \$11 billion to \$1.5 billion.⁶⁸⁴

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 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.⁶⁸⁵

Amu Darya Basin

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.⁶⁸⁶ Production is currently stalled, but one of the three blocks has infrastructure in place to begin production of 5,000 barrels per day. CNPCI-W is in final negotiations with an undisclosed international company for a multi-year sale of 230,000 tons minimum per annum of its crude oil.⁶⁸⁷ The Afghan government has so far received less than \$2 million in royalties from this award. Once full production starts, the government expects about \$60,000 per day.⁶⁸⁸

At the same time, the government is working on Cross Border Transit Agreements (CBTA) with neighboring countries. Negotiations with Uzbekistan continue that would allow Afghan oil to be transported there and be refined before coming back to Afghanistan to be sold. State reported an agreement was sent to Uzbekistan in February 2014, but will likely not be signed because of Uzbek concerns that the oil will be sold domestically instead of being re-exported to Afghanistan.⁶⁸⁹

TFBSO explained these hydrocarbon CBTAs serve as import/export agreements that govern customs, import, and export fee rates when refined products made from Afghan crude are exported and reimported into Afghanistan. Their effect on revenue generation for the extractives sector itself is minimal and does not necessarily make Afghanistan more attractive for international oil companies. The undisclosed company with which CNPCI-W is negotiating its crude oil sale has not asked for a CBTA so TFBSO no longer considers CBTAs a priority.⁶⁹⁰

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.⁶⁹¹ The contract area contains 28 billion cubic meters of reserves in two known gas fields and more than 50 proven and prospective subsurface structures. Expressions of interest are due February 8, 2014.⁶⁹² TFBSO followed up on its tender preparation assistance to the MOMP, providing technical, legal, commercial, and transparency advisory services, as it did with the Afghan-Tajik tender.⁶⁹³ A bidder conference was held on March 20, 2014, which all five prequalified bidders attended. Bids are due May 31, 2014.⁶⁹⁴

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.⁶⁹⁵ Given its importance, agriculture could be a catalyst for GDP growth, improved food security, and more stable employment opportunities.⁶⁹⁶

Between FY 2002 and FY 2012, USAID has provided approximately \$2.46 billion for agricultural and alternative development funding to improve production, increase access to markets, and provide alternatives to poppy cultivation.⁶⁹⁷ Of that, USAID has obligated \$54 million and disbursed \$29 million in direct assistance to build capacity at the Ministry of Agriculture, Irrigation, and Livestock (MAIL).⁶⁹⁸

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:⁶⁹⁹

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

Agricultural Credit Enhancement and Agricultural Development Fund

Project Title	Start Date	End Date	Total Estimated Cost (\$)	Cumulative Disbursement, as of 3/31/2014
Agricultural Credit Enhancement	7/15/2010	1/15/2015	\$75,175,296	\$63,908,185
Agriculture Development Fund	7/18/2010	12/31/2014	\$74,407,662	\$29,000,000

Source: USAID, response to SIGAR data call, 4/7/2014.

The Agricultural Development Fund and Agricultural Credit Enhancement (ADF-ACE) 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.⁷⁰⁰

As of February 28, 2014, ADF's loan portfolio was \$85.7 million, loans disbursed were \$43.5 million, with \$21 million repaid. Another 24 loans are in the pipeline. USAID reports that a high retention rate of borrowers is

On March 28, 2014, a suicide car bomber and four armed gunmen attacked Roots of Peace—an international humanitarian, nonpolitical organization—at its Kabul facility, killing a 16-year-old girl and a driver, along with the five attackers. Two APPF guards and one expatriate were injured. Roots of Peace is currently implementing two USAID agricultural efforts: the Commercial Horticulture and Agriculture Marketing Program (CHAMP) and the Afghan Agricultural Research and Extension Development (AGRED) program.

Sources: Roots of Peace, "Official Release: Taliban Attacks Roots of Peace Compound," 3/28/2014; USAID, response to SIGAR data call, 4/7/2014.

SIGAR AUDIT

A SIGAR audit issued this quarter sought to determine the extent to which USAID met key objectives of the 2010 U.S. Inter-Agency Water Strategy for Afghanistan and the extent to which four USAID water projects implemented since 2010 are meeting their project goals and objectives. It found that a new water sector strategy for Afghanistan is needed with goals and objectives that reflect USAID's water priorities; a performance measurement plan to evaluate the strategy; and clear lines of responsibility and accountability for those implementing it. For more information, see Section 2, page 28.



Special IG Sopko visits a soybean plant during his March 2014 trip to Afghanistan. (SIGAR photo by Smythe Anderson)

crucial to ADF operations, which has reached 68% due to returning clients. ADF has provided loans to 22,386 farmer households in 32 provinces.⁷⁰¹

Incentives Driving Economic Alternatives-North, East, and West

Project Title	Start Date	End Date	Total Estimated Cost (\$)	Cumulative Disbursement, as of 3/31/2014
Incentives Driving Economic Alternatives-North, East, and West	3/2/2009	2/28/2015	\$159,878,589	\$141,080,906

Source: USAID, response to SIGAR data call, 4/7/2014.

Incentives Driving Economic Alternatives-North, East, and West (IDEA-NEW) is a 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. This quarter, it was extended to a sixth year. 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.⁷⁰²

USAID reported that 14,027 hectares are under alternative crop cultivation due to IDEA-NEW, compared to 209,000 hectares of opium under cultivation in 2013.⁷⁰³ While USAID said thousands of people have benefited from agricultural productivity and business skills training, as well as program-supported agricultural inputs, it also acknowledged low crop production, limited food processing opportunities, and shifting security conditions as challenges in the Afghan agriculture sector that impede on the progress of IDEA-NEW.⁷⁰⁴

Commercial Horticulture and Agricultural Marketing Program

Project Title	Start Date	End Date	Total Estimated Cost (\$)	Cumulative Disbursement, as of 3/31/2014
Commercial Horticulture and Agricultural Marketing Program	2/1/2010	12/30/2014	\$40,320,241	\$34,722,834

Source: USAID, response to SIGAR data call, 4/7/2014.

