ECONOMIC CONTENTS

ECONOMIC AND SOCIAL DEVELOPMENT

As of June 30, 2014, the U.S. government has provided nearly $30.6 billion to support governance and economic and social development in Afghanistan. Most of the appropriated funds flowed into four major programs and accounts, as shown in Table 3.25. Of the $23.2 billion appropriated for these funds, approximately $18.4 billion had been obligated and $15.2 billion disbursed as of June 30, 2014.

TABLE 3.25

CUMULATIVE APPROPRIATIONS FOR AFGHANISTAN DEVELOPMENT, AS OF JUNE 30, 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.

KEY EVENTS

This quarter the Afghan economy continued to grow at a slower rate as a result of political uncertainty and the drawdown of U.S. and Coalition forces.

After being downgraded to "dark gray" status by the international Financial Action Task Force (FATF) last quarter, Afghanistan narrowly avoided being blacklisted as a high-risk, non-cooperative jurisdiction for insufficient progress on improving its anti-money laundering regulations.[521] Afghanistan's parliament passed anti-money laundering and anti-terrorist financing legislation in late June, just before FATF's June plenary meeting deadline.[522] A blacklist designation by the 36-member intergovernmental body could have further affected Afghanistan's banking relationships around the world and weakened its economy.[523]

The annual United Nations Analytical Support and Sanctions Monitoring Team report found the Taliban is deriving so much income from narcotics

and illegal mining that its incentive to seek a lasting peace settlement with the Afghan government may have been reduced.[524] The political and security transitions—compounded by rising security costs and lower government revenues—are fueling consumer and investor doubts, and slowing economic growth.[525] The report added that continuing international economic support to Afghanistan after the transition will be crucial.[526]

Both houses of parliament passed new mining, anti-money laundering, and combating-terror-financing laws this quarter, which could improve prospects for foreign aid, private investment, and broad-based job creation in Afghanistan.[527] Since legislative passage occurred late in the quarter, U.S. implementing agencies could not assess these laws before this report went to press.[528] A new banking law remains delayed.[529]

So far, Afghanistan's domestic revenues in Afghan fiscal year (FY) 1393 (December 21, 2013–December 20, 2014) were 20% lower than Ministry of Finance (MOF) budget targets. Although tax revenues have exceeded those for FY 1392 year-to-date, they still fell short of FY 1393 targets. Non-tax revenues and customs duties fell short of both the amounts collected in FY 1392 (year-to-date) as well as FY 1393 targets.[530]

During this reporting period, the International Monetary Fund's (IMF) Extended Credit Facility arrangement review and disbursement remain delayed due in part to insufficient Afghan progress toward meeting domestic-revenue collection and legislative requirements. The IMF also issued an updated assessment of the Afghan economy—known as the Article IV Report—its first since November 2011. It concluded that while progress has been made, Afghanistan's economy is vulnerable to political and security-related uncertainty.[531]

Finally, the Afghan government has not held any more individuals accountable for the Kabul Bank scandal, nor has it reported any new cash recoveries this quarter.[532]

ECONOMIC PROFILE

Afghanistan's GDP growth has slowed significantly over the last year. The IMF, the World Bank, and the Asian Development Bank (ADB) all projected that Afghanistan's GDP growth (excluding opium production) will fall from a high of around 14% in 2012 to an estimated 3–4% for 2013 due to increasing uncertainty about the volatile political and security environment.[533] With an expected reduction in international aid and spending after 2014, the World Bank projects average real GDP growth at about 5% annually through 2018 under its baseline assumptions. More uncertainty, fueled by insecurity and instability, could further dampen growth. By contrast, Afghanistan's economy grew by an annual average of 9.4% from 2003 to 2012, when it was boosted by international military spending and development assistance.[534]

Consumer prices were relatively stable over the past two years, with inflation in 2013 calculated at 7.7%, according to the World Bank, compared to 6.3% in 2012.[535] The IMF found that Afghanistan's macroeconomic policy is appropriately balanced. Its fiscal policy, financed by donor grants, is also broadly balanced, but the IMF recommends the government do more to increase domestic revenues and improve budget management. To maintain low inflation, Afghanistan's monetary policy should maintain its international reserves, continue to limit money-supply growth, and preserve a flexible exchange rate.[536] The IMF said this strategy depends on continued donor assistance pledged at the 2012 Chicago and Tokyo conferences, as well as on Afghanistan's fulfilling its commitments, which "will be critical towards sustaining donors' confidence."[537]

Fiscal Sustainability

The World Bank describes Afghanistan's fiscal outlook as subpar and likely to delay progress to self-reliance.[538] Afghan government expenditures are expected to continue rising, largely due to spending on security, service delivery, building essential infrastructure, and operations and maintenance.[539] This will require continued donor financing and improved revenue mobilization.[540]

Afghanistan's fiscal sustainability ratio—domestic revenues versus operating expenses—declined to approximately 57% in the first four months of FY 1393, compared to 60% and 65% in the previous two fiscal years.[541]

For the first quarter of Afghanistan's current fiscal year, domestic revenues stood at 23.41 billion afghanis (AFN), versus 22.32 billion AFN for the same quarter of the prior year.[542] The 4.88% quarter-to-quarter increase in domestic revenues, however, did not keep pace with the World Bank-reported rate of Afghan price inflation, so the actual purchasing-power value of the revenue growth is less than it appears.

The gap between the government's domestic revenues—derived primarily from taxes and custom duties—and integrated budget (operating budget and development budget) expenditures is large, as depicted in Figure 3.30 on the following page.[543] The IMF estimated Afghanistan's financing gap, comprising on and off-budget needs, at $7.7 billion (33% of GDP) on average, annually through 2018.[544] 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.[545]

Operating budget: consists mainly of recurrent expenditures, such as salaries for public servants, running costs for ministries, barracks, etc.

Development budget: the government's budget for development projects implemented by government agencies, such as building new schools or roads. These projects are mainly donor-funded.

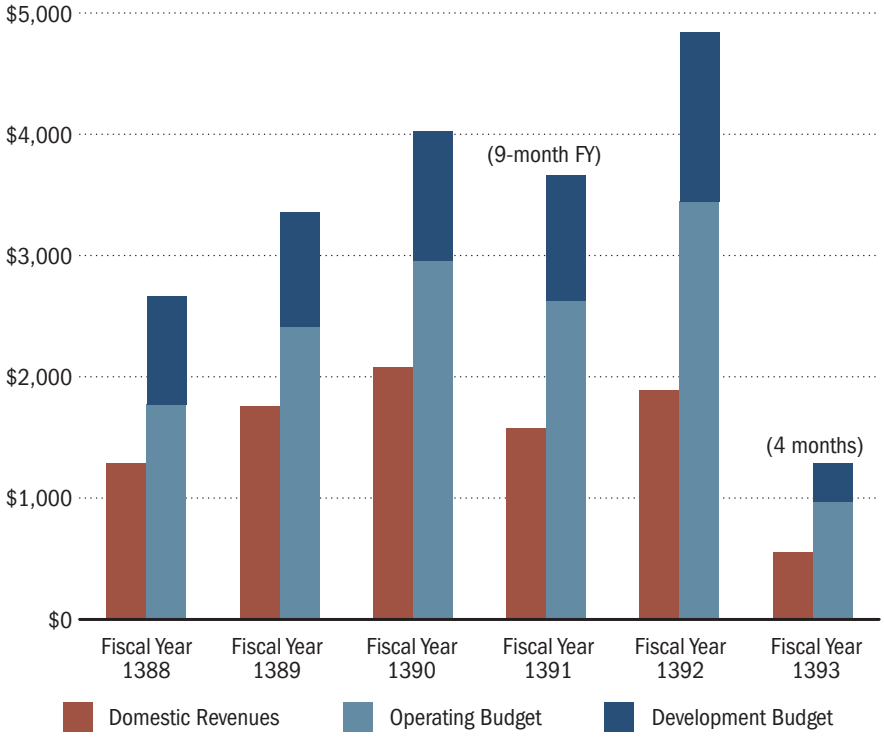
Revenue Generation

Raising domestic revenue is a priority for Afghanistan's fiscal sustainability, according to the IMF.[546] In the first four months of FY 1393, total domestic revenues increased by 3.6% from the same period in FY 1392, but missed MOF targets by 20%.[547] Moreover, revenues in FY 1393 have been outpaced by expenditures.[548]

Source: MOF, "FY 1393 Monthly Fiscal Bulletin, Month 4," 5/25/2014, accessed 7/2/2014.

FIGURE 3.30

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



Notes: Until recently, Afghan fiscal years ran approximately March 20 to March 20 of Gregorian calendar years. FY 1388 corresponds to March 20, 2009, to March 20, 2010, and so on. Nine-month data for fiscal year 1391 reflect a change in the timing of the Afghan fiscal year. FY 1393 represents the first four months only. Donor aid covers "fiscal gap" between domestic revenue and budget outlays.

Source: 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; MOF, "FY 1393 Monthly Fiscal Bulletin, Month 4," 5/25/2014, accessed 7/2/2014; Da Afghanistan Bank, "Daily Exchange Rates of Selected Currencies to Afghani," 2/14/2014, accessed 4/14/2014; Da Afghanistan Bank, "Daily Exchange Rates of Selected Currencies to Afghani," 5/25/2014, accessed 7/2/2014.

SIGAR AUDIT

A SIGAR audit report published last quarter found that, despite the U.S. allocation of $198 million to develop Afghan capacity to assess and collect customs revenue, its potential as a stable source of government income remains uncertain.

Revenues as a percentage of GDP have also declined. The World Bank calculated domestic revenues at 9.6% of GDP in calendar year 2013—compared to 10.3% in 2012 and 11% in 2011—as a result of continued government weakness in revenue enforcement as well as the economic slowdown, generally.[549]

The IMF's Chief of Mission for Afghanistan explained in May 2014 that the government's strategy for increasing revenues has four main pillars: improved tax compliance, implementing a value-added tax (VAT), developing the Afghan mining sector, and imposing new taxes in addition to a VAT.[550] This quarter, VAT legislation passed both houses of parliament and is

awaiting a joint commission to reconcile the legislative differences between them.[551] Once that happens, the IMF said, Afghanistan will need one year to prepare for the tax's introduction.[552]

Trade

Afghanistan's largest trading partner is Pakistan, followed by the United States, the European Union, and regional neighbors.[553] Trade-related taxes represented 45% of Afghanistan's total tax revenues from 2006 to 2013.[554]

Afghanistan Trade and Revenue Project

Project Title	Start Date	End Date	Total Estimated Cost ($)	Cumulative Disbursement, as of 6/30/2014
Afghanistan Trade and Revenue	11/7/2013	11/6/2017	$77,754,267	$6,367,032

Source: USAID, response to SIGAR data call, 7/10/2014.

