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ECONOMIC AND SOCIAL DEVELOPMENT

As of September 30, 2014, the U.S. government has provided more than \$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 3.23. Of the \$23.2 billion appropriated for these funds, approximately \$20.2 billion had been obligated and \$15.4 billion disbursed. These development funds all decreased in Fiscal Year (FY) 2014. The largest account—the Economic Support Fund (ESF)—went from a high of about \$3.35 billion in FY 2010 to \$852 million in FY 2014.

TABLE 3.23

CUMULATIVE APPROPRIATIONS FOR AFGHANISTAN DEVELOPMENT, AS OF SEPTEMBER 30, 2014 (\$ BILLIONS)		
Fund	Managing Agency	Appropriated
ESF	USAID	\$17.7
CERP	DOD	3.7
TFBSO	DOD	0.8
AIF	STATE/DOD	1.0
Total		\$23.2

Note: 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

Afghan economic growth continued to slow, largely as a result of political uncertainty, persistent insurgency, and the drawdown of U.S. and Coalition forces.⁶⁶⁰ This quarter saw several developments that could have a profound impact on the Afghan economy:

- Afghanistan's domestic revenues in fiscal year (FY) 1393 (December 21, 2013–December 20, 2014) were 22% lower than Ministry of Finance (MOF) budget targets, and 3.8% lower from the same period in FY 1392. Expenditures far outpaced revenues; donor grants narrowed the fiscal gap.⁶⁶¹
- The MOF is in discussion with donors for additional monies to cover the budget shortfall for remainder of FY 1393, which ends on

December 20. Without this bailout, the government said it would have to defer bill payments, including civil servant salaries.⁶⁶²

- Newly inaugurated President Ghani directed Afghan government officials to immediately reopen the Kabul Bank case, recover stolen funds, hold accountable those involved in the theft, and move ahead with privatizing the successor New Kabul Bank.⁶⁶³
- The Independent Joint Anti-Corruption Monitoring and Evaluation Committee also released its second report on the Kabul Bank crisis highlighting insufficient progress in resolving the Kabul Bank case, naming those responsible along with their liabilities, as well as updating cash and asset recoveries, criminal proceedings, and government reform efforts.⁶⁶⁴
- Then-President Karzai signed/enacted the long-delayed new minerals law.⁶⁶⁵ While concerns remain about certain provisions within the legislation, the law is meant to encourage investors and align Afghan regulations with international best practices.⁶⁶⁶

ECONOMIC PROFILE

Afghanistan's real GDP growth, excluding opium, has slowed significantly over the last year from an estimated 3–4% for 2013 to a World Bank-projected 1.5% in 2014 due to increasing uncertainty about the volatile political and security environment. This is expected to continue through at least the first half of 2015. If this uncertainty, fueled by insecurity, instability, economic crime, and systemic corruption continues, it will further negatively affect private investment and dampen growth.⁶⁶⁷ By contrast, Afghanistan's economy grew by an annual average of 9.4% from 2003 to 2012.⁶⁶⁸

Decreasing nonfood consumer prices led to lower inflation over the first six months of 2014, mostly due to declining real estate prices. The World Bank calculated inflation at 5.6% in June 2014, compared to 7.3% in December 2013.⁶⁶⁹

The IMF found that while Afghanistan's macroeconomic and fiscal policies (financed by donor grants) are appropriately balanced, the government must do more to increase domestic revenues and improve budget management. To avoid high rates of inflation, Afghanistan's monetary policy should maintain its international reserves, continue to limit money-supply growth, and preserve a flexible exchange rate. 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."⁶⁷⁰

Fiscal Sustainability

Afghanistan has one of the lowest rates of domestic-revenue collection in the world, averaging 9% of GDP from 2006–2013, according to the IMF.⁶⁷¹

“Afghanistan’s biggest economic challenge is finding sustainable sources of growth.”

Source: World Bank, “Afghanistan, Country at a Glance,” accessed 9/9/2014.

The Washington Post and other media outlets reported in September that the MOF asked international donors for an emergency infusion of \$537 million to cover the budget shortfall for remainder of FY 1393. Without this bailout, the government said it would have to defer bill payments, including civil servants' salaries.

SIGAR asked State Department officials in writing about the factors leading up to the MOF's bailout request. In particular, the agency asked when the State Department became aware of Afghanistan's fiscal predicament, what the intended U.S. response was, and how the United States planned to ensure that such requests were not recurrent.

State said that it had been aware of this year's budget shortfall for many months, but officials note that the MOF has not provided a sufficiently detailed, formal request for help. Instead, State officials said the scope, timing, and ramifications of the current shortfall were under discussion with the Afghan government. When State receives a formal request along with detailed documentation justifying an emergency infusion of funds, it will determine its response and coordinate with other donors. State told SIGAR that the \$537 million figure reported in the press is not settled, but any donor funds that are provided will draw on "pre-existing, previously notified resources" and will not require additional appropriations from Congress.

State attributed Afghanistan's fiscal crisis to economic inertia, stemming from the drawn-out political transition, and Afghanistan's unrealistic budget. While expressing a willingness to work with the new government to improve revenue collection measures and budget formulation, State said the new government bears ultimate responsibility for fixing these problems. Officials said Afghanistan has been warned that the United States will not respond favorably to repeated requests for emergency funds.

SIGAR asked State for a U.S. government point of contact with access to the Afghanistan Financial Management Information System (AFMIS), the country's government-wide accounting system, as well as a description of any efforts undertaken by the United States or the international community to validate AFMIS data. State responded it does not currently have access to AFMIS. DOD relies upon AFMIS for tracking Ministry of Interior and Ministry of Defense spending and has access to certain AFMIS data, but acknowledges that the data is entered by Afghan ministry staff, making its reliability dependent on those same individuals. DOD is not aware of any periodic data-validity checks. See pages 139 for more detail.

SIGAR believes U.S. government agencies should press the MOF for complete access to AFMIS and help the Afghan government ensure the data is accurate and verifiable. While the AFMIS data is far from perfect, without it, SIGAR believes the United States lacks a holistic view of what the Afghan government reports to be spending its money on and at what rate, cannot confirm whether and to what degree budgetary shortfalls exist, and has insufficient basis to inform the U.S. response.

SIGAR questions the Afghan government's management of billions of dollars in U.S. and international donor assistance. Afghanistan's budgetary shortfalls, excluding donor grants, have been documented by SIGAR, the World Bank, IMF, and Afghanistan's Ministry of Finance, among others, long before the protracted presidential elections and its associated economic impacts. Afghanistan has suffered from a lack of political will to address corruption, which permeates many Afghan government institutions, and from weak enforcement of revenue measures. SIGAR agrees with State that a new Afghan administration brings fresh opportunities to tackle these issues.

Source: *The Washington Post*, "Afghan Official Says the Government Has Nearly Run Out of Money, Needs U.S. Bailout," 9/16/2014; Reuters, "Cash-Poor Afghanistan Will Delay Paying Civil Servants: Finance Ministry Official," 9/27/2014; SIGAR-14-101-SP 9/26/2014; State, response to SIGAR inquiry letter SIGAR-14-101-SP, 10/10/2014; World Bank, *Afghanistan: Country Snapshot*, 3/2014; IMF, *2014 Article IV Consultation—Staff Report; Press Release; And Statement By The Executive Director For The Islamic Republic Of Afghanistan*, 5/2014; MOF, *Monthly Fiscal Bulletin, Month 7, 1393*, 9/6/2014; MOF, *Annual Fiscal Report, 1391 (9 Months)*, accessed 10/11/2014; State phone call discussion with SIGAR, 10/15/2014; State, response to SIGAR vetting, 10/16/2014; DOD, CSTC-A, response to SIGAR data call, 9/29/2014; SIGAR analysis.

Revenue collection continues to decline against budget projections. In the first seven months of FY 1393, total domestic revenues—tax and non-tax revenues, and customs duties—missed MOF targets by \$274 million (-22%) so far, and decreased by approximately \$39.46 million from the same period in FY 1392 (-3.8%).⁶⁷²

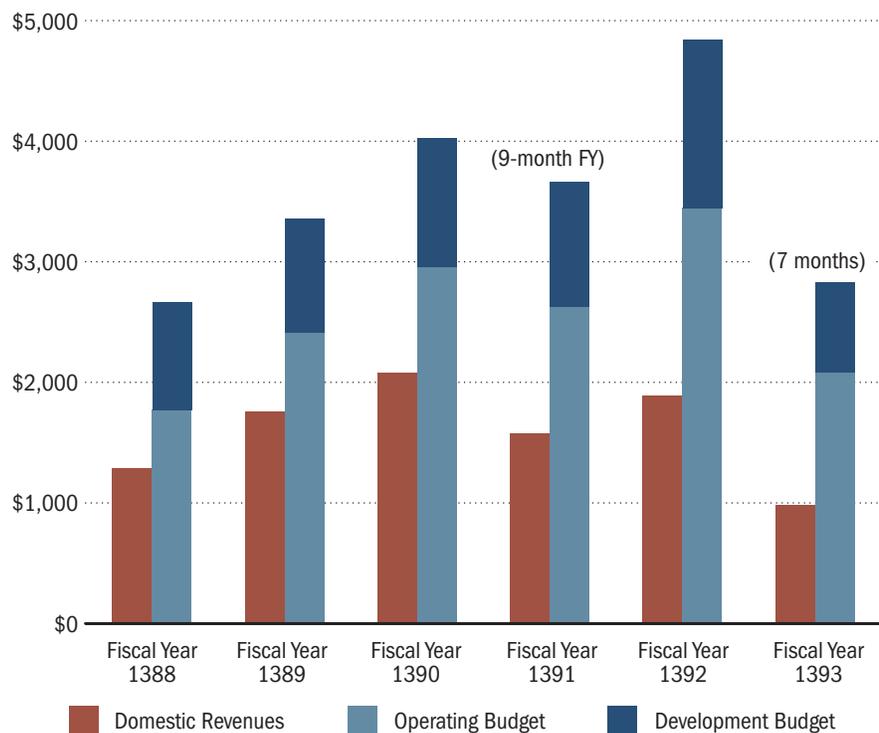
The World Bank estimated a budgetary shortfall of around \$500 million in FY 1393 (December 21, 2013–December 20, 2014), and reported that Afghanistan is headed for a fiscal crisis. Government cash balances are low and it is behind in operations and maintenance as well as discretionary development spending.⁶⁷³ Afghanistan is suffering from acute budgetary shortfalls in FY 1393, threatening to affect payments of civil servant

salaries, pensions, and operating and development spending. However, should revised government revenue targets not be reached and donor grants not paid, the World Bank warns that the fiscal gap will grow.⁶⁷⁴