The Commercial Horticulture and Agricultural Marketing Program (CHAMP) 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.⁷⁰⁵

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.⁷⁰⁶

Afghan Agriculture Research and Extension Development Program

Project Title	Start Date	End Date	Total Estimated Cost (\$)	Cumulative Disbursement, as of 3/31/2014
Afghan Agricultural Research and Extension Development (AGRED)	7/17/2012	7/16/2017	\$23,638,611	\$4,193,245

Source: USAID, response to SIGAR data call, 4/7/2014.

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.⁷⁰⁷

Kandahar Food Zone

Project Title	Start Date	End Date	Total Estimated Cost (\$)	Cumulative Disbursement, as of 3/31/2014
Kandahar Food Zone	7/31/2013	7/30/2015	\$19,695,804	\$2,428,000

Source: USAID, response to SIGAR data call, 4/7/2014.

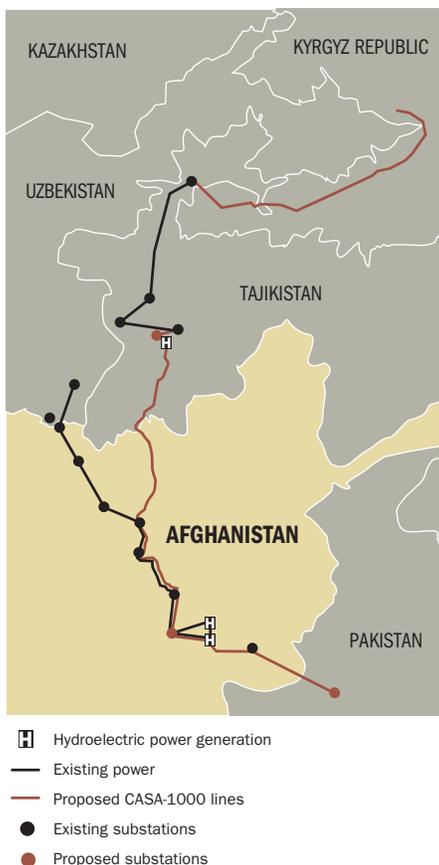
The Kandahar Food Zone (KFZ) program is designed to identify and address the drivers of poppy cultivation in seven targeted districts.⁷⁰⁸ It has two major components: capacity building at the Ministry of Counter Narcotics (MCN) and alternative livelihood projects. The capacity-building component seeks to build up the MCN's ability to create, implement, and manage alternative livelihood projects. The alternative livelihood component aims to improve community infrastructure and increase legal economic opportunities.⁷⁰⁹ KFZ has completed its performance management plan, program design, staff training and orientation, district maps, and community outreach. As of December 31, 2013, KFZ had begun two community-level projects.⁷¹⁰ The KFZ program objective is to engage with

communities to identify the social, political, and economic drivers of poppy cultivation, and then tailor appropriate projects to them.⁷¹¹

USAID reported that the KFZ office in Kandahar is closed because the APPF has not fulfilled its contractual obligations to provide uniforms and weapons to APPF guards. KFZ Kandahar staff are currently working out of their homes until that situation is resolved. Despite this impediment, USAID is pleased with KFZ collaboration across ministerial and provincial entities, and told SIGAR that the project identification process has been smooth.⁷¹²

FIGURE 3.36

CENTRAL ASIA-SOUTH ASIA POWER TRANSMISSION PROJECT, CASA-1000



Source: CASA-1000.org, via World Bank, accessed 4/3/2014.

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 electricity 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.⁷¹³

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 2002.⁷¹⁴ From FY 2002 to FY 2012, the United States spent more than \$2 billion on Afghanistan's power sector.⁷¹⁵

On March 27, 2014, the World Bank approved \$526.5 million in transmission infrastructure grant and credit financing for the Central Asia-South Asia (CASA-1000) electricity transmission project. The Islamic Development Bank and USAID will also provide funding.⁷¹⁶ Late last quarter, the United States committed \$15 million. CASA-1000 will allow Tajikistan and Kyrgyzstan to sell their excess summer generation electricity to Afghanistan and Pakistan. As a consumer, Afghanistan would add 300 MW to its energy supply. As a transit country, it would generate revenue as electricity passed through its territory to Pakistan.⁷¹⁷ The total estimated cost for CASA-1000 is \$1.17 billion.⁷¹⁸

CASA-1000's proposed transmission line routes and infrastructure, encompassing more than 746 miles, can be found in Figure 3.36.