The Afghanistan Trade and Revenue (ATAR) Project is USAID's trade-facilitation program designed to (1) support Afghanistan's accession to the World Trade Organization (WTO), (2) support bilateral and multilateral regional trade agreements, and (3) improve and streamline the government's ability to generate revenue.[555] ATAR is supporting Afghanistan's WTO accession in 2014, and while Afghanistan is positioned to do so, USAID said the government must resolve laws that are inconsistent with WTO standards and improve ministerial capacity. ATAR is helping the government draft WTO-related legislation and with the market-access negotiations that are part of the WTO-accession process. It is also working with Afghan customs officials to modernize and streamline customs processes.[556]

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 TAFA and ATAR contract documents, the ATAR contract does not require the implementing partner to meet annual targets for the implementation of the systems. USAID said implementation is the responsibility of the Afghan government.

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

EXTENDED CREDIT FACILITY ARRANGEMENT

The IMF's $129 million Extended Credit Facility (ECF) loan agreement signed in November 2011 makes disbursements contingent upon completion of program reviews, as determined by IMF management and its 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, due to missed performance targets, inadequate policy responses to economic shocks, and delays in structural reform.[557]

Weaker-than-expected economic conditions led the IMF to revise the ECF in May 2013 to account for lower revenues, expenditures, and international monetary reserves, while it adjusted money-growth targets to preserve macroeconomic stability. Despite these adjustments and

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.

government-reform efforts, quantitative targets were missed, delays in structural reform persisted, and the expectation of a newly elected government caused further reviews to be postponed. The current ECF expires in November 2014.[558]

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.[559]

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.[560] State said Afghanistan's banks also suffer from political interference and lack of oversight.[561] In addition, Afghanistan's existing controls against money laundering and terrorist financing are widely viewed as deficient.[562]

Many Afghans distrust banks, preferring to borrow and save with family and friends, and to transfer money through informal, trust- or honor-based *hawala* networks.[563] Commercial loans plummeted in the wake of the Kabul Bank crisis, according to the World Bank, and the banking sector's loan-to-deposit ratio dropped from 56.8% in 2010 to 22.6% in 2013.[564] Afghans also regularly use foreign currency rather than their national currency, the afghani (AFN), which is depreciating against the dollar.[565] In early January 2012, a U.S. dollar cost about 49 AFN; on June 30, 2014, it cost about 58 AFN, according to the Afghan central bank.[566]

SIGAR AUDIT

A January 2014 SIGAR audit concluded that without U.S. assistance, and with only limited World Bank and IMF involvement, the banking sector remains unstable and at risk of further instability, threatening sustainable economic and financial growth.

Loan-to-Deposit Ratio: is used to assess a bank's liquidity 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.

Banking Law

Afghanistan's new banking law remains pending before parliament.[567] According to Treasury, failure to enact it will likely lead to weaker financial-sector governance and supervision: Da Afghanistan Bank (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 be no clear legal framework in place for a resolution process.[568]

Money Laundering

The State Department lists Afghanistan as a major money-laundering country and categorizes it as a jurisdiction of primary concern whose "financial institutions engage in transactions involving significant amounts of proceeds from all serious crimes or are particularly vulnerable to such activity

because of weak or nonexistent supervisory or enforcement regimes or weak political will."[569] Afghanistan was also ranked as the most vulnerable country at risk for money laundering and terrorist financing, closely followed by Iran, according to a 2013 Basel Institute on Governance study.[570]

Narcotics, corruption, and contract fraud are major sources of the country's illegal revenues and laundered funds, according to State's 2014 International Narcotics Control Strategy Report. The report says illegal financial activities "continue to pose serious threats to the security and development of Afghanistan." This is largely perpetuated by hawala methods of transferring money without moving it. Afghans rely upon hawala networks because of official corruption and weakness in the banking sector. Unlicensed and unregulated hawala brokers in drug-producing areas like Helmand are responsible for much of the money laundering through Afghanistan's financial system. But Afghan business consortiums that own hawalas and banks are also complicit.[571]

"Afghanistan is not capable of independent and sustainable financial investigation without international assistance at the present time; additional mentoring and training is needed in this critical area post-2014."

Source: DEA, response to SIGAR data call, 6/30/2014.

Financial Action Task Force

The Financial Action Task Force (FATF) held its latest plenary meeting June 25–27, 2014, noting that Afghanistan had taken steps toward improving its Anti-Money Laundering/Combating the Financing of Terrorism (AML/CFT) regime. Afghanistan was moved off the list of jurisdictions not making sufficient progress—FATF's "dark-gray" list—and placed on the Improving Global AML/CFT Compliance: On-Going Process or "gray" list.[572]

Afghanistan's parliament passed anti-money laundering legislation on June 24, just one day before FATF's June plenary meeting deadline; President Karzai signed it into law on June 25, the first day of the plenary.[573] Parliament also passed anti-terrorist financing legislation on June 25, and President Karzai signed it on July 3—six days after the plenary ended.[574] Although FATF was not able to thoroughly review the legislation before the plenary given its last-minute parliamentary passage, it determined that Afghanistan had made progress. FATF will evaluate compliance standards and implementation of Afghanistan's AML/CFT laws during its next plenary in October 2014.[575]

A majority of Afghan banks have been affected either by closure or restriction of one or more of their correspondent accounts, and are at risk of future closures due to deficiencies in Afghanistan's AML/CFT regime and in bank compliance processes.[576] Treasury said international banks have moved to reduce their compliance risks in response to a less forgiving regulatory environment. However, Treasury expects that some key correspondent accounts will be maintained.[577]

This quarter, Aktif Bank in Turkey reportedly closed U.S. dollar accounts it was holding for Afghan banks.[578] Media reports also quoted Afghan central bank officials who said Chinese banks have halted dollar transactions with Afghan banks, making it difficult for businesses to pay

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.

Correspondent Accounts: Accounts established by a financial institution of one country so it can take deposits or make payments through the financial system of another country, and make use of products and services that may not be available in its own jurisdiction.

Sources: Financial Action Task Force website, "Who We Are," accessed 4/2/2014; Federal Financial Institutions Examination Council Bank Secrecy Act/Anti-Money Laundering InfoBase, "Correspondent Accounts (Foreign)—Overview," accessed 10/1/2013; Financial Crimes Enforcement Network, Factsheet: Section 312 of the USA PATRIOT Act Final Regulation and Notice of Proposed Rulemaking," 12/2005, accessed 7/18/2014.

for imports.[579] However, China's state-owned news agency called the report "utterly groundless."[580]

A FATF blacklisting does not trigger mandatory severance of correspondent banking relationships, but in extreme cases where the international financial system is deemed threatened—as with Iran and North Korea—FATF members may be asked to apply financial countermeasures, such as rejecting correspondent relationship requests from high-risk countries to open branches and subsidiaries in their jurisdictions.[581]

The loss of correspondent accounts could potentially damage the profitability of Afghan banks for which international trade and transaction fees are an important revenue source, and some banks have become more selective in accepting new customers in the tighter regulatory environment. Treasury said any increased difficulty for Afghan customers in gaining access to banks with correspondent relationships could disrupt normal trade and financing. Treasury also said the economic consequences of lost correspondent accounts could be severe, although difficult to predict.[582]

The Kabul Bank

Afghanistan's Attorney General's Office (AGO) filed no new charges, launched no new prosecutions, and indicted no additional beneficiaries since the Special Tribunal of the Supreme Court issued its judgment of 21 individuals charged with fraud on March 5, 2013, despite both primary and appellate court orders to do so or explain why it did not.[583] State's Bureau of International Narcotics and Law Enforcement Affairs (INL) noted these beneficiaries have millions of dollars worth of assets that could be subject to forfeiture.[584]

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.

Source: Independent Joint Anti-Corruption Monitoring and Evaluation Committee, *Report of the Public Inquiry Into the Kabul Bank Crisis*, 11/15/2012, pp. 2, 9.

The U.S. Department of Justice (DOJ) attaché in Kabul again raised the issue of pursuing additional prosecutions with the Attorney General this quarter, to no avail. Scheduled meetings have been repeatedly cancelled—a pattern that has extended to other senior U.S. Embassy officials.[585]

On March 16, 2013, the AGO appealed the verdict of all 21 cases, including the two leaders of the fraud, ex-chairman Sherkhan Farnood and ex-CEO Khalillullah Ferozi, who were given modest five-year prison sentences and required to pay only partial restitution.[586] DOJ believes the primary court's verdict revealed a fundamental misunderstanding of the crime, most notably the mistaken belief that money laundering did not occur.[587] The appellate court's decision is still pending.[588]

This quarter, DOJ reported that the lead AGO prosecutor on the appeal said he does not intend to convene the court-ordered meeting at which uncharged shareholders—together with Farnood and Ferozi—were to meet with prosecutors and the Kabul Bank receiver to resolve disputes over defendants' monetary liabilities, until after a new administration is in place.[589] In April, DOJ met with the Chief Justice of the Supreme Court and asked what Afghan law required the appellate court to resolve accounting

issues prior to rendering a verdict of guilt or innocence. According to DOJ, the Chief Justice responded as if a different question had been asked.[590]

Limited Cash and Asset Recoveries

During this reporting period, no new information was available on recoveries of money stolen from the Kabul Bank.[591] Total recoveries remain $174.5 million—less than 20% of stolen funds—as of September 30, 2013, according to Afghanistan's central bank, which is the sole source of that information.[592] DOJ cautioned that the Afghan government may claim that it should be credited with recovering an additional $24 million from the sale of Pamir Airlines, which was owned by Kabul Bank shareholders, to Ariana Afghan Airlines Co. Ltd., a wholly government-owned entity.[593] DOJ said there is no indication that Ariana actually needed the additional airplanes, and one of the recently transferred planes, a Boeing 737, promptly crashed at Kabul International Airport. There were no serious injuries, but the airplane was a complete loss and the crash caused roughly $600,000 in damage to the airport's flight-control equipment.[594]

DOJ was not aware of any new or additional repayment plans, or of punitive measures taken by the AGO this quarter, against those who are failing to fulfill the terms of existing repayment plans. However, the commercial tribunal convened to assist civil recovery efforts has reportedly issued an order to banks and municipalities to freeze the assets of 52 Kabul Bank loan beneficiaries. Banks have complied with the requests, but municipalities have not. When Kabul Bank Receiver representatives attempted to enforce the order in Mazar-e-Sharif, they were driven away at gunpoint.[595] Although some individuals within the Afghan government are serious about Kabul Bank accountability, DOJ said the general will among the political elite and senior leadership is "grossly lacking" and their efforts have been "lackluster at best."[596] The government has failed to take "all possible steps" to recover stolen assets, as called for in the "hard deliverable" indicators of the Tokyo Mutual Accountability Framework.[597] DOJ repeatedly suggested to the AGO and senior government officials steps that could have been taken but were ignored, including:[598]

- providing recipients of the original mutual legal-assistance requests with copies of the Special Tribunal's verdict, and requesting the freezing of assets based on those convictions
- indicting the remaining beneficiaries (as ordered by both the primary and appellate court) and issuing accompanying orders to freeze their domestic assets
- designating a team of attorneys and/or specialists dedicated to asset tracking and recovery, and authorizing them to work freely with international counterparts

Enforcement of asset recovery and accountability for those responsible for the Kabul Bank crisis are Afghan commitments under the Tokyo Mutual Accountability Framework and IMF agreements.