Afghan officials have largely attributed this gap to donor failure to release on-budget development aid,⁶⁷⁵ and the protracted presidential election that depressed consumer spending and led to an overall decline in imports—major sources of government tax and customs revenue.⁶⁷⁶ State said continuing drawdown of international forces, whose presence traditionally helped bolster imports, is compounding Afghanistan’s revenue shortfalls.⁶⁷⁷ The fiscal gap—currently filled by donors—is large and growing as depicted in Figure 3.32.⁶⁷⁸

FIGURE 3.32

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



Note: Until recently, Afghan fiscal years ran approximately March 21 to March 20 of consecutive Gregorian calendar years. FY 1388 corresponds to March 21, 2009, to March 20, 2010, and so on. Nine-month data for fiscal year 1391 reflect a change in the timing of the Afghan fiscal year. Afghan fiscal years now run December 21 through December 20. FY 1393 represents the first seven months only.

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 7," 9/6/2014, accessed 10/18/2014; 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," 8/17/2014, accessed 10/18/2014.

Afghan government expenditures are expected to continue rising—to 30.5% of GDP in 2016 versus 27.3% in 2014, according to World Bank projections—largely due to spending on security, service delivery, building essential infrastructure, and operations and maintenance.⁶⁷⁹ The IMF estimated Afghanistan’s financing gap, comprising on- and off-budget needs, at \$7.7 billion (33% of GDP) on average, annually through 2018.⁶⁸⁰ This will limit Afghanistan’s ability to pay for discretionary services without significant donor support and improved revenue mobilization.⁶⁸¹

Improving revenue collection requires political will. The Independent Joint Anti-Corruption Monitoring and Evaluation Committee (MEC) stated that “Afghanistan loses a substantial amount of revenue due to corruption and smuggling at its borders.”⁶⁸² The World Bank said improved revenue mobilization must include reducing leakages, strengthening tax and customs enforcement, and implementing a value-added tax with a 10% rate.⁶⁸³ (See the July 2014 SIGAR *Quarterly Report to the United States Congress* essay on fiscal sustainability for a discussion of VAT opportunities and challenges for Afghanistan.)

This quarter, the MEC also reported that Da Afghanistan Breshna Sherkat (DABS)—Afghanistan’s national electric utility—is writing off approximately \$33 million in unpaid bills accrued from October 2009 to March 2012, including from several government ministries. In that period, DABS collected only \$4.3 million.⁶⁸⁴ DABS reportedly collected only half of its electricity bills in Helmand, while the Taliban collect revenue from electrical infrastructure it has taken over in several provinces.⁶⁸⁵ For more information about power infrastructure programs that will be turned over to DABS to sustain, see page 185.

Trade

Afghanistan’s largest trading partner is Pakistan, followed by the United States, the European Union, and regional neighbors.⁶⁸⁶ Trade-related taxes represented 45% of Afghanistan’s total tax revenues from 2006 to 2013.⁶⁸⁷ Although Afghanistan routinely sustains a large trade deficit, donor aid helps the country maintain a **current account** balance of 4.1% of GDP.⁶⁸⁸ Afghanistan has no access to international capital markets and relies on this aid. Without it, the IMF estimates Afghanistan would have a current account deficit equivalent to 41% of its GDP.⁶⁸⁹

The World Bank estimates Afghanistan’s foreign-exchange reserves at \$7.3 billion by the end of 2014 (enough to cover eight months of imports).⁶⁹⁰ Reserves also help maintain exchange-rate stability and protect the economy against external shocks.⁶⁹¹ The currency exchange rate affects the trade balance and the current account. Afghanistan maintains a flexible and floating exchange-rate policy that has led to a relatively stable fiscal policy, but the afghani (AFN) is depreciating against the dollar. In early January

Current Account: A component in a country’s trade accounting. “The balance of payments consists of two subaccounts. One subaccount is the *current account*. The current account consists largely of the trade balance, which records U.S. [or another country’s] imports and exports of goods and services. The second subaccount is the *capital and financial account* (hereafter called the capital account), which records U.S. [or other country’s] net sales or purchases of assets—stocks, bonds, loans, foreign direct investment, and reserves—with other countries during the same time period. Countries like the United States that run capital account surpluses and current account deficits receive net foreign capital inflows. In contrast, countries that run capital account deficits and current account surpluses experience net foreign capital outflows.” (SIGAR note: In Afghanistan’s case, capital-account inflows also include foreign assistance.)

Source: President’s Council of Economic Advisers, *Economic Report of the President* (2006), Chapter 6: “The U.S. Capital Account Surplus,” p. 125.

2012, a U.S. dollar cost about 49 AFN; on September 30, 2014, it cost about 57 AFN, according to the Afghan central bank.⁶⁹²

Exports

During 2011–2014, Afghanistan exported \$3.1–3.3 billion worth of goods and services annually, not including narcotics, according to IMF estimates.⁶⁹³

The World Bank said Afghanistan's exports are concentrated,⁶⁹⁴ with a small number of products or trade partners,⁶⁹⁵ making them highly dependent on a few commodities for their earnings, and consequently more vulnerable to unstable prices and trade shocks.⁶⁹⁶

The IMF export estimates include only \$500 million annually of domestic merchandise exports. Much of the rest, Treasury said, are re-exports that earn far less foreign-exchange revenue, while many of the service-related exports—freight, transportation, construction, license fees—stem from the foreign military/donor presence and may decline in the future. Afghans living abroad also remit money, but there is little quantitative data on its value or its contribution to Afghanistan's export capacity.⁶⁹⁷

According to Treasury, the biggest obstacles to Afghan exports are:⁶⁹⁸

- Lack of security—both because of ongoing conflict and law-enforcement failures—is an obstacle to routine domestic commerce, large-scale mining, and gas/oil extraction.
- Transport—as a landlocked country, Afghan exports require cooperation from, and adequate infrastructure in, neighboring countries. Iran's sea coast and superior infrastructure make it an attractive trade route, but it is under severe U.S. sanctions.
- Human capital—years of conflict have resulted in an interrupted education system, poorly educated workforce, and limited domestic technological capabilities that will take years to overcome.

Imports

IMF balance-of-payments indicators show that over \$8 billion worth of imports are paid for by official donor grants. If the IMF calculations are accurate, Treasury estimated that Afghanistan's real import capacity, without a significant foreign presence driving demand, is less than \$2 billion annually, excluding narcotics revenues. Treasury noted that without high levels of external assistance, import levels must decline, but it is difficult to predict by how much without knowing the amount of imports needed to meet the changing demands of the foreign presence, what Afghanistan's import needs will be once that foreign-driven demand declines, and the required level of external assistance needed to sustain healthy economic activity and growth. Reduced imports do not necessarily affect the economy adversely.⁶⁹⁹

Narcotics revenues do pay for some imports of legitimate goods such as cars, building materials, and food, but they largely bypass the formal sector.

Treasury said narcotics proceeds probably do not have an important influence on Afghanistan’s foreign-exchange reserves, but are more likely to finance capital flight, money laundering, and lifestyles of individuals in the narcotics industry.⁷⁰⁰

Afghanistan Trade and Revenue Project

Project Title	Start Date	End Date	Total Estimated Cost (\$)	Cumulative Disbursement, as of 9/30/2014
Afghanistan Trade and Revenue	11/7/2013	11/6/2017	\$77,754,267	\$11,141,671

Source: USAID, response to SIGAR data call, 10/9/2014.

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) facilitate bilateral and multilateral regional trade agreements, and (3) improve and streamline the government’s ability to generate revenue.⁷⁰¹ ATAR is supporting Afghanistan’s WTO accession in 2014, and while Afghanistan is positioned to accede, 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 is assisting with market-access negotiations in the WTO-accession process. ATAR is also working with Afghan customs officials to modernize and streamline customs processes.⁷⁰²

BANKING AND FINANCE

The World Bank and IMF have both reported that Afghanistan’s banking and financial sector has not recovered from the 2010 Kabul Bank crisis. The sector suffers from inadequate regulation and oversight, undercapitalization, and a loss of consumer confidence.⁷⁰³ Additionally, 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.”⁷⁰⁴

The IMF said Afghanistan’s banking-sector vulnerabilities—limited legal infrastructure and institutional capacity, and inadequate corporate governance—constrain financial-sector development. While the central bank has taken corrective measures toward strengthening Afghanistan’s 12 banks, seven considered to hold weak assets make up 51% of the banking sector. If Afghanistan’s banking sector is to contribute to the country’s economic development, it will require developing financial infrastructure (financial products, investment vehicles, risk-management tools, etc.), while improving and enforcing banking supervision.⁷⁰⁵ The U.S. Department of Treasury warned that should Afghanistan fail to

“The critical issues are not a simple matter of choosing good policies, but of the political will and capacity to follow through on implementation.”