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.⁷¹⁹ 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.⁷²⁰

Afghanistan currently has nine separate power systems. The primary two are the **Northeast Power System (NEPS)** and the **Southeast Power System (SEPS)**, as shown in Figure 3.37 on the following page. 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.⁷²¹

Sheberghan Program

Afghanistan currently imports more than 70% of its energy, according to USAID.⁷²² Together with the ADB, USAID is supporting the Sheberghan project to help Afghanistan identify and manage gas resources to be used for power generation. The Overseas Private Investment Corporation, which was slated to participate, likely will not, according to USAID.⁷²³ Gas reserves in northern Afghanistan are estimated to be capable of generating up to 10,000 MW per year for 25 years, according to USAID. A study to confirm that will be completed later this year.⁷²⁴

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).⁷²⁵ 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. If 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.⁷²⁶ No disbursements have yet been made.⁷²⁷

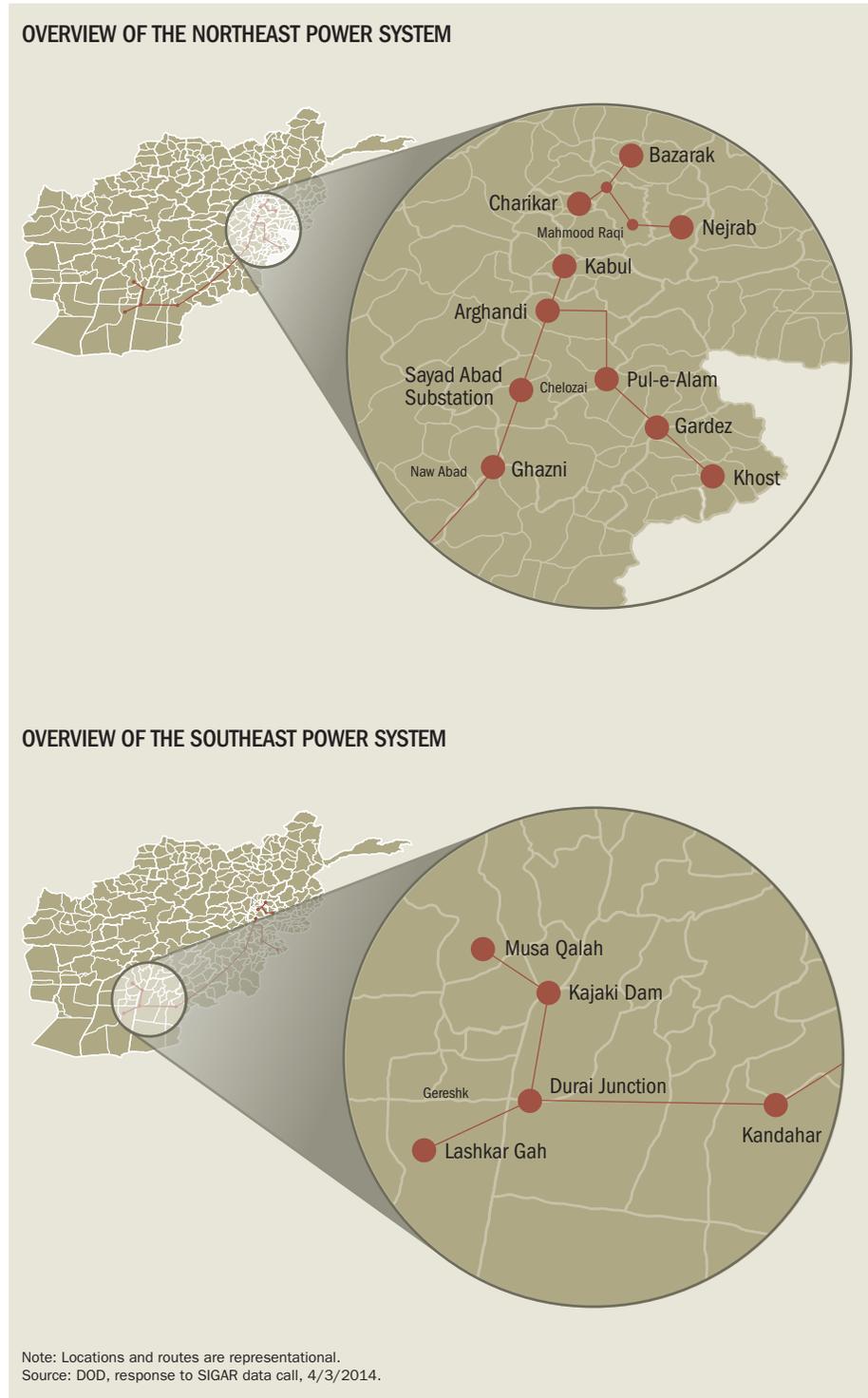
The off-budget SGGA component is being implemented under a contract task order with Advanced Engineering Associates International to provide technical assistance to the MOMP to drill three gas wells and to help the MOMP tender the Engineering/Procurement/Construction contract for the gas-gathering system and gas-processing plant. As of March 31, 2014, approximately \$23 million has been obligated, of which more than \$13 million was disbursed.⁷²⁸

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.

FIGURE 3.37



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 hydropower, and reduce losses while strengthening the SEPS transmission and distribution system.⁷²⁹ USAID reported that the majority of KHPP components are closed or closing.⁷³⁰

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.⁷³¹ 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.⁷³²

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 yet occurred as required under the Black & Veatch KHPP contract.⁷³³ The turbine installation requirement contained within the Black & Veatch KHPP contract has been descoped.⁷³⁴

Afghanistan's national utility, Da Afghanistan Breshna Sherkat (DABS), has assumed responsibility for carrying out the terms and conditions of the implementation letter.⁷³⁵ 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.⁷³⁶ USAID negotiated a sole-source contract extension of KHPP with Black & Veatch for technical support services—ending in 2015—to DABS and USAID in support of the third turbine installation. Black & Veatch would provide project documentation and Kajaki hydropower plant design support. USAID based its decision on Black & Veatch's experience with the Kajaki hydropower plant.⁷³⁷

DOD is using the AIF to fund fuel for the U.S. Army Corps of Engineers-installed generators in Kandahar City through 2014. 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 to install Kajaki's third turbine, which, when operational, should generate additional power and revenues.⁷³⁸

Improving revenue collection, however, will be challenging. This quarter, USAID reported that it does not know about DABS' financial status, its ability to pay its bills without government subsidies or donor assistance after

USAID's last visit to Kajaki Dam was in the fall of 2013. USAID and U.S. Embassy Chief of Mission (COM) personnel are currently not able to visit Kajaki due to Mission policy that requires U.S. military, NATO, or Embassy Protective Detail forces be in sufficient proximity during any COM travel around Afghanistan. With the withdrawal of U.S. Marines from Kajaki in 2013, these requirements cannot be met. SIGAR refers to these inaccessible reconstruction sites as areas outside of "oversight bubbles." In an October 2013 letter to Secretary of State Kerry, Secretary of Defense Hagel, and USAID Administrator Shah, SIGAR expressed concern about the impact of the Coalition troop drawdown on security and the related implications for ensuring adequate oversight of U.S. reconstruction efforts in Afghanistan.