Source: Tokyo Conference on Afghanistan, *Tokyo Mutual Accountability Framework*, 7/8/2012, accessed 7/4/2013; IMF, *2014 Article IV Consultation–Staff Report; Press Release; And Statement By The Executive Director For The Islamic Republic Of Afghanistan*, 5/2014.

A jetliner transferred to the Afghan government-owned airline lies wrecked at Kabul's airport. (FAA photo)

- identifying and confiscating all domestic assets belonging to ex-chairman Sherkhan Farnood and ex-CEO Khalillullah Ferozi, in fulfillment of the primary court's restitution order

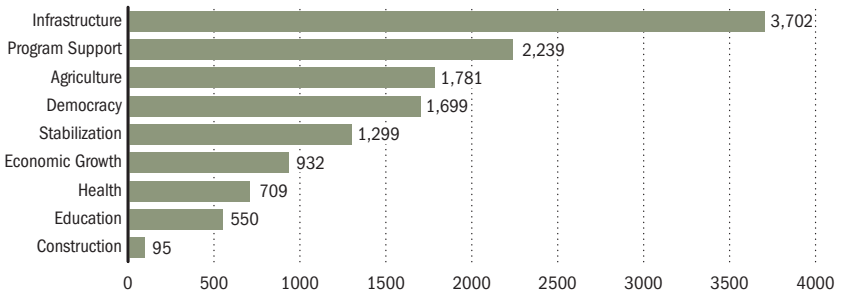
U.S. ECONOMIC-SUPPORT STRATEGY

The economic-transition strategy in Afghanistan 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.[599] The United States uses policy advocacy, provides technical assistance, and supports efforts by multilateral institutions like the IMF and World Bank to help Afghanistan increase domestic revenue. According to State, U.S. economic strategies are coordinated at an interagency level through the National Security Council.[600]

Most assistance from the Economic Support Fund (ESF) goes toward USAID's development programs. Figure 3.31 shows USAID assistance by sector.

FIGURE 3.31

USAID DEVELOPMENT ASSISTANCE, AS OF JUNE 30, 2014 ($ MILLIONS)



Notes: Numbers have been rounded. 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, 7/10/2014.

USAID is targeting its economic and agricultural programming in four regional economic zones centered on major municipalities, markets, and trade routes. Stabilization and subnational governance programs will focus on areas in and around the zones to protect against destabilizing forces. Water management, education, health, and governance activities will remain national in scope.[601]

As shown in Figure 3.32, the eastern zone stretches from the Torkam Gate, which provides access to Pakistan, through Jalalabad, and on toward Kabul. The northern zone continues north from Kabul toward Kunduz and

SIGAR SPECIAL PROJECT

This quarter, SIGAR's Office of Special Projects provided USAID with an analysis of the 19 contracts USAID has terminated in Afghanistan since 2008. SIGAR suggested that USAID assess its current process for terminating contracts, in order to safeguard against the reflexive use of terminations for convenience in situations where a termination for default would be warranted and typically less costly to the U.S. government. For more information, see Section 2, page 43.

FIGURE 3.32

USAID REGIONAL ECONOMIC ZONES

Source: USAID, reponse to SIGAR data call, 6/30/2014.

Balkh, through Mazar-e-Sharif, ultimately connecting with Afghanistan's northern neighbors, Tajikistan, Uzbekistan, and Turkmenistan. The western zone centers on Herat and is organized in a "hub and spoke" configuration that is favorable to cross-border trade. The southern zone connects Helmand with Kandahar, reaches into Pakistan through the Spin Boldak gate, and connects to Kabul and Herat via the ring road.[602]

These zones already contain most economic activity in Afghanistan, having a skilled workforce; access to transportation, energy, and water infrastructure; connections to domestic and international markets; agricultural and mineral resources; and entrepreneurs and financing to expand small and medium enterprises. USAID programs will leverage the potential and comparative advantages of each zone.[603]

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, the United States has been gradually increasing the amount of development assistance it

provides on-budget to the Afghan government, but in FY 2012 and FY 2013 did not reach the 50% threshold pledged at Tokyo.[604]

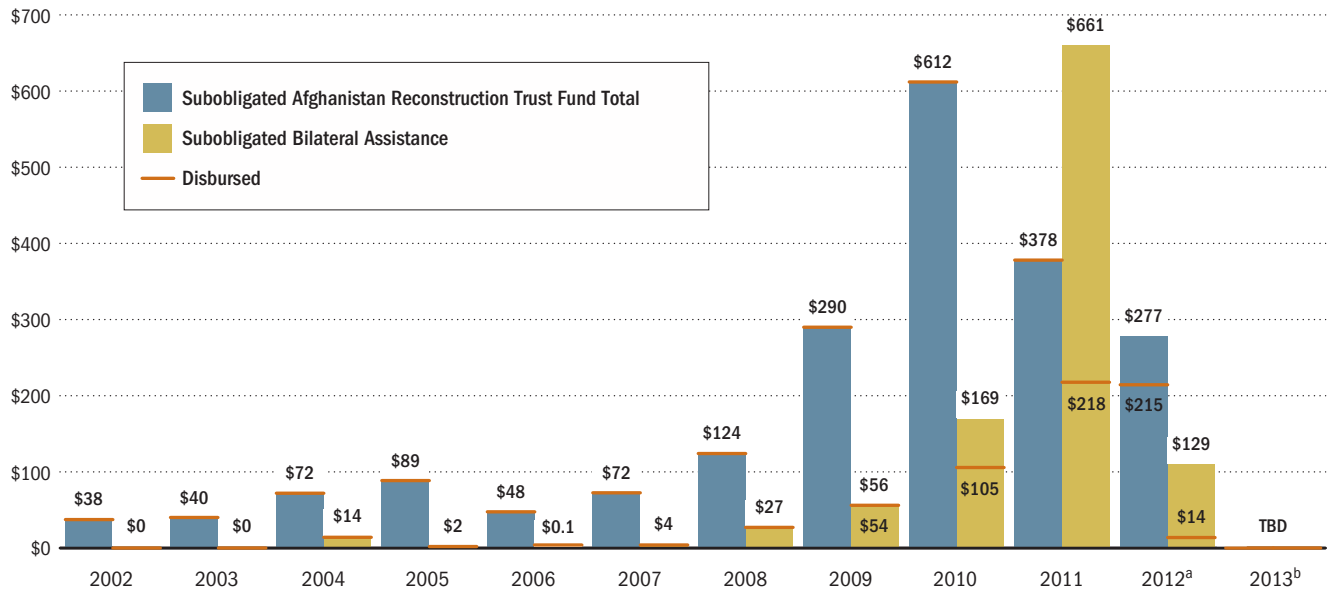
Most U.S. government agencies include as on-budget assistance both (1) direct, bilateral or government-to-government transfers, and (2) contributions to multilateral trust funds such as the Law and Order Trust Fund for Afghanistan (LOTFA), the Afghan Reconstruction Trust Fund (ARTF), and the Afghanistan 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 its control.[605]

By contrast, a large part of public expenditure in Afghanistan is off-budget, directed entirely by international donors or nongovernmental organizations, with no role for the Afghan government. See page 69 for details about all U.S. on-budget funding to Afghanistan.

This quarter, USAID obligated approximately $86 million and disbursed $279 million in on-budget assistance, including ARTF, from prior fiscal-year funds. Cumulatively, USAID has obligated $3.09 billion and disbursed $2.42 billion in on-budget assistance, as of June 30, 2014, as shown in Figure 3.33.[606]

FIGURE 3.33

USAID ON-BUDGET ASSISTANCE SUBOBLIGATED AND DISBURSED, FY 2002–FY 2013, AS OF JUNE 30, 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 June 30, 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, 7/10/2014.

DEVELOPMENT OF NATURAL RESOURCES

The United States, the Afghan government, and the international donor community count on 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.[607]

The World Bank estimates annual extractive-sector revenues could reach between $0.7 billion and $1.5 billion by 2022–2024.[608] However, the United States Institute for Peace warned that revenue projections from mineral extraction are often difficult to make with any accuracy, given commodity-price fluctuations and uncertainty whether identified resources can be fully extracted. Moreover, the government will not necessarily receive the full value of Afghanistan's mineral wealth in revenues.[609]

SIGAR has long cautioned that the Afghan government may not be able to earn substantial revenues from Afghanistan's natural resources any time soon because of the considerable infrastructure investment required to develop them, especially given the difficult security environment.