Source: U.S. Department of Treasury, response to SIGAR data call, 10/1/2014.

aggressively enforce anti-money laundering/antiterrorist financing laws, its banking system will become isolated from the rest of the world and be unable to provide key financial services.⁷⁰⁶

Treasury provided no direct assistance to the Afghan banking system this quarter, but said it could reconsider if certain conditions were fulfilled.⁷⁰⁷ Past conditions, which Afghanistan has rebuffed since 2011, include:⁷⁰⁸

- Afghanistan staying on track to meet its obligations under the IMF Extended Credit Facility program
- Kabul Bank shareholders not being involved in the banking sector, formally or informally
- clear communication from the president that Treasury advisors would be welcome
- clear roles, objectives, progress benchmarks and obligations, in writing, for Treasury’s technical advisors
- cessation of public statements by Afghan officials that the United States was responsible for the Kabul Bank crisis
- an Afghan financial-sector plan that Treasury could support

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 which provide **Money or Value Transfer Services (MVTs)**.⁷⁰⁹ 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 2013.⁷¹⁰ Some 50–90% of all financial transactions in Afghanistan use MVTs, as do drug traffickers seeking to launder their illicit proceeds outside the formal banking sector.⁷¹¹

Money Laundering

The State Department lists Afghanistan as a major money-laundering country whose financial institutions either engage in, or are vulnerable to, transactions involving significant criminal proceeds. Narcotics, corruption, and contract fraud are major sources of the country’s illegal revenues and laundered funds. Afghanistan has weak or nonexistent supervisory and enforcement regimes, and little political will to combat corruption, both of which “continue to pose serious threats to the security and development of Afghanistan.”⁷¹²

Money laundering and terrorist financing are largely perpetuated by hawalas, which Afghans rely upon 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.⁷¹³

Hawala: money transmitters that arrange for the transfer and receipt of funds or equivalent value, and settle their accounts through trade and cash over a long period of time.

Money or Value Transfer Services:

financial services that accept cash, checks, other monetary instruments or stores of value. Payments are made by a means of communication, message, transfer, or through a participating clearing network. It can involve multiple intermediaries with a final payment to a third party and may include any new payment methods.

Source: FATF, *The Role of Hawala and Other Similar Service Providers in Money Laundering and Terrorist Financing*, 10/2013, pp. 9, 12.

Afghanistan was ranked as the second most vulnerable country (out of 162) at risk for money laundering and terrorist financing, closely following Iran, according to a 2014 Basel Institute on Governance study.

Source: The Basel Institute on Governance, *The Basel AML Index 2014*, 8/13/2014.

Financial Action Task Force

Last quarter, Afghanistan narrowly avoided a **Financial Action Task Force (FATF)** blacklist designation after its parliament passed Money Laundering/Combating the Financing of Terrorism (AML/CFT) legislation just days before the FATF plenary session of June 2014. Although FATF was not able to thoroughly review the legislation before the plenary, Afghanistan was moved off FATF's "dark-gray" list of jurisdictions not making sufficient progress, and was promoted to the "gray" list of Improving Global AML/CFT Compliance: On-Going Process.⁷¹⁴

The State Department has neither seen nor evaluated copies of Afghanistan's newly enacted AML/CFT laws.⁷¹⁵ Treasury said they conducted an informal analysis of the AML/CFT laws and CFT regulations, and had concerns that the money-laundering offense, as written, does not cover foreign-predicate crimes—crimes committed outside Afghanistan's jurisdiction. Additionally, they found deficiencies in the terrorist-financing regulations regarding the establishment of an asset-freezing regime to implement United Nations (UN) Security Council Resolutions 1267 and 1988, which obligate UN member states to freeze assets of UN-designated individuals and entities for being associated with al-Qaeda and the Taliban.⁷¹⁶

FATF will evaluate compliance standards and implementation of Afghanistan's AML/CFT laws during its next plenary in October 2014.⁷¹⁷ In the meantime, FATF is helping Afghanistan establish a legal framework for its AML/CFT system and achieve technical compliance. Afghanistan, as a member of FATF, will be subject to rigorous reviews of its AML/CFT systems to determine effectiveness.⁷¹⁸ Improved oversight of MVTS is a part of these reviews, according to Treasury, and includes increasing the number of AML/CFT inspections as well as a requirement for Afghanistan to bring its unlicensed entities into the formal financial system.⁷¹⁹

A majority of Afghan banks have been affected either by closure or restriction of one or more of their **correspondent accounts**. They are at risk of future closures due to deficiencies in Afghanistan's AML/CFT regime and in bank-compliance processes.⁷²⁰ 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.⁷²¹

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; also, 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, although difficult to predict, could be severe.⁷²²

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. Its 36 members include the United States, United Kingdom, Switzerland, and the European Union; observers include the UN and the Asian Development Bank.

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

Source: 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.

Ghani Reopens the Kabul Bank Case

In one his first official actions upon being sworn into office, President Ashraf Ghani called for reopening the Kabul Bank case and issued a 10-point decree on October 1, ordering.⁷²³

1. the Supreme Court to pursue the case pending before the appellate court, review the charges—including money laundering—and render a decision within 45 days
2. the Attorney General’s Office (AGO) and other relevant institutions to assist the court with finding all case documents and evidence
3. the AGO to prosecute all those accused and involved in the theft with indictments lodged within 15 days of the decree
4. the AGO to oversee and enforce the primary court’s judgment and detain all suspects within three days of the order until the case is finalized by all three courts (Supreme, Primary, and Appellate courts)
5. the Kabul Bank Receivership to set a specific timetable for completing repayment of the bank’s assets within 10 days
6. the Kabul Bank Receivership to summon all bank debtors who have not cleared their debts within five days and the AGO, Ministry of Interior, and other relevant institutions to cooperate in this effort
7. the AGO, Ministries of Finance and Foreign Affairs, and central bank to send international mutual legal requests within 10 days to freeze and recover Kabul Bank assets that were stolen and transferred abroad
8. the Ministry of Finance to prepare documents for Kabul Bank privatization within 10 days
9. relevant ministries to report their progress to the president at the end of every week
10. the Office of Administrative Affairs and Secretariat of the High Council of Ministers to monitor implementation of the decree

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 known at that time to have been 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 AGO finally resubmitted the case to the appellate court on October 11. While seven offenders charged in the original indictment have reportedly been re-arrested, some of those indicted are no longer in Afghanistan.⁷²⁴ Until President Ghani’s decree, the AGO had not filed any new charges, launched any new prosecutions, or indicted any additional beneficiaries since the Special Tribunal of the Kabul Provincial Court found 21 individuals guilty of a variety of charges on March 5, 2013, ignoring overwhelming evidence, court orders and U.S. Department of Justice (DOJ) requests to do so.⁷²⁵ DOJ said that while the presidential decree provides a basis for hope, it remains to be seen how aggressive Afghan law enforcement will be in complying.⁷²⁶

Independent Joint Anti-Corruption Monitoring and Evaluation Committee Follow-Up Report

On October 2, 2014, the Independent Joint Anti-Corruption Monitoring and Evaluation Committee (MEC) released its second report on the Kabul Bank crisis. The report highlighted insufficient progress in resolving the case over the last four years, named those responsible along with their liabilities, and updated cash and asset recoveries, along with criminal proceedings, and government reform efforts. As of 2013, Kabul Bank's total debt was \$982.6 million, including new debt identified since 2010. Only \$175.2 million had been recovered as of April 2014—less than 18% of total amounts owed; \$97.4 million was forgiven or deemed not owed.⁷²⁷

Afghanistan has committed to enforcement of asset recovery and accountability for those responsible for the Kabul Bank crisis under the Tokyo Mutual Accountability Framework (TMAF) and to the IMF.⁷²⁸ Yet the MEC report said recovery of embezzled money has been slow, while rendered decisions have been hampered by external influences, largely ignored, and unimplemented. The MEC found problems with the Special Tribunal's convictions of those indicted, a court of appeals that unnecessarily delayed proceedings, and insignificant progress in Afghan financial and banking regulations and oversight.⁷²⁹ The last joint Afghan-international-donor TMAF report from January 2014 contained only vaguely worded language about how the Afghan government is implementing relevant recommendations and how it will continue making progress on resolving Kabul Bank issues, including asset recovery and the appeals case.⁷³⁰

U.S. ECONOMIC-SUPPORT STRATEGY

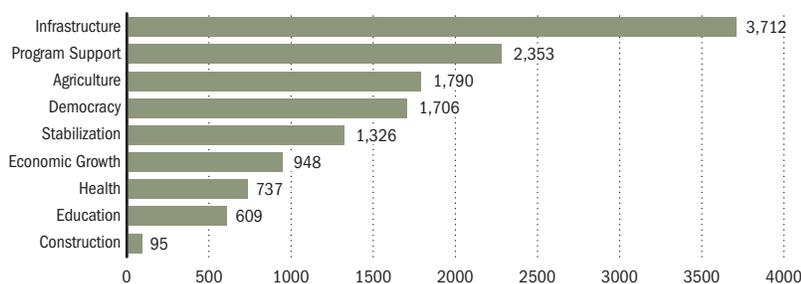
The U.S.-Afghanistan Strategic Partnership Agreement and the Civil-Military Strategic Framework are the most recent guiding documents for U.S. assistance in Afghanistan. Additionally, the annual Mission Resource Request and operational plans provide a basic framework and prioritization for U.S. assistance efforts. U.S. Embassy Kabul is developing an integrated country strategy which will help to guide foreign-assistance priorities. USAID and other assistance implementers may also choose to develop their own strategies, according to State.⁷³¹ U.S. economic strategies are coordinated at an interagency level through the National Security Council.⁷³²

Most assistance from the Economic Support Fund (ESF) goes toward USAID's development programs. USAID said that none of its programs have been interrupted due to Afghan government revenue shortages.⁷³³ Figure 3.33 on the following page shows USAID assistance by sector.