Sources: USAID, response to SIGAR data call, 3/31/2014; USAID, response to SIGAR vetting, 4/12/2014; SIGAR, 14-4-SP Oversight Access Inquiry Letter to Department of Defense, Department of State and U.S. Agency for International Development.

SIGAR SPECIAL PROJECT

This quarter, SIGAR issued a letter of inquiry to USAID requesting the agency address SIGAR's concerns that the estimated cost of installing an additional power generating turbine at the Kajaki Dam has increased significantly. SIGAR's analysis concluded that the costs of the KHPP project to the United States now outweigh its benefits to Afghanistan. USAID, in its response letter, disagreed with that conclusion. For more information, see Section 2, page 43.

2014, or its plans to generate sufficient revenues.⁷³⁹ Additionally, USAID's assistant to the administrator in the Office of Afghanistan and Pakistan Affairs stated in Congressional testimony that he cannot confirm that the revenues DABS generates covers its costs for providing fuel.⁷⁴⁰ This contrasts with USAID's April 3, 2014, statement for the (congressional) record, which touted USAID's assistance as helping put DABS on the path of self-sustainability.⁷⁴¹

Additionally, 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 2014.⁷⁴² As of March 1, 2014, USAID had obligated \$228 million for the KHPP, and of that, approximately \$217 million had been disbursed, an increase of \$17.9 million from last quarter.⁷⁴³

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.⁷⁴⁴ The \$814 million PTEC programs includes \$357.4 million for on-budget support to DABS—which is responsible for DABS PTEC contracts—and \$37 million for off-budget support to the Ministry of Energy and Water, and educational institutions.⁷⁴⁵

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. Connecting NEPS to SEPS is a multi-donor effort. 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.⁷⁴⁶

As of March 31, 2014, 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 while \$60 million was disbursed in December 2013 pursuant to an ADB request.⁷⁴⁷

The ADB is responsible for the first 25-mile section from Kabul to Arghandi. 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 has also obligated \$263.3 million in on-budget assistance to the MOF and DABS for PTEC and formalized the bilateral agreement for this segment in February 2013. This on-budget assistance

culminated in a \$56.7 million contract award to construct the Arghandi to Ghazni transmission line. A public awareness campaign was also launched to help prevent attacks against the transmission line.⁷⁴⁸

Other DABS contracts signed this quarter using USAID's on-budget assistance include:

- Two Corporate Management Support projects to help DABS manage contracts and improve its financial and corporate management—\$17.9 million and \$18.8 million⁷⁴⁹
- Construction of substations at Sayadabad (Wardak Province) and Ghazni—\$48.1 million⁷⁵⁰
- Procurement and Billing Implementation Program “mPower,” billing, collections, revenue, connection, service, meter data, maintenance, and workforce management—\$10 million⁷⁵¹

USAID also plans to contribute \$417.6 million from its \$814 million PTEC project to ADB's 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.⁷⁵²

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.⁷⁵³

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:⁷⁵⁴

- 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.⁷⁵⁵



Diesel generators are used to provide electricity until NEPS and SEPS can be expanded and connected. (SIGAR photo by Steven Mocsary)

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 FY 2013 cost is \$100 million, which includes \$90 million for fuel and \$10 million for O&M.⁷⁵⁶ DOD’s fuel contract is scheduled to taper off in the coming months and end on December 31, 2014. If DABS cannot secure funding for alternative power supplies, it may disconnect residential users until the third turbine at Kajaki Dam is installed.⁷⁵⁷

Congress cut the President’s FY 2014 budget request of \$279 million for AIF to complete DOD’s portion of the NEPS and SEPS to \$199 million. Congress also set the following restrictions:⁷⁵⁸

- No more than 50% of AIF funds can be used until 15 days after the Secretary of Defense certifies to Congress that the United States signed a Bilateral Security Agreement with Afghanistan that is in the national security interest of the United States.⁷⁵⁹
- AIF funds in the FY 2014 Consolidated Appropriations Act cannot be used to plan, develop, or construct any project for which construction did not start before the legislation’s enactment (January 17, 2014).⁷⁶⁰

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.⁷⁶¹ 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.⁷⁶² 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.⁷⁶³

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, awarded 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.⁷⁶⁴

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 \$580,000.⁷⁶⁵

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.⁷⁶⁶ However, SIGAR has raised questions about DABS' capacity, and other audits have said Afghanistan lacks the resources necessary to pay for O&M.⁷⁶⁷

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 nine 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.⁷⁶⁸

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.⁷⁶⁹ As noted above, SIGAR audits have raised concerns about DABS' capacity and resources to undertake O&M.

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.⁷⁷⁰ 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 3/31/2014
Assistance in Building Afghanistan by Developing Enterprises	10/16/2012	10/16/2016	\$104,997,656	\$16,839,439

Source: USAID, response to SIGAR data call, 4/7/2014.