In addition, the Revenue Watch Institute gave Afghanistan a failing grade in 2013 for its minimal oversight of the mining-licensing process and of state-owned mining companies. It said lawmakers do not receive regular reports on licensing decisions, which cannot be appealed, and are denied access to certain major mining contracts deemed confidential. Allegations that members of the executive and legislative branches benefit from contracts won by relatives cannot be confirmed; Afghanistan's Audit and Control Office does not specifically review resource revenues, and the reports it does prepare are not published.[610]

An Integrity Watch Afghanistan report this quarter compared Afghanistan's governance of its mining-industry to best practices in six countries in order to help highlight Afghanistan's opportunities and challenges. It found that corruption is a major investor concern in Afghanistan, and that mining-sector transparency—in licensing process, tax and royalty data, distribution of funds, and public access to information—along with good governance were essential to sustainable development that benefits the public.[611]

New Minerals Law

The *Wolesi Jirga*—Afghanistan's lower house of parliament—passed a new minerals law on May 3, 2014, followed by the *Meshrano Jirga*—the upper house—on July 1.[612] The president has not yet signed it. The law is meant to better protect Afghan resources, encourage investors, and align regulations to international best practices. As currently written, however, the law requires mining companies to give preference to Afghan labor and

to prioritize purchasing Afghan, rather than foreign goods. These provisions do not comply with WTO rules and could deter private investment.[613] Moreover, the World Bank assessed large gaps in the quality and availability of local Afghan goods and services needed for the extractives sector.[614]

The Task Force for Business and Stability Operations (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.[615] TFBSO believes, but cannot confirm, that the lower house-passed version includes that linkage. Other investor concerns include the right to transfer licenses from one company to another if the original company is purchased—a standard practice in the mining community—and the critical ability to transfer funds in and out of the country through a functional banking system.[616]

Passing a new law is an important Tokyo Mutual Accountability Framework benchmark to improve Afghanistan's revenues and overall fiscal and external sustainability.[617] The law must still be approved by the president.[618]

Impediments to Investment

The delayed new mining law, TFBSO notes, is not the only impediment to investment in Afghanistan's extractive industries.[619]

Private mining companies are concerned about the country's lack of security. There is also a lack of available capital in the mining industry. Commodity prices, including for copper, gold, natural gas, and other fuels, are expected to be flat or declining over the next 12 months, giving investors less incentive to invest in riskier countries.[620]

A number of contracts remain unsigned this quarter, including Shaida (copper, awarded in November 2012); Badakhshan (gold, November 2012); Balkhab (copper, November 2012); and Zarkashan (gold, December 2012).[621] These are exploration contracts that were negotiated under the existing minerals law and do not contain extraction rights. TFBSO reported these contracts have twice been submitted by the Ministry of Mines and Petroleum (MOMP) for cabinet consideration, but with no action taken.[622]

There is also no reported change in contract negotiations for the Hajigak iron-ore concessions this quarter.[623] 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.[624] News reports indicate that AFISCO is considering cutting its initial investment from $11 billion to $1.5 billion, and that they are waiting for approval of the new mining law.[625]

Currently there is no work under way at the Mes Aynak copper mine in Logar Province other than continuing archeological mitigation of cultural relics in the area.[626] TFBSO suspects other factors contributing to the delay

include unwieldy contract terms, volatility in the minerals market, and China's penchant for arranging mineral projects, then "shelving" them for future use.[627] The Afghan government awarded the contract for extraction rights at Mes Aynak in 2008, but its hoped-for royalties have not yet been realized.[628] Afghanistan's FY 1393 national budget does not anticipate any revenue from Aynak; the FY 1392 budget had projected $50 million that never materialized.[629]

Illegal Mining

The majority of mines operating in Afghanistan, 1,400 by some estimates, are unlicensed and illegal.[630] The lack of proper government regulations and licensing rules is one contributing factor. Illegal mines operate with little or no regard for worker health and safety, and without proper procedures for extraction, placing workers at tremendous risk of injury or death. Workers in these mines also have limited or no recourse if injured or unpaid. Additionally, the government misses out on royalty, tax, and land-rent revenues. Often, extracted minerals are sold on the black market to insurgent groups or other buyers at much lower prices than if they were sold legally.[631]

The United Nations (UN) reported that Taliban income derived from narcotics and illegal mining allow it to resist a lasting peace settlement with the Afghan government, while denying the government much-needed revenue.[632] In Helmand, for instance, the Taliban were expected to receive $50 million from the May 2014 poppy harvest alone and $10 million annually from operating 25–30 illegal marble-mining sites in the province. In contrast, Afghanistan's official marble industry generates $15 million in annual government revenue.[633]

Combating illegal mining is difficult, given that it is often done on family or tribal land whose owners claim rights to its resources. Also, the workers employed by these mines might otherwise join the insurgency as a means of financial support. Moreover, TFBSO said the government's limited number of capable staff is not focused on small, artisanal mining operations at this time.[634]

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 and the U.S. Geological Survey. These organizations are supporting mineral and hydrocarbon tenders as well as oil-and-gas data management. This quarter, the U.S. Geological Survey continued its 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.[635]

TFBSO also continued its subject-matter-expert support to the APA—technical (oil and gas engineering), legal (contract implementation), and financial (accounting and analysis) services; classes on exploration and production-sharing contracts; and on-the-job training, as needed. On-the-job training topics include contractor communication (email and letter writing); work program and budget analysis; market research; and health, safety, and environment protection.[636]

TFBSO awarded a grant to the Missouri University of Science and Technology—partnered with the University of Nebraska, Omaha, and Turkey's Middle East Technical University—to train Kabul Polytechnic University faculty in geology and mining exploration. This grant will help Kabul Polytechnic University develop curricula and provide professional development.[637] Finally this quarter, TFBSO facilitated evaluation by Afghanistan's inter-ministerial evaluation committee for two cement tenders.[638] TFBSO obligated $10.7 million in FY 2014 for mining-sector development, as of June 30, 2014.[639] TFBSO's authority is scheduled to expire at the end of 2014.[640]

USAID is funding ongoing technical assistance to the APA with training this quarter focused on natural-gas processing and gas-utility business methodologies, and gas-well drilling operations and maintenance. These capacity-building efforts are expected to continue through March 2015.[641]

Mining Investment and Development for Afghan Sustainability

Project Title	Start Date	End Date	Total Estimated Cost ($)	Cumulative Disbursement, as of 6/30/2014
Mining Investment and Development for Afghan Sustainability	03/31/2013	03/31/2017	$41,670,943	$7,525,325

Source: USAID, response to SIGAR data call, 7/10/2014.

SIGAR AUDIT

An ongoing SIGAR audit focuses 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.

USAID's only mining program, the Mining Investment and Development for Afghan Sustainability (MIDAS), has 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.[642] As of June 30, 2014, USAID had obligated $16 million and disbursed approximately $5.72 million to begin off-budget implementation.[643]

This quarter, MIDAS held several workshops for MOMP, USAID, and U.S. Embassy Kabul officials on legal and regulatory reform. MIDAS also identified three drilling locations in northern Afghanistan that could be ready for

near-term exploration or extraction, and provided training to AGS geologists and small-to-medium enterprises.[644]

Capacity of the Ministry of Mines and Petroleum

The MOMP has capacity, monitoring, and oversight weaknesses, according to TFBSO. A small group of knowledgeable and capable, yet overworked, employees do most of the work. Although several key mid-level MOMP staff left after months of not getting paid, TFBSO believes incremental progress is still being made at the ministry.[645]

The MOMP has either taken the lead or is close to taking the lead in tender evaluation, contract negotiation, and awards. However, there is no formal capacity-building program in place other than the AGS training described on page 165. Monitoring and oversight will be crucial as mineral exploration contracts are signed; TFBSO recommended that USAID focus its MIDAS program in these areas. TFBSO views effectively managing existing tenders as more important than offering new ones.[646]

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.[647] 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.[648]

Despite 75 billion cubic meters of known natural gas reserves and an estimated 444 billion cubic meters in undiscovered but technically recoverable reserves, Afghanistan's gas sector is "mired with infrastructure and regulatory deficits," according to the ADB. The ADB said capital investments from public- and private-sector funding are needed to help Afghanistan overcome its challenges and realize its resource potential. Currently, Afghan Gas Enterprise, the national gas utility, produces approximately 380,000 cubic meters per day from four gas fields it owns and operates, nearly all of which is supplied to the Northern Fertilizer and Power Plant.[649]

Undiscovered, technically recoverable resources: model-based assessments based on geophysical, geological, technological, and economic information.

Source: U.S. Bureau of Ocean Energy Management, "Assessment of Undiscovered Technically Recoverable Oil and Gas Resources of the Nation's Outer Continental Shelf, 2011," 11/2011, accessed 7/10/2014.

Amu Darya Basin

The three blocks of the Amu Darya Basin awarded to the China National Petroleum Corporation Watan Energy Afghanistan in 2011 are estimated to contain 87 million barrels of crude oil.[650] One of the three blocks has infrastructure in place to begin producing 5,000 barrels per day. Production was stalled but restarted this quarter, averaging 35,000 barrels per month (or 1,141 per day) from March to May 2014.[651]

So far, the government has received $1.8 million in royalties from this award.[652] A $500,000 royalty payment was due the Afghan government on

May 31, 2014, but had not been paid as of July 1. The government expects about $60,000 per day from the basin at full production.[653]

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.[654] The contract area contains 28 billion cubic meters of reserves in two known gas fields and more than 50 proven and prospective subsurface structures.[655] Two international/Afghan consortiums submitted bids this quarter. The MOMP expects to announce the winning bid and sign a contract in late summer 2014.[656] TFBSO provided tender-preparation assistance to the MOMP, as well as technical, legal, commercial, and transparency advisory services.[657]

Independent Power Producer Program

Seeing a need to leverage Afghanistan's natural gas to generate domestic power, reduce power imports, and promote economic growth, TFBSO performed due diligence on several independent power producers this quarter and connected them with Afghan government officials. A U.S.-based private-investor consortium was chosen to build, own, and operate a 16 MW capacity modern natural-gas power plant adjacent to the Northern Fertilizer and Power Plant in Mazar-e-Sharif. The investors will buy approximately 110,000 cubic meters of natural gas per day from Afghan Gas Enterprise, produce electricity through high-efficiency natural gas generators, and sell the plant's full electricity production to Afghanistan's national utility company, Da Afghanistan Breshna Sherkat (DABS).[658]

TFBSO believes in-country independent producers will reduce imported power in the Mazar-e-Sharif region from $48 million to $34 million annually; that the investors will be able to sell reliable electricity to DABS at prices competitive with imports; that reliable power will promote industrial development; and that the additional domestic power can increase Afghanistan's GDP by an estimated $140 million annually.[659]

Sheberghan Program

Gas reserves in northern Afghanistan are estimated to be capable of generating up to 10,000 MW hours per year for 25 years, according to USAID. A study will be completed later this year.[660] Sheberghan holds the potential for cheap natural gas and could be competitive with imported power from Uzbekistan, according to the World Bank.[661] Both USAID and TFBSO have active programs in the area.[662]

USAID is supporting the Sheberghan project to help Afghanistan identify and manage gas resources to be used for power generation through two mechanisms: the $90 million, on-budget Sheberghan Gas Development Project (SGDP), and the $35 million, off-budget Sheberghan Gas Generation Activity (SGGA).[663] USAID will pay $30 million on budget through SGDP to rehabilitate two wells and drill one well in the Juma and Bashikurd field in

the Amu Darya Basin. An additional $7 million will come from Afghanistan's national budget.[664] Drilling is scheduled for July/August 2014.[665] If the gas wells have sufficient capacity to fuel a 200 MW gas 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.[666]