USAID provides approximately 30% of total annual donors' contributions to the World Bank-administered Afghanistan Reconstruction Trust Fund (ARTF). Up to half of these funds are "preferenced" by donors for specific development activities, while the rest is used at the World Bank's discretion.⁷³⁴

FIGURE 3.33

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



Note: Numbers rounded. Program Support projects include staffing, salaries, performance metrics, results tracking, technical assistance to ministries, and funding to the ARTF. Agriculture Programs include Alternative Development.

Source: USAID, response to SIGAR data call, 10/9/2014.

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. These zones already contain most economic activity in Afghanistan. They have: 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. Water management, education, health, and governance activities will remain national in scope.⁷³⁵

DEVELOPMENT OF NATURAL RESOURCES

The United States, the Afghan government, and the international donor community believe development of Afghanistan's natural resources can 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.⁷³⁶

The World Bank estimates annual extractive-sector revenues could reach between \$700 million and \$1.5 billion by 2022–2024.⁷³⁷ However, SIGAR has long cautioned that the Afghan government may not be able to earn substantial revenues from Afghanistan's natural resources any time soon because of the considerable infrastructure investment required to develop them, especially given the difficult security environment.

The United States Institute for Peace warned last year 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.⁷³⁸ Treasury said the potential market value of Afghanistan's minerals, while significant, is far less than the hundreds of billions of dollars reported in the press. The net value of minerals-related taxes and royalties to the government will likely be a small fraction of that, spread over decades.⁷³⁹

Meanwhile, the majority of mines operating in Afghanistan—1,400 by some estimates—are unlicensed and illegal.⁷⁴⁰ The UN reported this year 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. In Helmand Province alone, for instance, the Taliban were expected to earn \$10 million annually from operating 25–30 illegal marble-mining sites. In contrast, Afghanistan's entire official marble industry generates only \$15 million in annual government revenue.⁷⁴¹

New Minerals Law

On August 9, 2014, then-president Hamid Karzai approved the new minerals law passed by parliament last quarter.⁷⁴² The law is meant to better protect Afghan resources, encourage investors, and align regulations with international best practices.⁷⁴³ DOD's Task Force for Business and Stability Operations (TFBSO) has not yet seen a copy of the enacted legislation, but highlighted two concerns based on previously viewed drafts that could remain an impediment to investment. First, the law restricts the right to transfer licenses from one company to another—a standard practice in the mining community.⁷⁴⁴ According to State, the Council of Ministers reportedly approved an amendment repealing the prohibition on transfers of licenses on September 15.⁷⁴⁵ Second, investors with exploration licenses who find economically viable deposits still have no guarantee they will be granted exploitation licenses for those same deposits.⁷⁴⁶

Other U.S. government concerns include the inability to move funds in and out of Afghanistan through a functioning banking system,⁷⁴⁷ and requirements to preference Afghan versus foreign labor and to prioritize purchase of Afghan goods. Neither of the last two requirements is WTO-compliant, and both could deter private investment.⁷⁴⁸ Moreover, the World Bank assessed large gaps in the quality and availability of local Afghan goods and services needed for the extractives sector.⁷⁴⁹

Pending Contracts

Several TFBSO-assisted contracts remained unsigned this quarter. These were negotiated by the Ministry of Mines and Petroleum (MOMP) under the previous minerals law, including Shaيدا (copper, awarded in November 2012); Badakhshan (gold, November 2012); Balkhab (copper,

Exploration and production-sharing contracts (EPSC): governing documents between a government and resource company for the exploration, development and production of hydrocarbons in selected areas of interest.

Source: MOMP "Request for Expressions of Interest for Pre-Qualification for Participating in the First Afghan Hydrocarbon Bidding Round, 2009."

November 2012); and Zarkashan (gold, December 2012). They are awaiting cabinet approval once a new government is confirmed, but will likely have to be reviewed again by the ministry for compliance with the new minerals law.⁷⁵⁰ Contract negotiations for Jabul Seraj (cement, February 2014) are also ongoing. Revisions to its terms are being incorporated before a final contract will be forwarded for inter-ministerial commission (IMC) and then to the cabinet for final approval.⁷⁵¹

Additionally, two TFBSO-assisted hydrocarbon contracts await finalization: Afghan-Tajik Phase II (oil and gas) and the Totimaidan block (oil and gas, September 2014) in the Amu Darya Basin. The two Afghan-Tajik Phase II **exploration and production-sharing contracts** (EPSCs) have been initialed and are pending cabinet approval; the Totimaidan EPSC markups will need to be completed and approved by the IMC before the contract goes to the cabinet for approval.⁷⁵²

There is also no reported change in contract negotiations for Hajigak (iron-ore, November 2011) concessions this quarter.⁷⁵³ News reports indicated that Afghan Iron and Steel Consortium (AFISCO), a seven-member consortium led by state-owned Steel Authority of India Ltd., which won three of the four blocks tendered, is considering cutting its initial investment from \$11 billion to \$1.5 billion, and that they were waiting for approval of the new mining law.⁷⁵⁴

Impediments to Investment

The MOMP expects the new mining law to ameliorate investor concerns and open the door to new business opportunities.⁷⁵⁵ Whether or not the law is on par with those in other countries, it's not the only impediment to investment in Afghanistan's extractive industries.⁷⁵⁶ According to the World Bank, security overshadows all other constraints to investment.⁷⁵⁷ There is also a lack of available capital in the mining industry.⁷⁵⁸ 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.⁷⁵⁹

There are also government oversight-related issues. 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. Additionally, Afghanistan's Audit and Control Office does not specifically review resource revenues, and the reports it does prepare are not published.⁷⁶⁰

Integrity Watch Afghanistan compared Afghanistan's governance of its mining industry to best practices in six countries 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.⁷⁶¹

Currently there is no excavation work under way at the Mes Aynak copper mine in Logar Province other than continuing archeological mitigation of damage to cultural relics in the area. However, this quarter, the MOMP reported the site was closed due to the ongoing presidential elections and because the government archeologists went on strike after not being paid for six months. In the meantime, the MOMP, assisted by TFBSO-provided subject-matter experts, is reviewing a draft feasibility study that could affect the future of the project. Landmine clearing at the site continued despite eight mine-clearing team members being executed and another three wounded in June by what the UN called “anti-government elements.”⁷⁶²

Factors potentially contributing to the delay in copper production include challenging contract terms, volatility in the minerals market, the discovery of antiquities on-site, and contractor delays.⁷⁶³ The Afghan government awarded the contract for extraction rights at Mes Aynak in 2008, but its hoped-for royalties have not yet been realized.⁷⁶⁴ Afghanistan’s FY 1393 national budget does not anticipate any revenue from Mes Aynak after the previous year’s budget projected \$50 million that never materialized.⁷⁶⁵

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.⁷⁶⁶

The U.S. Geological Survey no longer has programs in Afghanistan, but is transferring to the AGS work completed during earlier on-the-job training, including data compilation and data packages on mining areas of interest using mapping and illustrative software, geophysics, and hyperspectral imaging training.⁷⁶⁷

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; training (training schedules and lists, course identification) and donor coordination; and strategic (identifying strengths, weaknesses, and opportunities, and overseeing the hydrocarbon tender process). While APA has taken the lead in most areas, TFBSO is concerned that the number of APA personnel might not be sufficient to properly oversee the number of EPSCs in the pipeline. Moreover, APA personnel will be tested when they face operational rather than theoretical processes (gas production and processing, long-term sales

agreements, multiple buyers, multi-field hydrocarbon production, etc.) Monitoring and oversight will be crucial as APA contracts are signed.⁷⁶⁸

TFBSO assisted the MOMP with four mineral tenders (pending cabinet approval, discussed above), two cement tenders (one under contract negotiations and one cancelled), and five oil and gas tenders (one proof of concept completed, two ongoing contracts, one under negotiation, and one awaiting cabinet approval).⁷⁶⁹ TFBSO tender support and AGS training assistance ended on September 30, 2014, but TFBSO will help with a third round of negotiations scheduled in November.⁷⁷⁰ TFBSO obligated \$17.2 million in FY 2014 for mining-sector development, as of September 30, 2014.⁷⁷¹ TFBSO's authority is scheduled to expire at the end of 2014.⁷⁷²

USAID, through its Mining Investment and Development for Afghan Sustainability (MIDAS), aims to help the MOMP and AGS become a modern and independent mineral exploration entity, and train staff to be able to deliver tender-ready mineral projects to the ministry. MIDAS legal advisors also helped the MOMP write a regulation on health and safety in the mining sector.⁷⁷³

Mining Investment and Development for Afghan Sustainability

Project Title	Start Date	End Date	Total Estimated Cost (\$)	Cumulative Disbursement, as of 9/30/2014
Mining Investment and Development for Afghan Sustainability	3/31/2013	3/31/2017	\$41,670,943	\$10,429,850

Source: USAID, response to SIGAR data call, 10/9/2014.