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.⁷⁷¹

Since ABADE's launch in February 2013, USAID reported that 30 public-private alliances were finalized—compared to five reported seven months ago—and 10 applications are awaiting approval, as of March 31, 2014. Another 81 applications are in development and internal review. Additionally, business-outreach and government capacity efforts continued this quarter.⁷⁷²

ABADE implementation continues to face restrictions from Presidential Decree 62, which requires the use of APPF and Risk Management Companies for security. The APPF has been unable to provide adequate mobile escort units or vehicles, making it difficult for ABADE staff to travel across the region, according to USAID.⁷⁷³ Since the Ministry of Interior announced the disbandment of the APPF this quarter, it is unclear who will provide security to international development projects and staff.⁷⁷⁴ For more information about the APPF, see pages 87 and 96.

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 development.⁷⁷⁵

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 offset declining aid.⁷⁷⁶ This quarter, the United States continued its efforts to assist Afghanistan in developing ministry capacity, sustaining operations and maintenance, and complying with international standards.⁷⁷⁷

Roads

While the United States has provided \$2 billion cumulatively for road construction and O&M and currently spends about \$5 million annually for O&M efforts, Afghanistan does not currently have sufficient funding and technical capacity to maintain its roads and highways, according to the U.S. Department of Transportation (DOT).⁷⁷⁸ Moreover, the lack of a functioning Roads Authority has significantly affected road infrastructure across Afghanistan.⁷⁷⁹ Although the Cabinet and the President gave approval in August 2013 for the Ministry of Public Works (MOPW) to create a Road Authority and Road Fund, the authority has not yet been established.⁷⁸⁰

DOT said the primary challenge for establishing a Road Authority is political—comprising an outdated transportation law, overlapping, unclear, and undefined institutional authorities, including roles and responsibilities of various ministries and local municipalities. Compounding these challenges are the uncertainties surrounding the April 2014 election, the resulting new government, funding, and coordination among donor countries.⁷⁸¹

DOT led an international donor coordination initiative to pursue an Afghan-led strategy and system approach to the construction, operation, and maintenance of Afghanistan's roadways. This initiative was recently transferred to the MOPW to continue coordination among various donors.⁷⁸² However, DOT said that Afghanistan's road network will significantly degrade if the challenges outlined above are not properly mitigated soon.⁷⁸³

Road Sector Sustainability

USAID approved its Road Sector Sustainability (RSS) project design on July 14, 2013. The project has four main activities:⁷⁸⁴

- Activity 1-Emergency O&M (\$5 million). A request for proposal was issued February 18, 2014, proposals were due March 18, and contracts are expected to be awarded in April.
- Activity 2-Technical Assistance to the MOPW for the creation of a Road Authority and Road Fund (\$25 million phase I; \$10 million phase II).

The U.S. Department of Transportation's (DOT) primary function in Afghanistan is to provide strategic technical advice to Afghan transport ministries, U.S. government agencies, the U.S. military, and non-governmental organizations, as well as other international civil and military organizations in order to build sustainable Afghan-centric transportation systems. DOT receives funding from the State Department.

Sources: DOT, response to SIGAR data call 3/31/2014; DOT, response to SIGAR vetting 4/6/2014.

Phase I proposals were received January 29, 2014, technical and cost reviews are ongoing, and a contract is expected to be awarded in April.

- Activity 3-Capacity Building for the MOPW (\$38 million). The Statement of Work is being developed based on a needs assessment that is underway. A contract is expected to be awarded by September 2014.
- Activity 4-Road O&M Activity. (\$33 million) USAID funding—proposed for September 2014—will go through the AITF once an operations and maintenance incentive window is developed by the ADB.

Rail

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.⁷⁸⁵ 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 2013.⁷⁸⁶

EDUCATION

According to the most recent data available from the Ministry of Education’s (MOE) Education Management Information System (EMIS), Afghanistan had a total of 14,740 primary, lower-secondary, and upper-secondary schools in FY 1391 (March 21, 2012–December 20, 2012). The same data showed approximately 4.2 million students **enrolled** in primary, government lower-secondary, and government upper-secondary schools in FY 1391. There are 4.2 million enrolled students, 3.27 million categorized as **present**, and 931,347 students considered **absent**, according to EMIS records.⁷⁸⁷

According to USAID, the total number of students attending school is derived by adding enrolled and present figures, which totals 7.48 million students in FY 1391. The MOE includes absent students in the enrollment total because they are considered to have only temporarily dropped out and have the potential to return to school. Absent students are kept in this category for three years before they are taken off the enrollment records. With absent students included, the MOE considers the total number of students in Afghanistan to be 8.4 million.⁷⁸⁸

USAID has previously 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 the data cannot be verified. 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.⁷⁸⁹

Enrolled: total number of new student enrollees in a fiscal year

Present: total number of prior year students attending in a fiscal year

Absent: number of students who have temporarily dropped out, but still included in enrollment figures.

Source: USAID, response to SIGAR vetting, 4/12/2014.

Similarly, despite USAID efforts to strengthen the education-management capacities of the MOE, it said the ministry does not have an established system to track the number of school monitoring visits made by district education department officials, and when schools are visited, it is not reported to the MOE at the central level. Therefore, the number of schools visited, the percentage of students served by those schools, and percentage of teachers observed is unknown. Because of this, neither USAID nor the MOE have established targets against these indicators. Security issues are a factor, according to MOE officials, especially in the south and southeast.⁷⁹⁰ SIGAR remains concerned that U.S. government agencies and international donors are unable to verify Afghanistan’s oft-cited gains in education.