The off-budget SGGA component will 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.[667] As of June 30, 2014, approximately $23 million has been obligated, of which more than $14.8 million was disbursed.[668]

TFBSO is helping Afghan Gas Enterprise rehabilitate the existing 55.4 mile Sheberghan to Mazar-e-Sharif pipeline, and improve the pipeline's capacity as well as the quality of the gas flowing through it. The pipeline currently transports 380 million cubic meters of natural gas per day and is expected to increase to 680–960 million cubic meters per day upon project completion.[669]

Compressed Natural Gas

TFBSO is helping Afghanistan develop a compressed natural-gas (CNG) industry. It constructed a CNG station in Sheberghan (CNG #1), which was awarded to a private operator: Qashqari Oil and Gas Services began operating CNG #1 independently on May 12, 2014. Qashqari also won the right of first refusal for a CNG station in Mazar-e-Sharif (CNG #2), which TFBSO is now developing.[670]

AGRICULTURE

Agriculture continues to be the main source of employment and subsistence for the Afghan population. Only 12% of the land is arable and cultivated areas are substantially less, 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.[671] Given its importance, agriculture could be a catalyst for GDP growth, improved food security, and more stable employment opportunities.[672]

Between FY 2002 and FY 2012, USAID provided approximately $2.46 billion for agricultural and alternative development funding to improve production, increase access to markets, and provide alternatives to poppy cultivation.[673] Of that, USAID has obligated and disbursed $54 million in direct assistance to build capacity at the Ministry of Agriculture, Irrigation, and Livestock (MAIL).[674]

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

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

Alternative Development Programs

USAID's Alternative Development (AD) programs aim to promote licit crop production where poppy has been or is currently cultivated. However, AD efforts are not sufficient to reduce poppy cultivation directly because that would require improved security and the Afghan government's commitment to eradicate poppy, especially in areas where viable economic alternatives exist. Therefore, USAID said AD projects do not directly measure changes in poppy-cultivation levels.[675]

AD programs measure indicators such as the percentage increase in household income from licit agriculture in targeted areas; the number of households benefited by alternative development interventions in targeted areas; and the number of farmers growing high-value crops as a result of U.S. assistance. The Kandahar Food Zone (KFZ) does not receive AD funding and uses indicators of reduced poppy cultivation in its targeted areas to measure progress.[676]

USAID's AD assistance is not conditioned on community or household commitments to abstain from poppy cultivation. USAID assumes that once alternative high-value and economically competitive licit crops produce income, rural households would be more willing to stop poppy production.[677] USAID said AD interventions and poppy cultivation are not necessarily exclusive. For example, farmers can grow high-value vegetables in the summer and poppy in the winter. Furthermore, converting land used for poppy to less labor-intensive crops such as wheat has had the unintended consequence of displacing sharecroppers and landless laborers, some of whom have migrated to areas outside of government control to continue growing poppy.[678]

Five Active Projects Receive Alternative Development Funding

1. Regional Agricultural Development Program-South (RADP-S)
2. Regional Agricultural Development Program-West (RADP-W)
3. Regional Agricultural Development Program-North (RADP-N)
4. Incentives Driving Economic Alternatives-North, East, and West (IDEA-NEW)
5. Commercial Horticulture and Agricultural Marketing Program (CHAMP)

Regional Alternative Development Programs aim to accelerate regional economic growth and provide alternative income sources for those who currently depend on illicit activities. Program activities include cash-for-work programs, developing livestock and horticulture, supporting business development, and improving infrastructure.

Sources: USAID, response to SIGAR data call, 6/30/2014; USAID, Alternative Development Programs/Northern Region, 8/22/2013; USAID, Alternative Development Programs/Southern Region, 8/22/2013.

Agricultural Credit Enhancement and Agricultural Development Fund

Project Title	Start Date	End Date	Total Estimated Cost ($)	Cumulative Disbursement, as of 6/30/2014
Agricultural Credit Enhancement	7/15/2010	1/15/2015	$75,175,296	$67,656,768
Agriculture Development Fund	7/18/2010	12/31/2014	$74,407,662	$54,000,000

Source: USAID, response to SIGAR data call, 7/10/2014.

The Agricultural Development Fund (ADF) and Agricultural Credit Enhancement (ACE) are two complementary activities that aim to support MAIL's efforts to provide credit and build ADF staff capacity to manage a credit program. ADF was established to provide loans across the agricultural value chain through banks, farm stores, leasing companies, and food processors. Much of this credit is then extended to farmers. ACE is a technical-assistance component that manages all ADF lending activities and helps build MAIL capacity.[679]

As of April 30, 2014, ADF's loan portfolio was $91.8 million, and loans disbursed were $44.5 million, with $24.5 million repaid. Another 21 loans are in the pipeline. According to USAID, the 4.65% of its portfolio was at risk, which is within the standard acceptable rate in developed countries. ADF has provided direct loans to 23,068 farmer households through farmer associations and networks.[680]

Incentives Driving Economic Alternatives-North, East, and West

Project Title	Start Date	End Date	Total Estimated Cost ($)	Cumulative Disbursement, as of 6/30/2014
Incentives Driving Economic Alternatives-North, East, and West	3/2/2009	2/28/2015	$159,878,589	$143,385,995

Source: USAID, response to SIGAR data call, 7/10/2014.

Incentives Driving Economic Alternatives-North, East, and West (IDEA-NEW) is a cooperative-agreement project that provides agricultural assistance to farmers and agribusinesses in eastern, northern and western provinces. IDEA-NEW promotes high-value, legal agricultural production that can serve as an alternative to poppy cultivation 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.[681]

Commercial Horticulture and Agricultural Marketing Program

Project Title	Start Date	End Date	Total Estimated Cost ($)	Cumulative Disbursement, as of 6/30/2014
Commercial Horticulture and Agricultural Marketing Program	2/1/2010	12/30/2014	$40,320,241	$36,489,341

Source: USAID, response to SIGAR data call, 7/10/2014.

The Commercial Horticulture and Agricultural Marketing Program (CHAMP) aims to displace poppy cultivation by helping farmers plant and operate more profitable orchards and vineyards, and 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.[683]

Under the program's Cooperative Agreement, extended until December 2014, CHAMP has shifted to a value-chain approach that emphasizes post-harvest handling and market activities. CHAMP carries out activities throughout five main value chains (grapes, almonds, pomegranates, apricots, and apples) and one subvalue chain (melons).[684]

Kandahar Food Zone

Project Title	Start Date	End Date	Total Estimated Cost ($)	Cumulative Disbursement, as of 6/30/2014
Kandahar Food Zone	7/31/2013	7/30/2015	$18,695,804	$3,876,000

Source: USAID, response to SIGAR data call, 7/10/2014.

Although the Kandahar Food Zone (KFZ) program is one year into implementation with only one year to go, less than 21% of committed funds have been disbursed, raising questions about the program's implementation.[682]

The Kandahar Food Zone (KFZ) program is designed to identify and address the drivers of poppy cultivation in seven targeted districts, which represent 89% of total poppy cultivation.[685] KFZ 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.[686]

USAID reported that the KFZ office in Kandahar was closed from February 27 to March 19, 2014, because the Afghan Public Protection Force (APPF) had not fulfilled its contractual obligations to provide uniforms and weapons to its guards, forcing the Kandahar office staff to work from home.[687] As noted in the Security section of this report, the APPF is currently in a state of transition; it is uncertain who will be providing these types of security services in the future. For more information, see Security, page 90.

In this reporting period, the Kandahar provincial governor approved concept notes for 13 projects: two dams and 11 irrigation canals. By the end of May 2014, the provincial governor had approved only one of 29 alternative-development concept notes. These projects are expected to address the lack of irrigation water, which has been identified as one of the root causes of farmers' turning to poppy cultivation.[688]

Other Active USAID Agriculture Programs

Project Title	Start Date	End Date	Total Estimated Cost ($)	Cumulative Disbursement, as of 6/30/2014
Famine Early Warning System Network (FEWSNET) Phase III	12/29/2011	12/28/2016	$4,375,792	$2,420,553

Continued on the next page

Project Title	Start Date	End Date	Total Estimated Cost ($)	Cumulative Disbursement, as of 6/30/2014
Strengthening Afghanistan Agricultural Faculties (SAAF)	3/25/2011	12/31/2016	$7,824,209	$5,561,658
Afghan Agricultural Research and Extension Development (AGRED)	7/17/2012	7/16/2017	23,638,611	5,383,925
Improving Livelihoods and Governance Through Natural Resource Management	4/10/2010	12/31/2014	14,000,000	12,023,167
IWMP-Irrigation and Watershed Management Program	12/21/2012	12/19/2017	129,963,114	13,475,767
Regional Agriculture Development Program (RADP)-South	10/7/2013	10/6/2018	125,075,172	5,238,808
Regional Agriculture Development Program (RADP)-North	5/21/2014	5/20/2019	78,429,714	0

Source: USAID, response to SIGAR data call, 7/10/2014.

SIGAR SPECIAL PROJECT

This quarter, SIGAR's Office of Special Projects wrote to the U.S. Department of Agriculture (USDA) about its review of USDA's $34.4 million Soybeans for Agricultural Renewal in Afghanistan Initiative (SARAI). USDA had confirmed that soybean production in Afghanistan has not met expectations and there are doubts about the long-term sustainability of a soybean-processing factory built as part of the project. SIGAR suggested that prior to any further investment in SARAI, USDA implement a thorough and comprehensive evaluation of the project's future sustainability, including a review of existing research on the economic viability of growing and marketing soybeans in Afghanistan. For more information, see Section 2, page 42.

