

3 RECONSTRUCTION UPDATE



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U.S. Ambassador James Cunningham shakes hands with Afghan National Security Adviser Hanif Atmar after signing the Bilateral Security Agreement between the countries on September 30, while Afghanistan's new Chief Executive Officer Abdullah Abdullah, center, and other officials look on. The new Afghan government also signed a Status of Forces Agreement with NATO. (State Department photo)

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OVERVIEW

On September 29, 2014, Ashraf Ghani was inaugurated president of Afghanistan following a highly contentious election process. President Ghani's inauguration marked the first democratic transition of power in Afghanistan's history.

The messy aftermath of the Afghan presidential election dominated the quarter. After a June runoff election, presidential candidate Abdullah claimed victory in July and again in September, while the Independent Election Committee (IEC) released preliminary results showing Ghani to be the presumptive victor. President Barack Obama and Secretary of State John Kerry made significant interventions, encouraging the candidates to agree to an audit process and form a national-unity government. Following the June 14 runoff election, President Obama called both candidates six times, Secretary Kerry called the candidates 30 times and twice visited the country, and U.S. Ambassador James Cunningham held 81 meetings with the candidates. The European Union Election Assessment Team (EU EAT) labeled the audit process "unsatisfactory" and claimed the audit produced clear evidence of large-scale fraud, particularly ballot stuffing. EU EAT estimated that between two million and three million runoff votes were fraudulent.

On September 30, 2014, one day after President Ghani's inauguration, Afghan and U.S. officials signed the long-awaited Bilateral Security Agreement (BSA)—formally the Security Cooperation and Defense Agreement between the United States of America and the Islamic Republic of Afghanistan. Afghan and NATO officials also signed the NATO Status of Forces Agreement. In a statement, the International Security Assistance Force (ISAF) said "the two agreements provide the legal framework for the United States, NATO, and its partner nations' continued commitment to train, advise, and assist Afghan National Security Forces (ANSF)."

This quarter also brought a change of command of ISAF with General John Campbell assuming command of the force from General Joseph F. Dunford. General Campbell will be the last ISAF commander, as that organization will be replaced by an advisory mission at the beginning of 2015. In addition, during a September summit in Wales, NATO allies and ISAF

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partners reaffirmed their intent to continue training, advising, and assisting ANSF beyond 2014.

SIGAR is closely following developments in the security sector. SIGAR is concerned about ISAF's recent classification of a previously unclassified ANSF assessment report summary, accountability for DOD contracting, high levels of ANSF attrition, continued uncertainty about the Afghan government's plan to provide site and convoy security for U.S. and international personnel, and increasing violence around the country.

Afghanistan is suffering from acute budgetary shortfalls threatening to affect payments of civil servant salaries, pensions, and operating and development spending. In the first seven months of Afghan FY 1393 (December 21, 2013–December 20, 2014), domestic revenues missed Ministry of Finance (MOF) budget targets by 22% and decreased by about 3.8% from the same period last year. At the same time, 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. This will limit Afghanistan's ability to pay for discretionary services without significant donor support and improved revenue mobilization. The MOF is in discussion with donors for additional monies to cover the budget shortfall for remainder of FY 1393.

In one his first official actions upon being sworn into office, President Ashraf Ghani directed Afghan government officials to immediately reopen the Kabul Bank case, recover stolen funds, hold accountable those involved in the theft of \$982.6 million, and move ahead with privatizing the successor New Kabul Bank. According to the Independent Joint Anti-Corruption Monitoring and Evaluation Committee, only \$175.2 million has been recovered so far—less than 18% of total amounts owed. Seven offenders charged in the original indictment have reportedly been re-arrested, but others are no longer in Afghanistan.

The United Nations Office of Drug and Crime (UNODC) and Ministry of Counternarcotics (MCN) published their final poppy eradication verification report for the year. Compared to 2013, there was a 63% decrease: only 2,692 hectares were eradicated in 2014. The MCN attributes the reduced number to the reallocation of resources for election security. Interdiction results likewise decreased this quarter with the reduced Coalition footprint. According to the Department of Defense (DOD), drug labs, storage sites, and major trafficking networks are concentrated in rural areas and are increasingly denied to Afghan forces due to the ISAF drawdown and declining security in these areas.