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.

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.⁷⁷⁴ MIDAS is shifting \$10 million of Phase II funding from on to off-budget status for core-sampling drilling services.⁷⁷⁵

MIDAS advisors reviewed four MOMP mineral package reports, including one for the Mes Aynak copper mine. The reports revealed "serious flaws" and noncompliance with industry standards for public-project reporting, according to USAID. Extensive exploration is needed to verify the accuracy of these reports. MIDAS also assessed six Afghan-owned firms who participated in its Afghan Mining Enterprise Initiative, which is meant to help firms improve its services and win contracts supporting international mining companies.⁷⁷⁶ As of September 30, 2014, USAID had obligated \$16 million and disbursed approximately \$10.4 million to begin off-budget implementation.⁷⁷⁷

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.⁷⁷⁸

Afghanistan has only small-scale topping plants—early-stage refineries that can process only limited petroleum components of crude oil—and remains heavily dependent on imports for fuels.⁷⁷⁹ The country imports 10,000 tons of oil products a day from Turkmenistan, Uzbekistan, Russia, Pakistan, and Iran.⁷⁸⁰

Despite 75 billion cubic meters of known natural gas reserves and an estimated 444 billion cubic meters in estimated 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.⁷⁸¹

Amu Darya Basin

The three blocks of the Amu Darya Basin awarded to the China National Petroleum Corporation Watan Energy Afghanistan (CNPCI-W) in 2011 are estimated to contain 87 million barrels of crude oil.⁷⁸² Production was a modest 2,000 barrels per day for August and September 2014. CNPCI-W is in the process of concluding its fifth crude-sales tender for an estimated 1.8 million barrels over a 15-month period (December 2014, through March 2016), with option years available thereafter.⁷⁸³

So far, the government has received \$3.67 million in royalties from this award. A \$615,000 royalty payment is due the Afghan government on October 31, 2014. The government expects about \$60,000 per day from the basin at full production.⁷⁸⁴

Totimaidan

This quarter, Afghanistan's interministerial commission approved the MOMP's preferred bidder for the exploration, development, and production in the Totimaidan block, comprising 7,131 square kilometers in the Amu Darya Basin. Contract negotiations are ongoing and will require cabinet approval. The contract area contains 28 billion cubic meters of reserves in two known gas fields and more than 50 proven and prospective subsurface geological structures.⁷⁸⁵ TFBSO provided tender-preparation assistance to the MOMP, as well as technical, legal, commercial, and transparency advisory services.⁷⁸⁶



Workers weld a compressor pipe that is part of the Sheberghan pipeline-rehabilitation project. (TFBSO photo)

Sheberghan Program

Sheberghan holds the potential for cheap natural gas and could be competitive with imported power from Uzbekistan, according to the World Bank.⁷⁸⁷ Both USAID and TFBSO have active programs in the area.⁷⁸⁸

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).⁷⁸⁹ 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.⁷⁹⁰ If the wells have sufficient capacity to run a 200 MW gas-fired power plant, USAID will fund a gas-gathering system and gas-processing plant to fuel it with its remaining \$60 million, provided on-budget through SGDP.⁷⁹¹

Pipeline Rehabilitation Project

TFBSO is helping the MOMP and Afghan Gas Enterprise rehabilitate the existing 89.1 km (55.4-mile) Sheberghan–Mazar-e-Sharif pipeline to improve its capacity and the quality of gas flowing through it. The goal is to provide domestic energy security and an opportunity for commercial sales. 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 demand after project completion.⁷⁹²

The project comprises four components:⁷⁹³

- Construction of a compressor station and dehydration plant: This quarter, Afghan Gas began operating one compressor, leading to 125% increase in gas availability with additional supply accessible upon demand.
- Construction of an amine plant and an associated pipeline to the compressor station: The amine plant is 90% and the pipeline is 95% complete.
- Replacement of deteriorated portions of existing Sheberghan–Mazar-e-Sharif pipeline: 14 of 15 affected kilometers have been replaced.
- Progress toward construction of a new, parallel Sheberghan–Mazar-e-Sharif pipeline: The work is 95% complete and training programs are under way.

In the Task Force’s final 60 days in Afghanistan, TFBSO-provided subject matter experts will support Afghan Gas in precommissioning, commissioning, and training. The MOMP intends to hire professional service providers who will be responsible for plant operations and training upon demand.⁷⁹⁴

AGRICULTURE

Agriculture continues to be the main source of employment and subsistence for the Afghan population. Only 12% of the land is arable and even less is cultivated, yet the sector accounts for 31% of GDP and, according to the latest World Bank report, provides employment to about 59% of the labor force.⁷⁹⁵ Given its importance, agriculture could be a catalyst for GDP growth, improved food security, and more stable employment.⁷⁹⁶

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.⁷⁹⁷ Of that, USAID has obligated and disbursed \$54 million in direct assistance to build capacity at the Ministry of Agriculture, Irrigation, and Livestock (MAIL).⁷⁹⁸

USAID has shifted its agricultural development strategy from stabilization activities like subsidized inputs and employment to longer-term, more sustainable efforts.⁷⁹⁹ 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)

Agricultural Development Fund (ADF) and Agricultural Credit Enhancement (ACE)

Project Title	Start Date	End Date	Total Estimated Cost (\$)	Cumulative Disbursement, as of 9/30/2014
Agricultural Credit Enhancement	7/15/2010	1/15/2015	\$75,175,296	\$69,107,024
Agricultural Development Fund	7/18/2010	12/31/2014	74,407,662	54,000,000

Source: USAID, response to SIGAR data call, 10/9/2014.

The Agricultural Development Fund (ADF) and Agricultural Credit Enhancement (ACE) has 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.⁸⁰⁰

As of September 30, 2014, ADF has provided direct loans to 24,718 farmer households through farmer associations and networks. ADF's loan portfolio was \$101.2 million in loans approved, of which \$55.8 million has been disbursed, with \$30.8 million repaid. USAID said 3.6% of ADF loans are late in repayment, well within standard acceptable rate in developed countries.⁸⁰¹

USAID said it and MAIL are committed to the sustainability of ADF as USAID's participation winds down in the coming months. Other donors will be approached to capitalize the fund, with the Danish Development Agency committing \$28.5 million so far. MAIL has also demonstrated its commitment to ADF's sustainability by supporting the autonomy of the program's board of directors.⁸⁰²

Incentives Driving Economic Alternatives-North, East, and West

Project Title	Start Date	End Date	Total Estimated Cost (\$)	Cumulative Disbursement, as of 9/30/2014
Incentives Driving Economic Alternatives-North, East, and West	3/2/2009	2/28/2015	\$159,878,589	\$145,643,923

Source: USAID, response to SIGAR data call, 10/9/2014.

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.⁸⁰³

This quarter saw pesticide training for nine agricultural input suppliers (primarily seeds, fertilizers, agrochemicals), signed grant agreements with 11 input suppliers and four food processors, and a business-to-business meeting for four local food processing companies.⁸⁰⁴

Commercial Horticulture and Agricultural Marketing Program

Project Title	Start Date	End Date	Total Estimated Cost (\$)	Cumulative Disbursement, as of 9/30/2014
Commercial Horticulture and Agricultural Marketing Program	2/1/2010	12/30/2014	\$40,320,139	\$38,573,341

Source: USAID, response to SIGAR data call, 10/9/2014.

The Commercial Horticulture and Agricultural Marketing Program (CHAMP) aims to displace poppy cultivation by helping farmers plant and operate 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. 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 sub-value chain (melons).⁸⁰⁵

This quarter, CHAMP trained more than 1,300 farmers in pre-harvest techniques such as pest management, pruning, fruit thinning, and water management, as well as maintenance of newly planted citrus orchards. Additionally, Afghan farmers from four provinces exported more than \$2.5 million worth of apricots to India and Pakistan. However, the CHAMP Kabul office was closed due to security threats that forced staff to work out of their homes or a hotel guest house. The deteriorating security situation is also hampering work in several provinces with staff and beneficiaries being threatened and intimidated. USAID's CHAMP implementing partner also reported procurement delays caused by USAID's vetting processes.⁸⁰⁶

Other Active USAID Agriculture Programs

Project Title	Start Date	End Date	Total Estimated Cost (\$)	Cumulative Disbursement, as of 9/30/2014
Famine Early Warning System Network (FEWSNET) Phase III	12/29/2011	12/28/2016	\$78,011,630	\$2,420,553
Strengthening Afghanistan Agricultural Faculties (SAAF)	3/25/2011	12/31/2016	7,824,209	5,817,395
Afghan Agricultural Research and Extension Development (AGRED)	7/17/2012	7/16/2017	23,638,611	6,126,144
Improving Livelihoods and Governance Through Natural Resource Management	4/10/2010	12/31/2014	14,000,000	12,218,825
IWMP-Irrigation and Watershed Management Program	12/21/2012	12/20/2017	129,963,114	13,475,767
Regional Agriculture Development Program (RADP)-South	10/7/2013	10/6/2018	125,075,172	11,366,923
Regional Agriculture Development Program (RADP)-North	5/21/2014	5/20/2019	78,429,714	889,531
Regional Agriculture Development Program (RADP)-West*	8/10/2014	8/9/2019	69,973,376	0
Capacity Building and Change Management Program II (CBCMP)*	7/10/2014	7/9/2017	19,999,989	886,923

Note: *Awarded this quarter.