ESSENTIAL SERVICES AND DEVELOPMENT

Since 2002, the United States has provided reconstruction funds to increase electric supply and access, electricity, build roads and bridges, and improve health and education in Afghanistan. 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

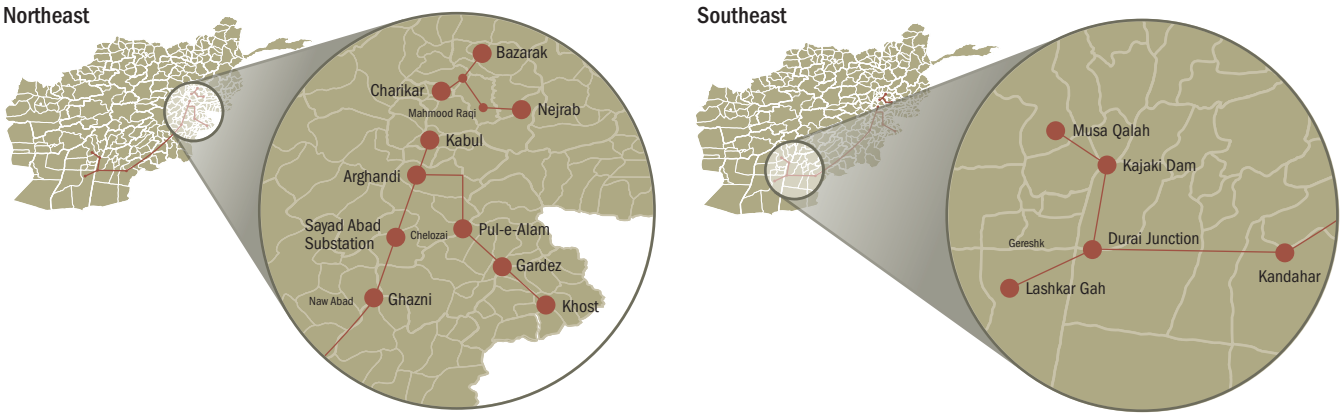
Afghanistan imports approximately 73% of its total power supply. Electricity imports are expected to rise in the near term, according to a recent World Bank report, which also noted that limited access to electricity is one of Afghanistan's biggest constraints to private-sector development.[689] It has one of the lowest rates of electrification in the world, with only 25% of Afghans connected to the power grid. Of those who are connected, an estimated 75% live in urban areas.[690]

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.[691] From FY 2002 to FY 2012, the United States spent more than $2 billion on Afghanistan's power sector.[692]

From 2002 through 2012, USAID alone provided more than $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 $814 million more over the next few years using FY 2010–2013 funds.[693] In

FIGURE 3.34

Overview of the Northeast and Southeast Power Systems



Note: Locations and routes are approximate.

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

NEPS: imports 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 to provide power in the Helmand and Kandahar areas.

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

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.[694]

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 3.34. USAID has three projects to connect and increase the electricity supply in both systems—Sheberghan (discussed on page 168); 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.[695]

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 from Kajaki Dam, and reduce losses while strengthening the SEPS transmission and distribution system.[696] USAID has transferred responsibility for installing a third turbine at Kajaki to Da

Afghanistan Breshna Sherkat (DABS), Afghanistan's national utility. USAID also turned over the remaining components, two substations and two diesel generation plants, to DABS.[697] DOD is using the AIF to fund fuel for the U.S. Army Corps of Engineers-installed diesel generators in Kandahar City.[698]

This quarter, fighting in southern Afghanistan reportedly led to long power outages in Helmand and Kandahar. Power cables from Kajaki Dam to Lashkar Gah and to Kandahar City were damaged.[699] While attempting to repair the broken transmission lines, the deputy head of the Sangin district power department was killed.[700]

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.[701] Toward that end, PTEC's commercialization and capacity-building components aim to reduce technical and commercial losses.[702] DABS is responsible for procuring all PTEC contracts with significant support from USAID.[703]

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 funded through the ADB-administered Afghanistan Infrastructure Trust Fund (AITF), which funds projects on-budget through DABS or other Afghan government ministries.[704] As of June 30, 2014, USAID has obligated $180.3 million to AITF and disbursed $105 million.[705]

A USAID audit published this quarter found that the $307 million, 105 MW-capable, USAID-funded Tarakhil Power Plant was not being operated and maintained in a sustainable manner by DABS. The plant was still dependent on external technical assistance even though it was turned over to DABS in June 2010. It was not being used regularly—operating only at 2.2% of its capacity—and thus not increasing Kabul's power supply. Additionally, the plant did not track inventory, DABS did not provide adequate management support, and DABS had not developed a proper operating budget for the plant. USAID has since begun building the capacity of DABS Tarakhil Power Plant staff under a project called DABS PTEC Commercialization Part 2 Contract for Power Generation.

Several SIGAR audits have questioned U.S. sustainment plans for U.S.-funded energy projects, which rely on DABS and the Afghan government assuming responsibility for the projects. SIGAR pointed out that these Afghan government entities have questionable capacity and lack the resources—financial and otherwise—necessary to fulfill its commitments. In January 2010, SIGAR said the long-term sustainability of the Kabul Power Plant—also known as the Tarakhil Power Plant—depends, in part, on the Afghan government's ability to fund the required fuel purchases and operations and maintenance costs. At that time, SIGAR predicted Afghanistan would need assistance for fuel purchases and warned that if DABS commercialization efforts falter, the United States may face the difficult decision of whether to continue funding Kabul Power Plant operations or allowing it to fall into disuse.

Sources: USAID, Review of Sustainability of Operations at Afghanistan's Tarakhil Power Plant (Report No. F-306-14-002-S), 6/19/2014; SIGAR, Audit Report 12-12, *Fiscal Year 2011 Afghanistan Infrastructure Fund Projects Are Behind Schedule and Lack Adequate Sustainment Plans*, 7/2012; SIGAR, Audit Report 10-4, *Afghanistan Energy Supply Has Increased But An Updated Master Plan Is Needed And Delays And Sustainability Concerns Remain, 1/15/2010;* SIGAR, Audit Report 12-12, *Contract Delays Led To Cost Overruns For The Kabul Power Plant And Sustainability Remains A Key Challenge*, 1/20/2010.

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. Completion of the NEPS-SEPS connector is expected in the 2017/2018 timeframe.[706]

DOD-Funded Programs

Congress cut the President's FY 2014 budget request for AIF to complete DOD's portion of the NEPS and SEPS from $279 million to $199 million. Congress also mandated that no more than 50% of FY 2014 AIF funds can be used until 15 days after the Secretary of Defense certifies that the United States has signed a Bilateral Security Agreement with Afghanistan that is in the U.S. national-security interest. Furthermore, FY 2014 AIF funds cannot be used to plan, develop, or construct any project for which construction did not start before the legislation's enactment (January 17, 2014).

Sources: National Defense Authorization Act for Fiscal Year 2014, Sec.1224, pp. 253-254; Consolidated Appropriations Act, 2014, Sec. 9016, p. 344; Library of Congress, Bill Summary & Status, 113th Congress, H.R. 3547, Major Congressional Actions; DOD, response to SIGAR data call, 4/3/2014.

This quarter, DOD continued implementing several priority energy-sector projects using FY 2012 and FY 2013 AIF money. On June 20, 2014, the U.S. Army Corps of Engineers (USACE) issued a request for proposals to design and construct SEPS transmission lines from the Tangi substation near Kajaki Dam to the Lashkar Gah diesel power plant. This project aims to provide a reliable source of electricity to unserved populations, underpin the national grid, and allow for the grid's expansion.[707] Phase I proposals were due July 21, 2014.[708]

AIF projects are supposed to contribute to counterinsurgency strategy and development. AIF notifications to Congress describe these contributions in detail. The most recent notification was dated August 2013.[709] However, DOD has located no studies that explore the relationship between electrical power and reduced violence in Afghanistan. Moreover, DOD explained that because AIF-funded projects are still under construction, their long-term counterinsurgency and economic development benefits "cannot be assessed at this time."[710]

Ongoing AIF projects include:[711]

- 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.[712] The generators at Shorandam Industrial Park and Bagh-e-Pol have a combined average output of 8–13 MW, and were transferred to DABS in December 2013, along with six months of spare parts and consumables. DOD technical assistance to DABS will continue throughout 2014.[713] DOD plans to provide fuel through September 2015 at a declining subsidy each month.[714]

DABS officials told SIGAR that if DOD had stopped providing fuel at the end of 2014 as previously planned, DABS might not have the money to keep the generators fueled. The officials also cautioned that it appears unlikely that DABS will have sufficient alternative energy sources to offset

lost diesel power. Since Kajaki Dam's third turbine and the NEPS–SEPS Connector projects will take time to complete, it is possible that thousands of Kandahar homes and businesses will not have access to electricity in early 2015.[715]

DOD 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.[716] Additional measures to integrate the power grid in the area—the Kandahar Power Management project—were set aside after Congress reduced FY 2014 AIF appropriations.[717]

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. Completion of this project is essential to distribute power generated by the third turbine awaiting installation at Kajaki Dam, according to DOD.[718]

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 an August 2013 DOD notification to Congress. Annual estimated O&M costs for the transmission lines and substations are $580,000.[719]

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.[720] However, SIGAR has raised questions about DABS' capacity and said Afghanistan lacks the resources necessary to pay for O&M.[721]

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

SIGAR SPECIAL PROJECT

This quarter, SIGAR's Office of Special Projects wrote to DOD about the U.S. government's plan to provide electrical power in Kandahar after December 2014, including any interim bridging solutions, the timelines for completing NEPS and SEPS, updates on Kajaki Dam power generation, and DABS's financial ability to sustain the two diesel generators in Kandahar after DOD subsidies end.

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.[722]

Other components of the project are designed to help integrate SEPS projects into a single, interconnected system. 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.[723] As noted above, SIGAR audits have raised concerns about DABS's capacity and resources to undertake O&M.

PRIVATE-SECTOR DEVELOPMENT

Despite the uncertainty surrounding Afghanistan's security and political transitions in 2014, private-sector investment has not ceased and according to USAID, the government has the political will to continue promoting private-sector development.[724] 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.[725] One of USAID's major ongoing economic-growth projects, 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 6/30/2014
Assistance in Building Afghanistan by Developing Enterprises	10/16/2012	10/16/2016	$104,997,656	$20,479,012

Source: USAID, response to SIGAR data call, 7/10/2014.

USAID's 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 (PPAs). It does so through three components: implementing approved public-private alliances; identifying, selecting, and supporting the alliances; and working with the Afghan government to improve the environment for business.[726]

USAID reported that ABADE has struggled to reach its target number of PPAs; only 13 of 90 targeted PPAs were finalized in the program's first year. After meeting in April 2014, USAID and ABADE set a new short-term target: 100 PPAs to be in place by July 1. As of July 1, 2014, a total of 101 PPAs were submitted to USAID, of which 51 were approved with an additional 50 awaiting USAID action. USAID is reevaluating the overall program targets

given its start-up challenges, including hiring staff, setting up offices, advertising, and lengthy partner-vetting processes.[727]

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.[728] Afghanistan's infrastructure shortcomings particularly constrain the service and agriculture sectors, currently the leading contributors to GDP.[729] They also hold back the mining industry, whose future revenues the Afghan government and international donor community are counting on to offset declining aid.[730] This quarter, the United States continued its efforts to assist Afghanistan in developing ministry capacity, sustaining operations and maintenance, and complying with international standards.[731]

Roads

While the United States has provided $2.2 billion cumulatively for road construction and O&M and currently spends about $5 million annually for O&M efforts, the World Bank said 85% of Afghan roads are in poor shape and a majority cannot be used by motor vehicles.[732] 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).[733] Moreover, the lack of a functioning roads authority has significantly affected road infrastructure across Afghanistan.[734] Although the Cabinet and the President gave approval in August 2013 for the Ministry of Public Works (MOPW) to create a roads authority and road fund, the authority has not yet been established.[735]

Road Sector Sustainability

Project Title	Start Date	End Date	Total Estimated Cost ($)	Cumulative Disbursement, as of 6/30/2014
Road Sector Sustainability	8/1/2014	8/1/2019	$111,000,000	$0

Source: USAID, response to SIGAR data call, 7/14/2014.