As of September 30, 2014, approximately \$104.1 billion had been appropriated for Afghanistan relief and reconstruction since 2002, and approximately \$14.5 billion remained in the funding pipeline for potential disbursement. On September 19, 2014, President Obama signed the Continuing Appropriations Resolution, 2015, funding the government

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through December 11, 2014, at the FY 2014 enacted levels. While Afghanistan reconstruction funding levels for FY 2015 cannot be determined until a full-year appropriations bill is passed, the FY 2015 budget request would add another \$5.8 billion to six of the seven major reconstruction funds if enacted. DOD is not requesting additional funding for the Afghanistan Infrastructure Fund (AIF) for FY 2015.

The United States provides on-budget assistance to Afghanistan through direct payments to Afghan government entities and through contributions to multinational trust funds. Since 2002, the United States has provided more than \$7.7 billion in on-budget assistance. This includes about \$4.1 billion to Afghan government ministries and institutions, and nearly \$3.6 billion to three multinational trust funds—the World Bank’s Afghanistan Reconstruction Trust Fund (ARTF), the United Nations Development Programme’s Law and Order Trust Fund for Afghanistan (LOTFA), and the Asian Development Bank’s Afghanistan Infrastructure Trust Fund (AITF). Table 3.1 shows U.S. on-budget assistance to Afghan government entities.

TABLE 3.1

U.S. ON-BUDGET ASSISTANCE TO AFGHANISTAN, SINCE 2002 (\$ MILLIONS)	
Government-To-Government	
DOD	\$2,905
State	92
USAID	1,152
Multilateral Trust Funds	
LOTFA	\$1,446
ARTF	2,039
AITF	105

Note: Government-To-Government figures reflect amounts the United States has committed in on-budget assistance, excluding commitments to multilateral trust funds. Multilateral trust fund figures reflect amounts the United States has paid in to each trust fund.

Source: SIGAR, Audit Report 14-32-AR, *Direct Assistance: USAID Has Taken Positive Action to Assess Afghan Ministries’ Ability to Manage Donor Funds, but Weaknesses Remain*, 1/2014; SIGAR, Special Project Report 14-12-SP, *Comprehensive Risk Assessments of MOD and MOI Financial Management Capacity Could Improve Oversight of Over \$4 Billion in Direct Assistance Funding*, 12/2013; USAID, response to SIGAR data call, 10/9/2014; World Bank, ARTF: *Administrator’s Report on Financial Status as of September 22, 2014*, p. 5; UNDP, *Law and Order Trust Fund for Afghanistan (LOTFA) 2014 Second Quarter Project Progress Report*, 9/24/2014, p. 33; SIGAR analysis of UNDP’s quarterly and annual LOTFA reports, 10/19/2014.

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- DOD ASFF:** Afghanistan Security Forces Fund
- CERP:** Commander's Emergency Response Program
- AIF:** Afghanistan Infrastructure Fund
- TFBSO:** Task Force for Business and Stability Operations
- DOD CN:** DOD Drug Interdiction and Counter-Drug Activities
- USAID ESF:** Economic Support Fund
- State INCLE:** International Narcotics Control and Law Enforcement

FUNDING FOR AFGHANISTAN RECONSTRUCTION

Since 2002, Congress has appropriated nearly \$104.1 billion for Afghanistan relief and reconstruction. Of this amount, \$87.7 billion (84%) was appropriated to the seven major reconstruction funds, as shown in Table 3.2.

As of September, 30, 2014, approximately \$14.5 billion of appropriated funds remained for possible disbursement, as shown in Figure 3.1. These funds will be used to complete on-going, large-scale infrastructure projects, such as those funded by the AIF and ESF; train, equip, and sustain the ANSF; combat narcotics production and trafficking; and advance the rule of law, strengthen the justice sector, and promote human rights. Approximately 40% of the funding in the pipeline has yet to be obligated. About \$8.7 billion of the \$14.5 billion remaining has been obligated.