Source: USAID, response to SIGAR data call, 10/9/2014.

ESSENTIAL SERVICES AND DEVELOPMENT

Since 2002, the United States has provided reconstruction funds to increase 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.⁸⁰⁷ The country 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,⁸⁰⁸ but urban dwellers comprise less than 25% of the Afghan population.⁸⁰⁹

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.⁸¹⁰

From 2002 through 2012, USAID alone obligated more than \$2 billion 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.⁸¹¹ In addition, DOD has provided approximately \$292 million for electricity projects through the Commander's Emergency Response Program (CERP) and roughly \$1.1 billion through the Afghanistan Infrastructure Fund (AIF), which is jointly managed by DOD and State.⁸¹²

Afghanistan currently has nine separate power systems. The primary two are the **Northeast Power System (NEPS)** and the **Southeast Power System (SEPS)**. USAID has three projects to connect and increase the electricity supply in both systems—Sheberghan; the Kandahar-Helmand Power Project, which includes Kajaki Dam hydropower; and the Power Transmission Expansion and Connectivity Program.

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.⁸¹³ 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.⁸¹⁴ DOD is using the AIF to fund fuel for the U.S. Army Corps of Engineers-installed diesel generators in Kandahar City.⁸¹⁵

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.⁸¹⁶ Toward that end, PTEC's commercialization and capacity-building components aim to reduce technical and commercial losses.⁸¹⁷ DABS is responsible for procuring all PTEC contracts with significant support from USAID. Construction has not yet

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.

started on PTEC projects and USAID has no plans to increase on-budget funding at this time.⁸¹⁸

On August 31, 2014, DABS officials signed a four-year, \$27.5 million, USAID-funded Kandahar Management Support contract with Dubai-based Power Generation Solutions. The project aims to help DABS increase revenues and finance power production in Kandahar by installing tamper-proof digital meters in homes and businesses. Funding will also establish customer-service centers in Kandahar and try to improve overall electricity distribution infrastructure.⁸¹⁹

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.⁸²⁰ Power-system interconnection can improve overall system stability and allow more economic dispatch of generating units, reducing costs compared to running a set of unconnected systems.

This quarter, USAID awarded two contracts for the construction of a 220 kVa transmission line from Arghandi to Ghazni (\$56.7 million) and two substations (\$48.1 million). This is the first segment of the PTEC transmission line that will connect Kabul to Kandahar. Additionally, two PTEC procurement contracts to acquire substation components were finalized this quarter, but have not yet been signed.⁸²¹

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.⁸²² As of September 30, 2014, USAID has obligated \$285 million to AITF and disbursed \$105 million.⁸²³

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.⁸²⁴

DOD-Funded Programs

This quarter, DOD continued implementing several priority energy-sector projects to complete its portion of the NEPS and SEPS using FY 2012–FY 2014 AIF money.⁸²⁵ Congress cut the President's FY 2014 AIF budget request from \$279 million to \$199 million and restricted its use for projects already begun before the legislation's enactment on January 17, 2014.⁸²⁶

AIF projects are supposed to contribute to counterinsurgency strategy and development, although DOD has located no studies that explore the relationship between electrical power and reduced violence in Afghanistan. DOD said because AIF-funded projects are still under construction and not

yet operational, their long-term counterinsurgency and economic development benefits cannot be assessed at this time.⁸²⁷

Some ongoing energy-sector projects using FY 2011 through FY 2014 AIF money include:⁸²⁸

- Kandahar Power Bridging Solution-Fuel
- SEPS Completion, Phase I
- SEPS, Phase II Kandahar–Durai Junction transmission lines
- NEPS Arghandi to Gardez, Phase I
- NEPS Arghandi to Gardez, Phase II
- NEPS Charikar to Panjshir Phase I
- NEPS Charikar to Panjshir Phase II

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.⁸²⁹

DOD allocated \$20 million in FY 2014 funds to provide fuel through September 2015 at a declining subsidy each month.⁸³⁰ 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 2015.⁸³¹

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 2014.⁸³² This quarter, the U.S. Army awarded a \$3.5 million contract to IAP Worldwide Services to provide DABS with power-plant consumables—labor, tools, materials, and transportation.⁸³³

SEPS Completion Phase I and SEPS Phase II

Two contracts totaling \$75 million were awarded to Afghan firms in September 2014 to complete SEPS in Helmand Province, including construction of substations and rehabilitation of transmission lines between Sangin and Lashkar Gah. The estimated completion date is September 2015. The original \$130 million contract awarded to Perini to build substations and transmission lines from Kajaki Dam to Lashkar Gah was terminated for convenience in May 2014 due to increased security costs as a result of reduced ISAF support in the region.⁸³⁴

SIGAR SPECIAL PROJECT

In a letter to DOD, State, and USAID officials this quarter, SIGAR expressed concern about their responses to SIGAR's inquiry about the Kandahar Bridging Solution and the U.S. government's plans to provide electric power to Kandahar after December 2014. SIGAR has little confidence that sufficient electricity and basic services will be provided to the people of Kandahar or that the United States has a realistic plan to help the Afghan government develop a sustainable source of electricity between the end of the Kandahar Bridging Solution and the point at which a stable source of power generation is projected to come online. For more information, see Section 2, page 40.

Kandahar to Durai Junction Transmission Lines

Part of the effort to expand SEPS (Phase II), 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 initially in 2012, terminated, and re-awarded in August 2014, remains \$40 million in FY 2012 AIF funds. DOD estimates it will be completed in September 2015.⁸³⁵ Completion of this project is essential to distribute power generated by the third turbine still awaiting installation at Kajaki Dam, according to DOD.⁸³⁶

NEPS, Phases I and II

NEPS Phase I will construct transmission lines and substations between Arghandi and Pul-e Alam. Awarded initially in 2012 to the same contractor first hired to build the Kandahar–Durai Junction transmission lines, it was terminated for qualification issues, and re-awarded in August 2014. The cost of Phase I is \$93.7 million in FY 2011 AIF funds. DOD estimates it will be completed in January 2016. The \$69.2 million Phase II is constructing transmission lines and substations between Pul-e Alam and Gardez, and is estimated to be completed in January 2016.⁸³⁷

Charikar to Panjshir, Phases I and II

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 for Phase I and \$33 million in FY 2013 funds for Phase II of the project, for a total estimated cost of \$71 million. Annual estimated operations-and-maintenance (O&M) costs for the transmission lines and substations are \$580,000.⁸³⁸ DABS is supposed to 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.⁸³⁹ However, SIGAR has raised questions about DABS's capacity and has said Afghanistan lacks the resources necessary to pay for O&M.⁸⁴⁰

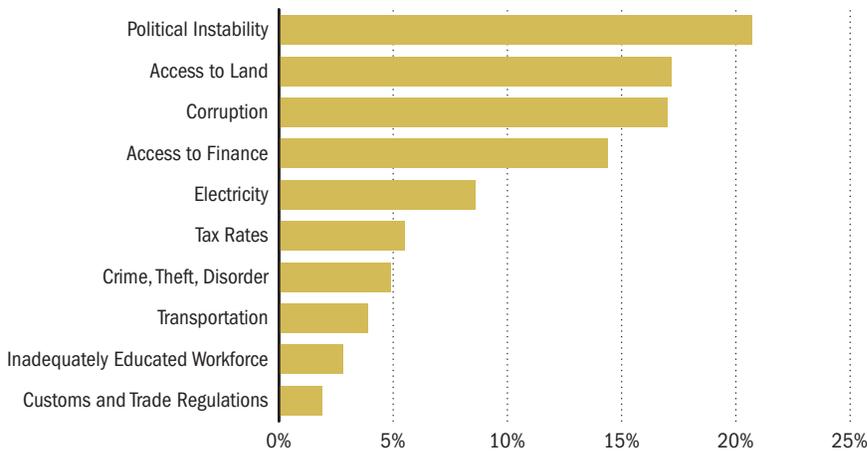
PRIVATE-SECTOR DEVELOPMENT

The World Bank surveyed owners and top managers in 356 firms asking them about the biggest obstacles to their businesses in Afghanistan in 2014. Political instability was the greatest obstacle, while customs and trade regulation was listed tenth, as seen in Figure 3.34.

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.⁸⁴¹ From FY 2002 to FY 2013, USAID appropriated \$1.2 billion for economic growth in Afghanistan.⁸⁴²

FIGURE 3.34

Top 10 Factors Cited as Main Business-Environment Constraint, 2014



Source: World Bank, "Enterprise Surveys, Afghanistan 2014," survey of 354 businesses, accessed 8/29/2014.

Assistance in Building Afghanistan by Developing Enterprises

Project Title	Start Date	End Date	Total Estimated Cost (\$)	Cumulative Disbursement, as of 9/30/2014
Assistance in Building Afghanistan by Developing Enterprises	10/16/2012	10/16/2016	\$104,997,656	\$25,214,106

Source: USAID, response to SIGAR data call, 10/9/2014.