USAID's Road Sector Sustainability (RSS) project has four main activities:[736]

- Activity 1: Emergency O&M ($5 million). Contracts are now expected to be awarded in August instead of April 2014 due to delays in the procurement process.[737]
- 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). A contract is now expected to be awarded in August instead of April 2014.[738]

SIGAR SPECIAL PROJECT

This quarter, SIGAR's Office of Special Projects wrote to USAID and DOD about over a billion dollars they have invested in road projects. SIGAR said it was concerned that roads, built at great risk and expense by the United States and other donors, are not and will not be properly maintained and that roads are still being built in Afghanistan despite the apparent shortage of effective maintenance plans or capacity. For more information, see Section 2, pages 46 and 48.

- Activity 3: Capacity Building for the MOPW ($38 million). The Statement of Work is being developed based on a needs assessment that is under way. A contract is expected to be awarded in mid-2015.[739]
- Activity 4: Road O&M Activity. ($33 million) USAID funding, proposed for January 2015, will go through the AITF once the ADB develops an operations-and-maintenance incentive window.[740]

Gardez-Khowst Highway Rehabilitation Phase IV

Project Title	Start Date	End Date	Total Estimated Cost ($)	Cumulative Disbursement, as of 6/30/2014
Gardez-Khowst Road	7/10/2014	12/30/2015	$32,760,000	$0

Source: USAID, response to SIGAR vetting 7/14/2014.

Phase IV rehabilitation of the 63-mile Gardez-Khowst highway will construct the remaining 15.5 miles, including two major bridges and several retaining walls, culverts, and drainage systems. This all-weather, asphalt-paved highway gives Khowst and Paktiya Provinces access to major trading routes to Pakistan, to Kabul, and to the Ring Road connecting Kabul, Kandahar, and Herat.[741]

EDUCATION

The United States aims to improve Afghan access to quality education by promoting capacity building, responding to urgent needs for learning materials, schools, and teacher development, as well as increasing opportunities in adult literacy, employment skills, and youth development.[742]

SIGAR is concerned about the accuracy of the data provided on Afghanistan's educational system. According to the most recent data available from the Ministry of Education's (MOE) Education Management Information System (EMIS), Afghanistan had a total of 14,166 primary, lower-secondary, and upper-secondary schools in FY 1391 (March 21, 2012–December 20, 2012).[743]

This quarter, USAID provided two inconsistent sets of MOE data for the number of students enrolled in 1391. Data generated from EMIS shows approximately 7.62 million students were enrolled in primary, lower-secondary, and upper-secondary schools in FY 1391. Of the enrolled students, 6.26 million were categorized as present, while 1.36 million students were considered absent.[744] Another unspecified MOE source showed higher enrollment numbers—7.78 million students (an additional 160,000 students over EMIS data) enrolled in primary, lower-secondary, and upper-secondary schools in FY 1391, with 6.86 million students present and approximately 922,000 students absent.[745] USAID also provided a third MOE source containing Afghanistan's total enrollment in general education for FY 1392—8.2 million students enrolled. This number was not broken down

SIGAR AUDIT

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

Enrolled: total number of new students enrolled in an academic year

Present: total number of students attending in an academic year

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

into the numbers of students present and absent.[746] The number of days of attendance required for a student to be counted as "present" for the entire year was not known as this report went to press.

According to USAID, the MOE includes absent students in the enrollment total until three years have elapsed, because absent students are considered to have the potential to return to school. However, a MOE Education Joint Sector Review from September 2013 recommended the MOE revise its regulations and no longer consider permanently absent students to be counted as enrolled.[747]

In order to assess student learning achievement, this quarter USAID continued to design an early-grade program with assessments of student performance in reading and math. USAID is also contributing to the multi-donor supported Education for Quality Improvement Program II, through which the MOE is implementing a national teacher-credentialing system to set minimum performance standards for teachers. No data on student reading and math proficiency or teacher proficiency currently exists.[748]

USAID's ongoing priority education programs funded through the ESF this quarter include:

- Basic Education, Literacy, and Technical-Vocational Education and Training (BELT)
- American University of Afghanistan (AUAF)
- Afghanistan University Support and Workforce Development Program (USWFD)

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

Project Title	Start Date	End Date	Total Estimated Cost ($)	Cumulative Disbursement, as of 6/30/2014
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, 7/10/2014;USAID, response to SIGAR vetting 4/14/2014.

BELT aims to improve access to basic education in communities typically beyond the government's reach. BELT has four components: capacity-building for the MOE, teacher training, procurement of textbooks for grades 1–6, and community-based education.[749]

BELT Community-Based Education (CBE) provides accelerated and remedial education, allowing students to attend schools in remote locations.[750] This quarter, USAID and the MOE agreed on a rationale for

SIGAR'S CONCERNS

The number of students attending school in Afghanistan is often cited as evidence of Afghanistan's progress in education. For example, in a *Washington Post* op-ed published on May 30, 2014, Dr. Rajiv Shah, the Administrator of USAID wrote, "Education is another bright spot [in Afghanistan.] Three million girls and 5 million boys are enrolled in school."

However, the reliability of EMIS—the only database at the MOE tracking education metrics—cannot be confirmed. Data is not available on time, and indicators such as net enrollment ratios, repetition rate, and dropout rate are unavailable. Insecurity limits visits to schools. In the most recent EMIS Statistical Analytical Report from FY 1390, the MOE admitted that only 1,000 schools (7% of all general education schools) were visited for data verification in FY 1390. Additionally, schools may be tempted to inflate their attendance figures because access to funding (such as EQUIP II School Grants) can be linked to enrollment levels.

This quarter, SIGAR learned that USAID's definitions of enrollment used in EMIS last quarter were double-counting the number of students enrolled in Afghanistan. The previous definition of total enrollment added three figures: enrolled, present, and absent students. However, as USAID clarified this quarter, the number of enrolled students is actually the sum of present and absent students. Thus, the total enrollment figures reported last quarter counted each student twice.

Sources: *Washington Post*, "Rajiv Shah: How to Keep Afghanistan on the Right Track," 5/30/2014; MOE, Education Joint Sector Review 2012, 9/2013; USAID, response to SIGAR data call, 3/31/2014 and 6/30/2014; MOE, *1390 EMIS Statistical Analytical Report*, 2012; World Bank, *Project Paper for a Proposed Grant in the amount of SDR 18.9 million to the Islamic Republic of Afghanistan for the Second Education Quality Improvement Project*, 1/4/2008; USAID, response to SIGAR vetting, 4/12/2014 and 7/9/2014.

Global Partnership for Education. Mosque Based Education Center, Pashtha Ghla village, Shahruk district, Ghor Province, January 2014. (UNICEF photo)

provincial allocations of CBE classes, allowing the MOE to begin finalizing the CBE annual work plan. The MOE also started delivering textbooks to provinces in the central region of Afghanistan.[751] However, textbook delivery does not necessarily lead to learning. Field-visit reports in 2012 indicated textbooks are sometimes stocked in district offices and not distributed to schools due to lack of funds.[752] Next quarter's nationwide textbook distribution will be audited.[753]

BELT also continues to face delayed payments from USAID for textbooks due to improper deduction of taxes on U.S. assistance by the MOF. This quarter, the MOF Budget Committee officially ruled that taxes withheld on textbook contract payments would be returned to the BELT special account; returned funds are still pending. USAID also faces challenges with the MOE's ability to implement on-budget activities in a timely fashion.[754]

American University of Afghanistan

Project Title	Start Date	End Date	Total Estimated Cost ($)	Cumulative Disbursement, as of 6/30/2014
American University of Afghanistan PDI	8/1/2013	7/31/2018	$40,000,000	$6,447,328

Source: USAID, response to SIGAR data call, 7/10/2014.

USAID's second, five-year cooperative agreement continues support for the American University of Afghanistan's English-language undergraduate and continuing-education programs. The agreement aims to strengthen academic- and professional-development programs, expand programs for women, and increase financial self-sufficiency.[755]

Afghanistan University Support and Workforce Development Program

Project Title	Start Date	End Date	Total Estimated Cost ($)	Cumulative Disbursement, as of 6/30/2014
Afghanistan University Support and Workforce Development	1/1/2014	12/31/2018	$91,927,769	$2,330,336

Source: USAID, response to SIGAR data call, 7/10/2014.

The Afghanistan University Support and Workforce Development program (USWFD) aims to improve the management capacity of the Ministry of Higher Education and 10 public universities by training officials, funding scholarships, and facilitating partnerships between U.S. and host country universities.[756]

USAID said that USWFD faces implementation challenges such as a lack of leadership skills among senior faculty, outdated curriculums, and inadequate facilities. Additionally, the Universities Financial Autonomy Law,

which would allow universities to assess student and business fees for services, is still stalled in the lower house of parliament.[757] Insecurity and the elections have hindered recruitment, and inadequate staffing resources may be a problem as implementation moves forward.[758] A performance evaluation is planned for the second year of the project.[759]

Other Active USAID Education Programs

Project Title	Start Date	End Date	Total Estimated Cost ($)	Cumulative Disbursements as of 6/30/2014
Global Partnership for Education	10/11/2012	3/31/2015	$2,500,000	$495,655
Afghanistan Reads	6/1/2013	5/31/2014	380,000	380,000
Afghanistan Technical Vocational Institute	6/15/2013	6/14/2015	1,000,000	475,000
Strengthening Education in Afghanistan (SEA)	8/8/2010	6/30/2014	10,225,847	10,205,932
Strengthening Education in Afghanistan (SEA II)	5/19/2014	5/18/2019	29,835,920	3,265
Afghan Tuition Scholarship Program	8/21/2011	7/31/2017	7,384,665	5,770,465

Source: USAID, response to SIGAR data call, 7/10/2014.