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)
- American University of Afghanistan (AUAF)

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

Project Title	Start Date	End Date	Total Estimated Cost (\$)	Cumulative Disbursement, as of 3/31/2014
Basic Education, Literacy, and Technical-Vocational Education-Textbooks	11/16/2011	12/31/2014	\$26,996,813	\$21,955,403
Teacher Training	3/4/2012	11/6/2014	62,000,000	62,000,000
BELT-Community Based Education	10/29/2013	10/28/2017	56,000,000	0

Sources: USAID, response to SIGAR data call, 4/7/2014; USAID, response to SIGAR vetting 4/14/2014.

Basic Education, Literacy, and Technical-Vocational Education and Training (BELT)–Community-Base Education aims to improve access to quality basic education in communities typically beyond the reach of the government. The program currently funds MOE textbooks for grades 1-6, provides teacher training, and community-based education programs.⁷⁹¹ Two other components under design are: capacity-building for the MOE and Technical Vocational Education and Training (TVET) to meet unmet labor-market needs.⁷⁹²

BELT Community-Based Education (CBE) provides accelerated and remedial education, allowing students to attend schools in remote locations outside the reach of MOE schools.⁷⁹³ A BELT CBE implementation letter signed with the MOE and MOF spells out substantive matters such as

SIGAR AUDIT

The unreliability of MOE data and SIGAR’s ongoing concern about MOE capacity have prompted a SIGAR audit to examine the U.S. government’s efforts to assist and improve the education sector in Afghanistan.

SIGAR INSPECTION

A SIGAR inspection of the Balkh Education Facility, published last quarter, found that the facility has not been completed or constructed in accordance with contract requirements and technical specifications; five years after construction began, it cannot be turned over to Afghan authorities; and Afghan faculty and students were using the facility although it was not approved for occupancy.⁷⁹⁴

This quarter, USAID reported that it recently awarded a contract to complete the remaining work and correct the deficiencies at Balkh University. Construction activities were expected to begin on April 10, 2014, for 180 calendar days and end on October 10, 2014. USAID informed the Ministry of Higher Education to have students and faculty vacate the facilities during the construction period.⁷⁹⁵

student targets, performance milestones, means of verification, and funding levels.⁷⁹⁶ However, USAID reported delays in the creation of an adequate work plan and implementation schedule for the CBE milestone by MOE.⁷⁹⁷

Other ongoing challenges are MOE's capacity to design, procure, and implement on-budget activities in a timely fashion; and the MOF's improper deduction of taxes on U.S. government assistance, which significantly delayed USAID payments for on-budget activities. USAID has since worked with the MOE and MOF to establish procedures for granting tax-exempt status for on-budget activities and returning withheld taxes to the MOE's special account for BELT activities.⁷⁹⁸

The implementation letter USAID signed with the MOE in 2011 to print approximately 50 million textbooks through the BELT program obligates the MOE to make efforts to ensure that "approved texts address the needs of women and girls." However, a USAID-funded gender assessment found that boys and men are mentioned more than twice as often as girls and women, and pictured almost three times as often. The report data indicates clear discrepancies in mentioning, naming, and picturing women and men, as well as in the contexts the pictures appear. It concludes that gender-equity efforts in textbooks have done little to promote girls' and women's active participation in society.⁷⁹⁹

Higher Education Project

Project Title	Start Date	End Date	Total Estimated Cost (\$)	Cumulative Disbursement, as of 3/31/2014
Higher Education Project	2/23/2011	2/28/2014	\$21,216,813	\$18,548,120

Source: USAID, response to SIGAR data call, 4/7/2014.

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.⁸⁰⁰ This quarter, the *Wolesi Jirga* still 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 2014.⁸⁰¹

American University of Afghanistan

Project Title	Start Date	End Date	Total Estimated Cost (\$)	Cumulative Disbursement, as of 3/31/2014
American University of Afghanistan	8/1/2013	7/31/2018	\$40,000,000	\$4,395,826

Source: USAID, response to SIGAR data call, 4/7/2014.

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. The four components of this agreement aim to strengthen academic and professional development programs, expand programs for women, and increase financial self-sufficiency.⁸⁰²

AUAF met its cost-sharing goals, collecting \$3,265,765 in tuition and donations from November 1, 2013, to January 31, 2014.⁸⁰³ USAID also reported that AUAF's female undergraduate population is 31.9%, as of March 2014. However, security remains a concern, and attracting and retaining female students continues to be a challenge.⁸⁰⁴

Other Active USAID Education Programs

Project Title	Start Date	End Date	Total Estimated Cost (\$)	Cumulative Disbursement, as of 3/31/2014
Global Partnership for Education	10/11/2012	3/31/2015	\$2,500,000	\$438,683
Afghanistan Reads	6/1/2013	5/31/2014	380,000	300,000
Afghanistan Technical Vocational Institute	6/15/2013	6/14/2015	1,000,000	475,000
Strengthening Education in Afghanistan	8/8/2010	6/30/2014	10,225,847	9,949,051
Afghan Tuition Scholarship Program	8/21/2011	7/31/2017	7,384,665	5,311,003

Source: USAID, response to SIGAR data call, 4/7/2014.