USAID said its ABADE program aims to help productive, Afghan-registered, small-to-medium enterprises add jobs, increase investment, and improve sales of domestic products and services through public-private alliances (PPAs). ABADE has 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.⁸⁴³

This quarter, USAID said ABADE is making efforts to engage women-owned and smaller enterprises, finalized action plans with the Ministry of Commerce and Industry in the carpet and agribusiness sectors, while plans for women's small and medium enterprises, marble and gemstones are in process. ABADE also helps the Afghanistan Investment Support Agency in its outreach efforts and is making a video promoting Afghan trade.⁸⁴⁴

In FY 2014, USAID reported one PPA successfully completed, 80 PPAs signed with Afghan SMEs, three PPAs approved and pending signature, and 32 PPAs awaiting final USAID approval.⁸⁴⁵

Financial Access for Investing in the Development of Afghanistan

Project Title	Start Date	End Date	Total Estimated Cost (\$)	Cumulative Disbursement, as of 9/30/2014
Financial Access for Investing in the Development of Afghanistan	2/7/2011	2/6/2016	\$108,077,476	\$84,130,328

Source: USAID, response to SIGAR data call, 10/9/2014.

USAID’s Financial Access for Investing in the Development of Afghanistan (FAIDA) aims to build a financial sector that can generate and sustain quality employment mostly in the agricultural sector that satisfies the needs of micro, small, and medium enterprises in Afghanistan’s south and east. FAIDA helps Afghan partners build capacity to deliver finance, develop a legal framework and market infrastructure, provides technical assistance to mobile network operators for mobile money services, and assists Afghan women entrepreneurs with business-development training so they can gain access to financing and opportunities for economic and professional growth. Several events were canceled this quarter due to the elections and associated security concerns.⁸⁴⁶

A 2014 USAID Office of the Inspector General (OIG) audit of FAIDA found that while FAIDA made some achievements, they have not necessarily resulted in the intended outcome of a more sustainable, diverse, and inclusive financial sector. By September 2013, job targets were not met, only 4% of loans were made by banks belonging to the Afghanistan Banks Association (the rest were made by donor-funded financial institutions, which is not sustainable); 30% of loans by volume went to female-owned businesses, but only 7.2% of loans by amount, showing little improvement than what existed before programming began; and of the more than 2,000 loans provided, only three went to businesses in the south. The audit also said FAIDA did not significantly enhance the capacity and reach of mobile money after 19 months of programming.⁸⁴⁷

USAID said the OIG audit found no significant on-going deficiencies, so no significant changes were made to its core activities. USAID said it did evaluate its mobile-money activities, developed a new strategy, and shifted its activities accordingly.⁸⁴⁸

Kabul Business Accelerator–American University of Afghanistan Grant

TFBSO’s business-accelerator project at the American University of Afghanistan—also known as the Business Innovation Hub—provides fee-based professional business management-consulting services to help Kabul-based businesses articulate, develop, and reach their goals. The hub is currently working with five to eight businesses; it aims for 15 long-term,

continuing clients and 10 short-term ones by the end of 2014. TFBSO does not oversee this program and financial arrangements between the university and its clients are not reported to the Task Force. Additionally, since the program is relatively new, results are not yet available.⁸⁴⁹

As of September 29, 2014, TFBSO obligated \$4,147,957 and disbursed \$1,348,255 in FY 2013 and FY 2014 funds.⁸⁵⁰ TFBSO will end its work with the hub in November and the grant will expire December 31, 2014.⁸⁵¹ Client and donor funds are to sustain the program for the next three years, with client fees funding operations thereafter.⁸⁵²

American University of Afghanistan Grant—New

TFBSO also obligated a \$1,111,629 grant with FY 2014 funds to open a Business Innovation Hub branch office in Herat to serve small-to-medium-sized enterprises in that area. No funds have yet been disbursed and no businesses have yet been assisted, as of September 29, 2014. The program is currently hiring and training staff with the intent of assisting seven Herat businesses by the end of 2014.⁸⁵³

Business Accelerator and Investment Small- to Medium-Sized Enterprise Services

In FY 2012, TFBSO shifted its Herat business-incubator program to a business accelerator, working with small-to-medium-sized enterprises that could better benefit from its business-advisory services, which comprised:⁸⁵⁴

- helping articulate a vision for expansion and increased profitability
- improving business processes to reach those goals—accounting, marketing, inventory management, sales strategy, etc.
- networking former business accelerator clients with current ones for collaborative opportunities

TFBSO business investment services included:⁸⁵⁵

- identifying commercial opportunities with significant economic potential
- pairing responsible investors with legitimate Afghan firms
- introducing responsible investors to viable Afghan economic sectors
- due diligence reviews on Afghan companies
- market research

TFBSO shut down the Herat business accelerator in July 2014, but its local consultants will remain until December to close relationships with clients. From FY 2011 through FY 2014, TFBSO obligated \$42.9 million and disbursed \$33.9 million. In that time, TFBSO reported 36 business-accelerator and 35 investment-service clients.⁸⁵⁶

This quarter, the U.S. Department of Transportation office in Afghanistan closed.

Source: DOT, response to SIGAR data call, 9/30/2014.

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.⁸⁵⁷ Afghanistan's infrastructure shortcomings particularly constrain the service and agriculture sectors, currently the leading contributors to GDP.⁸⁵⁸ They also hold back the mining industry, whose future revenues the Afghan government and international donor community are counting on to offset declining aid.⁸⁵⁹ This quarter, the United States continued its efforts to assist Afghanistan in developing ministry capacity, and sustaining operations and maintenance.⁸⁶⁰

Roads

While the United States has provided \$2.1 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.⁸⁶¹ Afghanistan does not currently have sufficient funding and technical capacity to maintain its roads and highways, according to USAID.⁸⁶² Moreover, the lack of a functioning roads authority has significantly affected road infrastructure across Afghanistan.⁸⁶³

Road Sector Sustainability

Project Title	Start Date	End Date	Total Estimated Cost (\$)	Cumulative Disbursement, as of 9/30/2014
Road Sector Sustainability	8/1/2014	8/1/2019	\$111,000,000	\$0

Source: USAID, response to SIGAR data call, 7/14/2014 and 10/9/2014.

USAID's Road Sector Sustainability project has four main activities:⁸⁶⁴

- Activity 1: Emergency O&M (\$5 million).
- Activity 2: Technical assistance to the Ministry of Public Works for creation of a road authority and road fund (\$25 million phase I; \$10 million phase II). A three-year contract began August 3, 2014.
- Activity 3: Capacity building for the Ministry of Public Works (\$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.
- Activity 4: Road O&M (\$33 million). USAID funding, proposed for January 2015, will go through the AITF once the ADB develops an operations-and-maintenance incentive window.

Gardez–Khowst Highway Rehabilitation Phase IV

Project Title	Start Date	End Date	Total Estimated Cost (\$)	Cumulative Disbursement, as of 9/30/2014
Gardez–Khowst Road	6/26/2014	12/25/2015	\$32,763,736	\$3,801,597

Source: USAID, response to SIGAR data call, 10/9/2014.

This quarter, asphaltting began on remaining 15.5 miles of the 63-mile Gardez–Khowst highway.⁸⁶⁵ Phase IV rehabilitation of the highway also includes construction of 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.⁸⁶⁶

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, and increasing opportunities in adult literacy, employment skills, and youth development.⁸⁶⁷

The reliability of Afghanistan’s Education Management Information System (EMIS)—the only database at the Ministry of Education (MOE) tracking education metrics—cannot be confirmed.⁸⁶⁸ EMIS 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.⁸⁶⁹ In the most recent EMIS Statistical Analytical Report from FY 1390 (2011/2012), the MOE admitted that only 1,000 schools (7% of all general education schools) were visited for data verification.⁸⁷⁰ 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.⁸⁷¹

However, USAID said EMIS is becoming stronger through its EQUIP II program assistance. The MOE is recruiting technical assistants for the planning department, purchasing equipment, and hiring consultants to expand EMIS at the provincial and district levels.⁸⁷²

According to the most recent data available from the MOE’s EMIS, Afghanistan had a total of 13,875 general education (government) schools in 1392, with 7.96 million students enrolled.

The latest complete data year on student attendance for all provinces is 1391. Data generated from EMIS shows approximately 7.61 million students were **enrolled** in general education schools. Of the enrolled students, 6.25 million were categorized as **present**, while 1.36 million students were considered **absent**.

Source: MOE, Education Management Information System (EMIS) Generated Report, Summary of Schools and Student By Ownership and Program Year (1392), accessed 10/17/2014; MOE, Education Management Information System (EMIS) Generated Report, Summary of Students Attendance Year 1391, accessed 10/17/2014.

SIGAR SPECIAL PROJECT

This quarter SIGAR sent a letter to USAID requesting more information about an Afghan school, funded by a USAID-supported program, that recently collapsed, reportedly injuring up to 32 students and one teacher. For more information, see Section 2, page 41.

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 are still included in enrollment figures.

Source: USAID, response to SIGAR vetting, 7/9/2014.

USAID’s priority education programs funded through the ESF this quarter include:⁸⁷³

- Basic Education, Literacy, and Technical-Vocational Education and Training
- Afghanistan University Support and Workforce Development Program
- American University of Afghanistan

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

Project Title	Start Date	End Date	Total Estimated Cost (\$)	Cumulative Disbursement, as of 9/30/2014
Basic Education, Literacy, and Technical-Vocational Education Textbooks	11/16/2011	12/31/2014	\$26,996,813	\$23,016,555
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

Source: USAID, response to SIGAR data call, 10/9/2014; USAID, response to SIGAR vetting, 4/14/2014.