FIGURE 3.1

CUMULATIVE AMOUNT REMAINING TO BE DISBURSED (\$ BILLIONS)

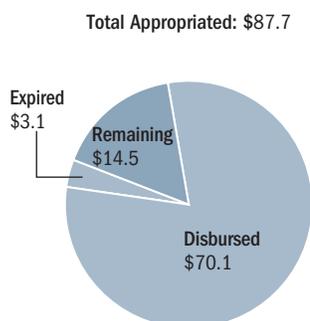


TABLE 3.2

CUMULATIVE AMOUNTS APPROPRIATED, OBLIGATED, AND DISBURSED FY 2002–2014 (\$ BILLIONS)				
	Appropriated	Obligated	Disbursed	Remaining
ASFF	\$57.33	\$51.77	\$48.94	\$7.26
CERP	3.67	2.28	2.26	\$0.02
AIF	1.04	0.75	0.30	\$0.65
TFBSO	0.81	0.77	0.60	\$0.19
DOD CN	2.70	2.62	2.62	\$0.09
ESF	17.72	16.43	12.25	\$5.04
INCLE	4.44	4.16	3.15	\$1.23
Total 7 Major Funds	\$87.72	\$78.78	\$70.11	\$14.47
Other Reconstruction Funds	7.36			
Civilian Operations	9.00			
Total	\$104.08			

Note: Numbers have been rounded. Amount remaining reflects the total disbursement potential of the seven major reconstruction funds after deducting approximately \$3.1 billion that expired before being obligated. Obligated and disbursed DOD CN funds reflect amounts transferred to the military services and defense agencies to be spent for Afghanistan.

Source: SIGAR analysis of appropriating legislation and quarterly obligation and disbursement data provided by DOD, State, and USAID, 10/21/2014.

The President's FY 2015 budget request, if appropriated, would add another \$5.8 billion for the seven major reconstruction funds. Amounts requested for four of these funds—ASFF, DOD CN, ESF, and INCLE—account for over 99% of the FY 2015 request. Only \$20 million was requested for CERP and TFBSO combined. No additional funding was requested for the AIF. SIGAR's audit of the AIF, issued in July 2012, raised concerns that most AIF projects were 6–15 months behind schedule, potentially limiting the projects' counterinsurgency benefits and necessitating continued funding of \$80–100 million a year for diesel fuel to power Kandahar City. Nearly \$943 million of the \$1.3 billion appropriated the AIF since FY 2011 remains to be disbursed when the amount transferred to the ESF for USAID's infrastructure project is included.

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Congress appropriated nearly \$8.1 billion to the seven major reconstruction funds for FY 2013. Of that amount, nearly \$3.8 billion remained for possible disbursement, as of September 30, 2014, as shown in Table 3.3 and Figure 3.2.

TABLE 3.3

FY 2013 AMOUNTS APPROPRIATED, OBLIGATED, AND DISBURSED (\$ MILLIONS)				
	Appropriated	Obligated	Disbursed	Remaining
ASFF	\$4,946	\$4,946	\$3,621	\$1,325
CERP	200	42	36	6
AIF	146	137	37	100
TFBSO	138	136	103	33
DOD CN	256	256	256	0
ESF	1,803	1,748	1	1,747
INCLE	594	594	42	552
Total 7 Major Funds	\$8,082	\$7,858	\$4,095	\$3,762

Note: Numbers have been rounded. Amount remaining reflects the total disbursement potential of the seven major reconstruction funds after deducting approximately \$224 million that expired before being obligated. Obligated and disbursed DOD CN funds reflect amounts transferred to the military services and defense agencies to be spent for Afghanistan.

Source: SIGAR analysis of appropriating legislation and quarterly obligation and disbursement data provided by DOD, State, and USAID, 10/21/2014.

Congress appropriated more than \$6.2 billion to the seven major reconstruction funds for FY 2014. Of that amount, more than \$6 billion remained for possible disbursement, as of September 30, 2014, as shown in Table 3.4 and Figure 3.3.