HEALTH

U.S. assistance to the Ministry of Public Health (MOPH) includes capacity-building, training, and quality-assurance activities at central and subnational levels, particularly in provinces to the south and east, where services are largely lacking.[760]

The Agency Coordinating Body for Afghan Relief & Development—an advocacy organization comprising 128 national and international NGOs working in Afghanistan—recently issued a report on how the security transition in 2014 has burdened health-care delivery. While civilian and military casualties rise, Afghan troops are increasingly depending on ground evacuation for their injured and often must make use of civilian instead of military health services. Additionally, the United Nations Mission in Afghanistan documented 32 attacks against health-care facilities and personnel in 2013, compared to 20 attacks in 2012. The majority of incidents involved threats, intimidation, and harassment, followed by abductions and targeted killings of medical personnel.[761]

USAID Mortality Survey Findings

One oft-cited indicator of USAID success comes from the USAID-funded Afghanistan Mortality Survey in 2010, which found that life expectancy in Afghanistan has increased by as much as 20 years to an average of 62–64 years since 2002.[762] However, other institutions suggest that gains are more modest, with models indicating only an increase of two or three years in life

SIGAR'S CONCERNS

USAID's Afghanistan Mortality Survey (AMS) results are frequently used as evidence that U.S. intervention efforts have contributed to remarkable improvements in Afghanistan's health system. In a *Washington Post* op-ed published on May 30, 2014, Dr. Rajiv Shah, the Administrator of USAID, cited Afghanistan's "largest increase in life expectancy" to highlight Afghanistan's progress in health.

However, there is an enormous gap between USAID estimates and the estimates of other institutions. Table 3.26 on the following page compares AMS results to life-expectancy models of other institutions. Most institutions estimate a two- to five-year increase in life expectancy over six years, while the mortality survey finds a 20-year increase for the same time period.

Reasons why USAID's estimates differ from those of other institutions could include factors such as AMS inability to survey completely in insecure southern provinces, and Afghan cultural reluctance to speak about female and infant mortality with strangers.

Sources: *Washington Post*, "Rajiv Shah: How to keep Afghanistan on the right track," 5/30/2014; USAID, *Afghan Mortality Survey 2010*, 11/2011.

TABLE 3.26

USAID LIFE EXPECTANCY FINDINGS COMPARED TO OTHER LIFE EXPECTANCY MODELS (YEARS)

	USAID (Afghanistan Mortality Survey)	CIA World Factbook	World Bank (World Development Indicators)	UN Population Division (World Population Prospects)	U.S. Census Bureau (International Database)	World Health Organization (Global Health Observatory)
Estimated Life Expectancy Increase from 2004–2010 (6 years)	20	2.2	3.0	2.6	2	5
Estimated Life Expectancy Increase from 1990–2010 (20 years)	--	Data not available	11.0	12.0	7	11
Estimated Life Expectancy in 2010	62	44.7	59.6	58.4	49	60
Estimated Life Expectancy in 2004	42	42.5	56.6	55.8	47	55
Estimated Life Expectancy in 1990	--	Data not available	48.6	46.4	42	49

Notes: Numbers have been rounded. Data as of 6/17/2014. WHO calculations based on data available from the years 1990, 2000, and 2012.

Sources: CIA, "World Factbook: Afghanistan," accessed 6/17/2014; World Bank, World Development Indicators, accessed 6/17/2014; UN Population Division, World Population Prospects, accessed 6/17/2014; U.S. Census Bureau, International Data Base, accessed 6/17/2014; World Health Organization, Global Health Observatory, accessed 6/17/2014; USAID, "Health Programs, Health Snapshot," accessed 7/6/2013; USAID, *Afghanistan Mortality Survey 2010*, Key Findings, 12/2011.

expectancy from 2004 to 2010. Institutions that also find Afghan life expectancy may have increased to 60 years in 2010, but all calculate from higher base life expectancies. For example, the World Bank, which calculates life expectancy in 2010 at 59.6, starts from a base of 56.6 in 2004—a three-year gain. Moreover, in 1990, the World Bank determined life expectancy at 48.6 years, showing that they measure life expectancy in Afghanistan growing five to six years every decade, regardless of U.S. intervention efforts.[763]

USAID Funding

From FY 2002 through FY 2013, U.S. on- and off-budget assistance to Afghanistan's health sector totaled $1.2 billion.[764] From FY 2014 through FY 2018, USAID assistance will total $477 million.[765] On-budget assistance to the MOPH includes salary payments to workers in U.S.-funded facilities, supplies and equipment, in-service training, minor renovations of facilities, and monitoring and supervision. Off-budget assistance includes activities to strengthen health systems, engage the private sector, and procure pharmaceuticals and contraceptives.[766]

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. Both NGOs and GCMU staff conduct routine monitoring of health facilities and document the number of patients who have received key services, and the type and quality of health services provided.[767]

USAID also relies on the MOPH's Health Management Information System (HMIS) for Afghan health data. The USAID Leadership, Management, and Governance (LMG) project is assisting the MOPH to improve data quality and reporting. LMG supported the development of data quality assessment (DQA) tools, which compare monthly reported data with registers of the health facilities of the same month, measure health workers' knowledge of HMIS definitions, and evaluate data utilization. The DQA was conducted in 416 randomly selected health facilities from July to December 2013, and its results were shared with NGOs. The DQA assessment will be conducted on a routine basis.[768] For more information about the LMG program, see page 187.

Polio

Afghanistan is one of three countries—along with Pakistan and Nigeria—where polio is still endemic.[769] As of July 2, 2014, seven polio cases have been confirmed in Afghanistan in 2014, down from 14 cases in 2013, 37 in 2012, and 80 in 2011.[770] USAID said polio immunization rates have remained low as a result of increasing insecurity.[771] This quarter, the MOPH launched the second round of its annual spring anti-polio vaccination campaign in the southern, southeastern, and eastern regions, excluding Helmand Province, which has been inaccessible since February 2014.[772] Approximately 8.9 million children ages five years or younger were targeted for vaccination, while about 8 million children between the ages of six months and five years were to receive vitamin A tablets to strengthen their immune systems.[773]

USAID Health Programs

USAID's highest-priority programs in the health sector this quarter include:[774]

- 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 6/30/2014
Partnership Contracts for Health Services	7/20/2008	1/31/2015	$236,455,840	$178,784,131

Source: USAID, response to SIGAR data call, 7/10/2014.

The host-country contract PCH program supports the MOPH's efforts to provide the Basic Package of Health Services (BPHS) in 13 provinces and the Essential Package of Hospital Services (EPHS) in five provinces.[775] PCH supports health care at over 6,000 health posts and more than 540 facilities, including hospitals and health centers. It also supports tertiary health-care services at five provincial hospitals and one national hospital. In addition,

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.

On July 7, 2014, the Afghan Taliban reportedly announced a ban on polio vaccinations in Helmand Province. The Pakistani Taliban has banned polio vaccinations since 2012.

Source: The Wall Street Journal, "Afghan Taliban Bans Polio Vaccination in Southern Province," 7/7/2014.

An Afghan child receives medication through a donor-sponsored health program. (UNAMA photo by Fardin Waezi)

PCH supports the Community Midwifery Education program, which aims to reduce maternal and child mortality.[776]

This quarter, USAID reported election-related security issues closed health facilities and threatened workers in insecure areas. Furthermore, the lengthy procurement process of host-country contracts delayed implementation of PCH activities, and the quality of NGO-provided health services delivering BPHS needed improvement.[777]

PCH reports semiannually to USAID.[778] Yet SIGAR's September 2013 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 waste.[779]

To mitigate these risks, USAID reported this quarter that PCH is now implemented by the off-budget Grants and Contracts Management Unit (GCMU) of the MOPH. The GCMU submits requests for advance funds and for permission to liquidate those funds. USAID monitors this process and has set up a dedicated, noncomingled account at the central bank, to which it has access. PCH is also audited by independent auditors. Ernst & Young conducted an assessment of MOPH, which is in process of implementing their recommendations. USAID reviewed the MOPH's progress toward addressing the recommendations, and is planning a second review after Ramadan.[780]

Health Policy Project

Project Title	Start Date	End Date	Total Estimated Cost ($)	Cumulative Disbursement, as of 6/30/2014
Health Policy Project	4/2012	1/2015	$28,000,000	$18,418,498

Source: USAID, response to SIGAR data call, 7/22/2014.

The Health Policy Project (HPP) builds the MOPH's capacity through design, negotiation, and management of hospital public-private partnerships. The project also aims to strengthen financing and management of health resources, support gender roles in health-sector activities, and build the capacity of local private organizations to partner with the Afghan government in changing behaviors for the benefit of individuals or society.[781]

This quarter, USAID said election-related insecurity delayed arrival of international technical assistance, and closed the HPP office for a few days. HPP is also awaiting MOPH approval of procurement documents for hospital public-private partnerships and vetting approval for local subcontractors to obtain materials to promote maternal and child health commodities.[782]

Despite these challenges, this quarter HPP supported the MOPH's Health Economics and Financing Directorate (HEFD) to launch the Expenditure Management Information System, which supports regular reporting of national health expenditures. Following the launch, HPP supported the

HEFD to train more than 51 NGOs on the system. HPP also conducted training sessions for hospital staff on minimum required standards, for health workers on gender-based violence, and for MOPH Provincial staff on behavior change/interpersonal communication training.[783]

Leadership, Management, and Governance Project

Project Title	Start Date	End Date	Total Estimated Cost ($)	Cumulative Disbursement, as of 6/30/2014
Leadership, Management, and Governance/Field Support	9/1/2012	10/31/2014	$32,000,000	$22,826,010

Source: USAID, response to SIGAR data call, 7/10/2014; USAID response to SIGAR vetting, 7/11/2014.

The LMG project works with the MOPH and the MOE at the central and provisional levels to build governance capacity, improve accountability, and help manage on-budget assistance within Afghanistan's health and education systems.[784]

This quarter, USAID said LMG conducted several workshops regarding data utilization and evidence-based decision-making at central, provincial, and facility levels. LMG continued to train health-care staff in basic care, data quality, and hospital management. Seven regional training-of-trainer courses were conducted, with USAID stating that Community Health Worker (CHW) trainers and Community-Based Health Care Officers would cascade their training to CHWs across the country. LMG also launched the Health Quality Improvement Program in select provinces.[785]

USAID also noted several challenges from working with the MOPH this quarter, including a high degree of bureaucracy, busy leadership schedules, and ad hoc requests that delay implementation of approved work plans.[786]

Other Active USAID Health Programs

Project Title	Start Date	End Date	Total Estimated Cost ($)	Cumulative Disbursements, as of 6/30/2014
Strengthening Pharmaceutical System	8/28/2011	8/27/2015	$24,499,936	$14,365,800
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

Source: USAID, response to SIGAR data call, 7/10/2014.