BELT aims to improve access to basic education in communities that are 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.⁸⁷⁴ BELT Community-Based Education (CBE) provides accelerated and remedial education, allowing students to attend schools in remote locations.⁸⁷⁵

On September 14, 2014, USAID extended the BELT program until 2020. With an infusion of \$327 million, the new total estimated cost of the program is \$500 million. New subprojects include the \$150 million Early Grade Reading and Access activity, which aims to provide evidence-based reading instruction for students in grades one and two. It will do so by offering proven reading material; training and coaching teachers on that material; mobilizing community support; upgrading MOE’s reading-achievement assessments; and working with MOE to implement best-practices guidelines across the school system.⁸⁷⁶ No data on student reading and math proficiency or teacher proficiency currently exists, but USAID is considering support to a program that would assess reading skills and gaps among Afghan children.⁸⁷⁷

Also this quarter, USAID approved \$54 million in incremental funding to improve teacher education and subsequently, the quality of education in Afghanistan under the World Bank-managed ARTF’s Education Quality Improvement Project (EQUIP). USAID did so because it deems teacher quality to be low and said EQUIP lacks the necessary resources to reach many of those in rural areas. USAID reported 43,384 teachers were trained with U.S. government assistance, representing 40% of USAID’s contribution to EQUIP.⁸⁷⁸

The 2012 Education Joint Sector Review found only a small portion of teacher-training college graduates actually teach. Many do not want to teach in rural areas, where qualified teachers are most needed.⁸⁷⁹ USAID attributes this largely to security, preference for urban areas, lack of MOE funds for more teaching positions, and low teacher salaries.⁸⁸⁰

Additionally, approximately 34 million textbooks for grades 1–6 were printed with USAID funding. They are currently being distributed nationwide and will be audited next quarter.⁸⁸¹ Field-visit reports in 2012 indicated textbooks were sometimes stocked in district offices and not distributed to schools due to lack of funds.⁸⁸²

USAID continues to work closely with the MOE to implement CBE. In this reporting period, USAID issued a \$54 million CBE grant to the United Nations International Children’s Emergency Fund (UNICEF) to help decrease the number of out-of-school students, particularly females, in Afghanistan’s southern region.⁸⁸³ In August 2014, the MOE provided guidance for nongovernmental organizations (NGOs) to implement CBE, submitted the first-year CBE work plan for USAID comments, and participated in recruitment of CBE consultants. However, USAID also faces ongoing challenges with the MOE’s ability to implement on-budget activities in a timely fashion. The MOE has not submitted any of the required quarterly reports in 2014, nor the monitoring and evaluation reports this quarter.⁸⁸⁴

Afghanistan University Support and Workforce Development Program

Project Title	Start Date	End Date	Total Estimated Cost (\$)	Cumulative Disbursement, as of 9/30/2014
Afghanistan University Support and Workforce Development	1/1/2014	12/31/2018	\$91,927,769	\$5,932,779

Source: USAID, response to SIGAR data call, 10/9/2014.

The Afghanistan University Support and Workforce Development program (USWDP) aims to improve the management capacity of the Ministry of Higher Education (MOHE) and 10 public universities by training officials, students, funding scholarships, and facilitating partnerships between U.S. and Afghan universities.⁸⁸⁵

Still in its early stages, the program focused this quarter on its own recruiting, formation, and development of action plans. The presidential-runoff election and related security concerns slowed program and technical implementation. Also delaying implementation is a MOF demand for a USAID implementation letter before it allows the MOHE or any universities to participate, the program’s inability to receive operating funds through international wire transfers due to the banking crisis caused by the long-awaited AML/CFT laws, and the lengthy U.S. government approval/vetting process for operational services and security upgrades.⁸⁸⁶ USWDP officially



U.S. Ambassador Cunningham attends an AUAF event. (State Department photo)

launched August 13, 2014, with a signed memorandum of understanding between the MOHE and USAID’s implementing partner.⁸⁸⁷

American University of Afghanistan

Project Title	Start Date	End Date	Total Estimated Cost (\$)	Cumulative Disbursement, as of 9/30/2014
American University of Afghanistan Professional Development Institute	8/1/2013	7/31/2018	\$40,000,000	\$8,445,629

Source: USAID, response to SIGAR data call, 10/9/2014.

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.⁸⁸⁸ No new information was provided this quarter.

Other Active USAID Education Programs

Project Title	Start Date	End Date	Total Estimated Cost (\$)	Cumulative Disbursements as of 9/30/2014
Global Partnership for Education	10/11/2012	3/31/2015	\$2,500,000	\$842,105
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 II)	5/19/2014	5/18/2019	29,835,920	446,578
Afghan Tuition Scholarship Program	8/21/2011	7/31/2017	7,384,665	6,072,164

Source: USAID, response to SIGAR data call, 10/9/2014.

HEALTH

Afghanistan has experienced improvements in its health indicators since 2002, though it remains below average for low-income countries and has one of the world’s highest levels of child malnutrition, according to the World Bank.⁸⁸⁹ 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.⁸⁹⁰

USAID Funding

From FY 2002 through FY 2013, U.S. on- and off-budget assistance to Afghanistan’s health sector totaled \$1.2 billion.⁸⁹¹ From FY 2014 through

FY 2018, USAID assistance will total \$477 million.⁸⁹² 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.⁸⁹³

USAID Oversight

USAID funds a team within the 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.⁸⁹⁴

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.⁸⁹⁵ For more information about the LMG program, see page 199.

USAID Health Programs

U.S. assistance to the 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.⁸⁹⁶

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

- Partnership Contracts for Health (PCH) Services
- Health Policy Project (HPP)
- Leadership, Management, Governance Project (LMG)

Partnership Contracts for Health Services

Project Title	Start Date	End Date	Total Estimated Cost (\$)	Cumulative Disbursement, as of 9/30/2014
Partnership Contracts for Health Services	7/20/2008	1/31/2015	\$236,455,840	\$182,975,290

Source: USAID, response to SIGAR data call, 10/9/2014.

The host-country contract PCH program supports the MOPH's efforts to provide the Basic Package of Health Services (BPHS) in 13 provinces and

SIGAR INVESTIGATION

In an ongoing investigation of the 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.

USAID reported six PCH health facilities were closed this quarter, while others could not be overseen, creating an obstacle for health-service delivery. An explosion at the PCH Kandahar facility injured six employees.

Source: USAID, response to SIGAR data call, 9/29/2014.

the Essential Package of Hospital Services (EPHS) in five provinces. 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. In addition, PCH supports the Community Midwifery Education program, which aims to reduce maternal and child mortality.⁸⁹⁷

PCH is implemented by the off-budget 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, non-commingled account at the central bank, to which it has access. PCH is also audited by independent auditors.⁸⁹⁸ This quarter, USAID recertified GCMU after assessing it for agreement administration and compliance, solicitation, trainings, budgeting, accounting, reporting, and monitoring.⁸⁹⁹

Health Policy Project

Project Title	Start Date	End Date	Total Estimated Cost (\$)	Cumulative Disbursement, as of 9/30/2014
Health Policy Project	9/25/2011	1/31/2015	\$28,000,000	\$17,005,709

Source: USAID, response to SIGAR data call, 10/9/2014.

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 equality 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.⁹⁰⁰

Election-related insecurity and travel bans delayed several technical activities this quarter, including training, and the search for a qualified consultant to assist the public-private partnerships unit. These are compounded by a lack of designated work space and inconsistent dues payments by member hospitals.⁹⁰¹

Despite these challenges, this quarter HPP helped facilitate the first HMIS report covering 20 private hospitals; helped amend private health-center regulations; facilitated investor site visits; conducted trainings; and sold more than 2.5 million socially marketed products, generating more than 5.6 million AFN that were reinvested in the program. HPP is scheduled to close in October 2014. In its remaining time, HPP planned to continue its gender-based violence trainings, collecting metrics for any follow-up program, and advocating future MOPH-led trainings funded by grants.⁹⁰²

Leadership, Management, and Governance Project

Project Title	Start Date	End Date	Total Estimated Cost (\$)	Cumulative Disbursement, as of 9/30/2014
Leadership, Management, and Governance/Field Support	9/1/2012	2/28/2015	\$40,399,490	\$24,963,134

Source: USAID, response to SIGAR data call, 10/13/2014.

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.⁹⁰³

This quarter, USAID said LMG established human-resource recruitment committees and continued to train health-care staff. Nine additional provinces are practicing LMG good-governance tools that are expected to improve decision making, accountability, transparency and a rational use of resources. LMG is supporting the HMIS department of the MOPH in improving data quality and reliability. It helped MOPH with analysis and provided feedback, while teaching MOPH units how to use HMIS data to make better decisions. LMG also facilitated field visits for HMIS consultants to support provincial health officials and NGO staff.⁹⁰⁴

USAID also noted several challenges from working with the MOPH this quarter, including slow decision making and concerns about program sustainability during the transition to on-budget programming, less accountability in the past six months during the political deadlock, and lack of workspace for embedded consultants within the MOPH.⁹⁰⁵

Other Active USAID Health Programs

Project Title	Start Date	End Date	Total Estimated Cost (\$)	Cumulative Disbursements, as of 9/30/2014
Strengthening Pharmaceutical System	8/28/2011	8/27/2015	\$24,499,936	\$16,034,374
Polio-Eradication Activities	9/30/1996	9/30/2022	10,830,615	9,214,835
Tuberculosis = Field Support	9/29/2010	9/28/2015	5,600,000	4,600,000
University Research = Field Support	9/30/2009	9/29/2014	13,950,000	13,327,925

Source: USAID, response to SIGAR data call, 10/9/2014.