HEALTH

Afghanistan has experienced significant improvements in its health indicators since 2002, according to USAID. Although the country still has one of the highest maternal- and child-mortality rates in the world, the USAID-funded Afghanistan Mortality Survey 2010 found that life expectancy has increased by as much as 20 years to an average of 62–64 years since 2002.⁸⁰⁵ However, other institutions have suggested that the gains are more modest. The CIA World Factbook gives the Afghan life expectancy from birth as 50 years, while the World Bank, which calculates life expectancy in 2012 at 60.5, starts from a base of 55.26 years in 2001—a 5.25-year gain. Moreover, in 1991, the World Bank determined life expectancy at 49.4 years, showing that they measure life expectancy in Afghanistan growing by about 5–6 years every decade, regardless of U.S. intervention efforts.⁸⁰⁶

From FY 2002 through FY 2012, U.S. on- and off-budget assistance to Afghanistan's health sector totaled \$1.06 billion.⁸⁰⁷ 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

SIGAR INVESTIGATION

In an ongoing investigation of MOPH's Grants and Contracts Management Unit, which provides oversight and guidance to NGOs that operate health facilities, SIGAR is reviewing NGO invoices, funding for closed health facilities, solicitation of bribes, and falsified timesheets.

assistance includes activities to strengthen health systems, engage the private sector, and procure pharmaceuticals and contraceptives.⁸⁰⁸

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 3/31/2014
Partnership Contracts for Health Services	7/20/2008	1/31/2015	\$236,455,840	\$164,648,037

Source: USAID, response to SIGAR data call, 4/7/2014.

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 641 of these health facilities, including.⁸⁰⁹

- 5 Provincial Hospitals
- 27 District Hospitals
- 14 Comprehensive Health Centers+ (“+” indicates expanded services)
- 163 Comprehensive Health Centers
- 278 Basic Health Centers
- 144 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.⁸¹⁰

PCH delivers health care ranging from primary care to essential hospital services. It also supports the Community Midwifery Education program, which helps to increase the number of female healthcare workers and contributes to reducing maternal and child mortality.⁸¹¹

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 parliament's late approval of the national budget and deteriorating security conditions, have temporarily closed health facilities, delayed management activities, staff deployment, monitoring, and supervision activities.⁸¹²

PCH reports semi-annually to USAID.⁸¹³ 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.⁸¹⁴

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% of total—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.⁸¹⁵ 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 last quarter. Data collection was completed in October 2013 and LMG has issued a report in Dari.⁸¹⁶ For more information about the LMG program, see page 130.

Health Policy Project

Project Title	Start Date	End Date	Total Estimated Cost (\$)	Cumulative Disbursement, as of 3/31/2014
Health Policy Project	6/2012	10/2014	\$28,000,000	\$13,700,000

Source: USAID, response to SIGAR data call, 3/31/2013.

The Health Policy Project (HPP) is building the Ministry of Public Health's (MOPH) capacity to address basic health needs through design, negotiation, and management of hospital public-private partnerships (PPPs). The project also aims to strengthen health financing and management of health resources, strengthen gender roles in health sector activities, and 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 marketing—an approach used to change people's behaviors for the benefit of individuals and society.⁸¹⁷

This quarter, USAID said continued insecurity, especially leading up to the elections, affected aspects of HPP's work, while the uncertainty surrounding the election process had few international investors interested in PPPs with the MOPH. At the same time, limited availability of qualified international consultants willing to travel to Afghanistan to help train

SIGAR INSPECTION

A SIGAR inspection published last 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. U.S. Forces-Afghanistan's comments were published this quarter. For more information, see Section 2, page 36.

MOPH's PPP unit is delaying PPP activities, as is getting Afghan government approval (district, provincial, and national) and security clearance to conduct gender-based violence workshops outside of Kabul.⁸¹⁸

Despite these challenges, HPP worked with the MOPH to develop a promotional video encouraging private sector investment in three hospitals in Kabul with an accompanying investment promotion event, and developed two radio advertisements that discourage early marriage and gender discrimination in health service delivery. HPP-supported training programs also continued this quarter, centered on efforts aimed at reducing maternal and child mortality, and on understanding and improving the role of advocacy in private sector health policy development.⁸¹⁹

Leadership, Management, and Governance Project

Project Title	Start Date	End Date	Total Estimated Cost (\$)	Cumulative Disbursement, as of 3/31/2014
Leadership, Management, and Governance	9/25/2011	9/24/2016	\$26,000,000	\$15,657,888

Source: USAID, response to SIGAR data call, 4/7/2014.

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.⁸²⁰

This quarter, Afghanistan's Civil Service Commission granted human-resources autonomy—the right to hire and fire staff—to Kabul-based national hospitals.⁸²¹ These hospitals' internal staffing decisions were suffering from social and political interference that USAID said was challenging LMG efforts to provide technical assistance.⁸²² USAID also reported that 14 of these hospitals as well as a blood bank and clinic closed out their most recent fiscal year with an average budget expenditure rate of 89%.⁸²³

USAID also noted several challenges, including heavy reliance on consultants and advisors by senior MOPH officials, inadequate MOPH response to provincial health development needs, coordination of MOPH health information components housed under multiple directorates, and field monitoring limitations due to logistics and security issues.⁸²⁴

Other Active USAID Health Programs

Project Title	Start Date	End Date	Total Estimated Cost (\$)	Cumulative Disbursement, as of 3/31/2014
Strengthening Pharmaceutical System	8/28/2011	8/27/2015	\$24,499,936	\$12,933,500
Polio Eradication Activities	9/30/1996	9/30/2022	10,750,000	9,415,102
TB = Field Support	9/29/2010	9/28/2015	4,600,000	1,252,370
University Research = Field Support	9/30/2009	9/29/2014	13,950,000	12,950,000
USAID Afghanistan University Support and Workforce Development Program	1/1/2014	12/31/2018	91,927,769	335,229

Source: USAID, response to SIGAR data call, 4/7/2014.