TABLE 3.4

FY 2014 AMOUNTS APPROPRIATED, OBLIGATED, AND DISBURSED (\$ MILLIONS)				
	Appropriated	Obligated	Disbursed	Remaining
ASFF	\$4,727	\$302	\$162	\$4,565
CERP	30	7	2	4
AIF	199	0	0	199
TFBSO	122	109	39	83
DOD CN	86	1	1	85
ESF	852	0	0	852
INCLE	225	3	3	222
Total 7 Major Funds	\$6,241	\$420	\$206	\$6,011

Note: Numbers have been rounded. Amount remaining reflects the total disbursement potential of the seven major reconstruction funds after deducting approximately \$23 million that expired before being obligated. Obligated and disbursed DOD CN funds reflect amounts transferred to the military services and defense agencies to be spent for Afghanistan.

Source: SIGAR analysis of appropriating legislation and quarterly obligation and disbursement data provided by DOD, State, and USAID, 10/21/2014.

FIGURE 3.2

FY 2013 AMOUNT REMAINING TO BE DISBURSED (\$ MILLIONS)

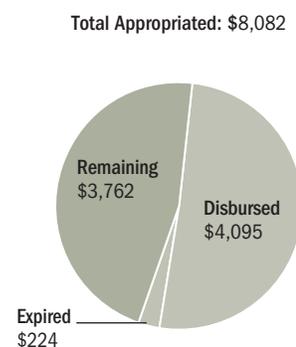


FIGURE 3.3

FY 2014 AMOUNT REMAINING TO BE DISBURSED (\$ MILLIONS)



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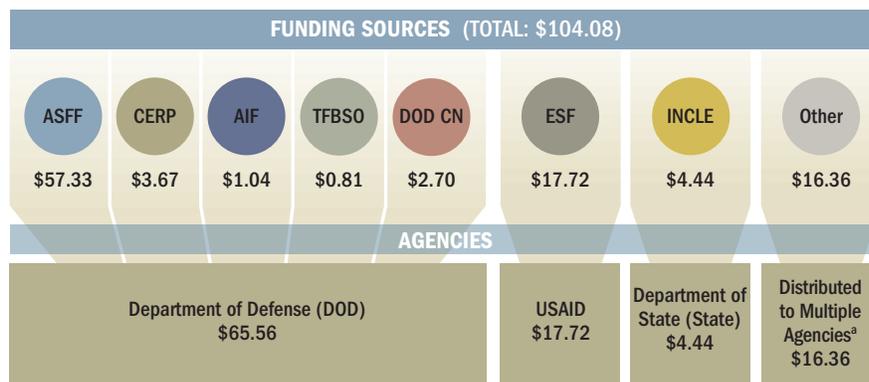
To fulfill SIGAR’s legislative mandate, this section details the status of U.S. funds appropriated, obligated, and disbursed for reconstruction activities in Afghanistan. As of September 30, 2014, the United States had appropriated approximately \$104.08 billion for relief and reconstruction in Afghanistan since FY 2002. This total has been allocated as follows:

- \$61.54 billion for security (\$4.07 billion for counternarcotics initiatives)
- \$30.65 billion for governance and development (\$3.69 billion for counternarcotics initiatives)
- \$2.89 billion for humanitarian aid
- \$9.00 billion for civilian operations

Figure 3.4 shows the major U.S. funds that contribute to these efforts.

FIGURE 3.4

U.S. FUNDS SUPPORTING AFGHANISTAN RECONSTRUCTION EFFORTS (\$ BILLIONS)



- ASFF:** Afghanistan Security Forces Fund
- CERP:** Commander’s Emergency Response Program
- AIF:** Afghanistan Infrastructure Fund
- TFBSO:** Task Force for Business and Stability Operations
- DOD CN:** DOD Drug Interdiction and Counter-Drug Activities
- ESF:** Economic Support Fund
- INCLE:** International Narcotics Control and Law Enforcement
- Other:** Other Funding

Note: Numbers have been rounded. Total funding decreased this quarter due to a reduction in DOD CN funding. DOD transferred \$179.5 million from FY 2013 AIF to the ESF for USAID’s Northern Electrical Power System project.

^a Multiple agencies include DOJ, State, DOD, USAID, Treasury, USDA, DEA, BBG, and SIGAR.

Source: DOD, responses to SIGAR data call, 10/20/2014, 10/16/2014, 10/6/2014, 10/22/2012, 10/14/2009, and 10/1/2009; State, responses to SIGAR data call, 10/20/2014, 10/17/2014, 4/15/2014, 6/27/2013, 10/5/2012 and 6/27/2012; Treasury, response to SIGAR data call, 10/9/2014; OMB, responses to SIGAR data call, 7/14/2014, 7/19/2013 and 1/4/2013; USAID, responses to SIGAR data call, 10/9/2014, 10/15/2010, 1/15/2010, and 10/9/2009; DOJ, responses to SIGAR data call, 10/17/2014 and 7/7/2009; USDA, response to SIGAR data call, 4/2009; CRS, response to SIGAR data call, 1/8/2014; DFAS, response to SIGAR data call, 7/17/2014; P.L. 113-76, 1/17/2014; P.L. 113-6, 3/26/2013; P.L. 112-74, 12/23/2011; P.L. 112-10, 4/15/2011; P.L. 111-212, 10/29/2010; P.L. 111-118, 12/19/2009; FY 2010 Defense Explanatory Statement.

STATUS OF FUNDS



The amount provided to the seven major U.S. funds represents nearly 84.3% (nearly \$87.72 billion) of total reconstruction assistance in Afghanistan since FY 2002. Of this amount, over 89.8% (over \$78.78 billion) has been obligated, and over 79.9% (more than \$70.11 billion) has been disbursed. An estimated \$3.14 billion of the amount appropriated for these funds has expired.

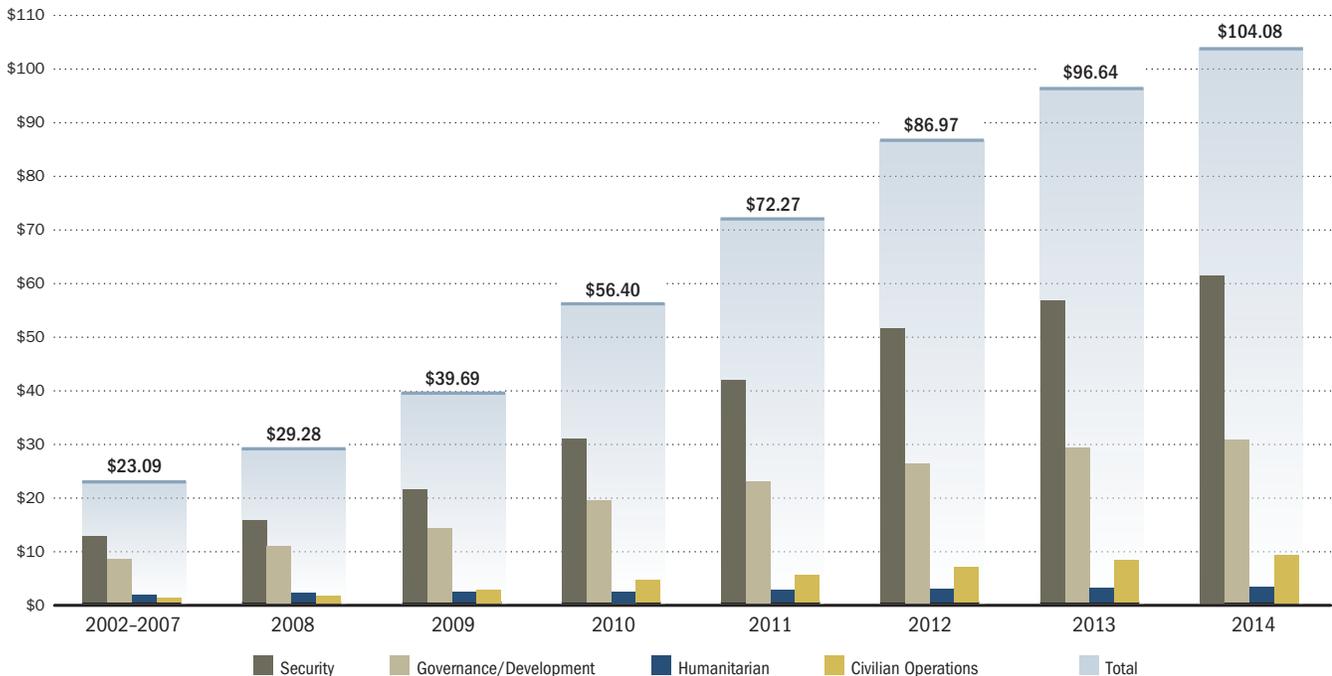
U.S. RECONSTRUCTION FUNDING FOR AFGHANISTAN