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 \$167 million annually in revenue.⁸²⁵ In a forthcoming economic impact study, USAID found the ICT sector generated \$1.8 billion in gross revenue in 2013, while employing an estimated 138,500 Afghans.⁸²⁶

The MCIT has set priorities to increase mobile service coverage to the remaining 20% of the population without access, extend the fiber optic cable infrastructure, implement faster internet service, introduce electronic governance, and convert to a digital television system.⁸²⁷

Afghan Telecom—wholly owned by the MCIT and whose board of directors is chaired by MCIT Minister Amirzai Sangin and composed of MCIT, MOF officers, and other Afghan corporate representatives—is executing an aggressive expansion into the 3G market that will entail the construction of an expansive mobile tower network, including many in remote and dangerous areas where private operators do not engage. Many of these towers will replace those lost due to the closure of Coalition bases and provide around-the-clock service, unlike private operators who turn their towers off at night due to insurgent threats.⁸²⁸

Afghan Telecom’s relationship with the MCIT could constitute a conflict of interest and its sole national unified license could give it an unfair advantage over other telecom operators.⁸²⁹ TFBSO said Afghan Telecom struggles to meet reliability, responsiveness, and availability demands, and cited Afghan Telecom’s fiber-optic network access monopoly as a challenge and risk to the ICT sector.⁸³⁰ The World Bank said Afghan Telecom’s management of the national backbone network that ties together interconnecting

SIGAR SPECIAL PROJECT

This quarter, SIGAR’s Office of Special Projects sent an inquiry letter to Secretary of State Kerry, Secretary of Defense Hagel, General Austin, and General Dunford expressing concern about six communications towers built in Afghanistan but never used. SIGAR’s letter requests information about the decision to build the towers, the cost to maintain them, and the plans to turn over the towers to DOD or the Afghan government. For more information, see Section 2, page 42.

networks helped keep internet prices artificially high compared to other countries in the region.⁸³¹

SIGAR SPECIAL PROJECT

This quarter, SIGAR wrote a letter of inquiry to U.S. military commanders in Afghanistan about the current status of a 2009 MOI pilot program using mobile money technology to pay salaries to the Afghan National Police. SIGAR uncovered information that Afghan police commanders began registering their own phone numbers in lieu of those of their subordinates, and resumed their past practice of claiming a portion of the salaries paid out to individual police officers. For more information, see Section 2, page 46.

Mobile Money

In an overall effort to help build a sustainable, diverse, and inclusive financial sector, USAID has sought to expand access to credit in Afghanistan through mobile money and branchless banking through its Financial Access for Investing in the Development of Afghanistan (FAIDA) project. Mobile money is the use of cell phones to store currency, pay for goods, and receive and transfer funds. Other aspects of FAIDA include agribusiness activities and capacity-building efforts at Afghanistan's central bank.⁸³²

A USAID audit issued this quarter found that mobile money has not caught on in Afghanistan. Less than 1%—10,642 of almost 21 million people with mobile phones—were active mobile-money users (conducting at least 12 transactions per month). USAID said the commercial viability of mobile money in Afghanistan is 20% of mobile phone users using this service within four years. It went on to say that FAIDA did not significantly enhance the capacity and reach of mobile money, and 19 months into the project there was no improvement. Additionally, so little information exists on mobile money in Afghanistan, USAID found it difficult to determine what FAIDA's results should have been in this area. USAID is planning a financial audit of this program in FY 2014.⁸³³ As of March 31, 2014, USAID has disbursed \$73,462,780 for FAIDA, of which mobile money is one part.⁸³⁴

Assistance to the Ministry of Communications and Information Technology

The U.S. Defense Information System Agency supports Afghanistan's telecommunications efforts through its support to DOD's Afghanistan Telecom Advisory Team (TAT).⁸³⁵ The TAT trains, advises, and assists the MCIT in several areas; however it does not have or use quantifiable metrics to track progress or results. The TAT helped develop a business case analysis and strategy to broaden mobile service coverage to remote locations; contributed to the development of a national cyber security strategy for Afghan ministries and security institutions, and provided cyber security training; helped identify specific sources of interference affecting cellular network frequencies, although a resolution is still pending; and organized a joint MCIT, TAT, and Mobile Network Operator active monitoring program of specific interference points, which identified several commercially generated interference issues that are pending Afghan governmental resolution.⁸³⁶

The TAT also facilitated meetings between the Afghanistan National Army (ANA) and Afghan Telecom to prioritize ANA network expansion and secure connections to the fiber optic network; advanced ministerial meetings to solicit Ministry of Defense and MOI security support to the MCIT in high risk areas; promoted discussions between Afghan Telecom and the

From January 1–March, 31, 2014, eight personnel were assigned to the TAT—six civilian expeditionary workforce personnel and two contractors. Cost: \$468,000. Funding organization: Defense Information Systems Agency.

Source: DOD, response to SIGAR data call, 4/3/2014.

international business unit of Turkish Telekom centered around reducing the price of IP transit services and Afghan internet services; and met with the U.S. Embassy Kabul and CSTC-A to discuss the option of using mobile money to pay the remaining 20% of ANSF (approximately 70,000 personnel) still paid in cash.⁸³⁷

USAID obligated \$3.9 million for its on-budget E-Government Resource Center project with the MCIT. No funds have yet been disbursed as of March 31, 2014. The project is designed to build the MCIT's capacity to provide timely, high-quality advice, training, consulting, and other electronic-governance (E-Gov) and cyber-security services to Afghan ministries.⁸³⁸ DOD's TAT reported the E-Gov department at the MCIT started construction planning for a E-Gov complex. The staff at the complex will provide full electronic and in-person government services such as issuing e-taskera (electronic identity) cards and government licenses, and processing tax payments.⁸³⁹

Additionally, USAID commissioned a \$150,000 ICT sector economic impact study (2001–2018) so MCIT can better understand past and anticipated economic effects, and plan accordingly.⁸⁴⁰

SIGAR AUDIT

Last 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.