As of September 30, 2014, cumulative appropriations for relief and reconstruction in Afghanistan totaled approximately \$104.08 billion, as shown in Figure 3.5. This total can be divided into four major categories of reconstruction funding: security, governance and development, humanitarian, and oversight and operations. Approximately \$7.76 billion of these funds support counternarcotics initiatives which crosscut both the security (\$4.07 billion) and governance and development (\$3.69 billion) categories.

The Department of Defense (DOD) reported an overall funding reduction of \$225.58 million for the DOD Drug Interdiction and Counter-Drug Activities fund from \$2.93 billion reported last quarter to \$2.70 billion due in part to the threat of sanctions against parts suppliers for the Russian Mi-17 helicopters used by the Afghan Air Force Special Mission Wing as well as reductions in the overall scope of Afghanistan counternarcotics operational support from prior years. For complete information regarding U.S. appropriations, see Appendix B.

FIGURE 3.5

CUMULATIVE APPROPRIATIONS BY FUNDING CATEGORY, AS OF SEPTEMBER 30, 2014 (\$ BILLIONS)



Note: Numbers have been rounded. Total funding decreased this quarter due to a reduction in DOD CN funding. DOD transferred \$179.5 million from FY 2013 AIF to the ESF for USAID's NEPS transmission lines project. DOD reprogrammed \$1 billion from FY 2011 ASFF. DOD reprogrammed \$1 billion from FY 2012 ASFF. P.L. 113-6 rescinded \$1 billion from FY 2012 ASFF. DOD reprogrammed \$178 million from FY 2013 ASFF. DOD transferred \$101 million from FY 2011 AIF to FY 2011 ESF to fund an infrastructure project to be implemented by USAID.

Source: DOD, responses to SIGAR data call, 10/20/2014, 10/16/2014, 10/6/2014, 10/22/2012, 10/14/2009, and 10/1/2009; State, responses to SIGAR data call, 10/20/2014, 10/17/2014, 4/15/2014, 6/27/2013, 10/5/2012 and 6/27/2012; Treasury, response to SIGAR data call, 10/9/2014; OMB, responses to SIGAR data call, 7/14/2014, 7/19/2013 and 1/4/2013; USAID, responses to SIGAR data call, 10/9/2014, 10/15/2010, 1/15/2010, and 10/9/2009; DOJ, responses to SIGAR data call, 10/17/2014 and 7/7/2009; USDA, response to SIGAR data call, 4/2009; CRS, response to SIGAR data call, 1/8/2014; DFAS, response to SIGAR data call, 10/16/2014 and 7/17/2014; P.L. 113-76, 1/17/2014; P.L. 113-6, 3/26/2013; P.L. 112-74, 12/23/2011; P.L. 112-10, 4/15/2011; P.L. 111-212, 10/29/2010; P.L. 111-118, 12/19/2009; FY 2010 Defense Explanatory Statement.

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The Consolidated Appropriations Act, 2014, provided an additional \$7.44 billion for FY 2014, as shown in Figure 3.6. Of this amount, nearly \$4.73 billion was appropriated to the Afghanistan Security Forces Fund.⁹¹

On September 19, 2014, President Obama signed the Continuing Appropriations Resolution, 2015, funding the government through December 11, 2014, at the FY 2014 enacted levels. The FY 2015 budget request for the seven major reconstruction funds is approximately 5% lower than the amount appropriated these funds for FY 2014. DOD is not requesting funds for the Afghanistan Infrastructure Fund for FY 2015 and is requesting only \$5 million for the Task Force for Business and Stability Operations, as shown in Table 3.5.

As reported in prior quarters, a significant amount of reconstruction funding is still in the pipeline. Approximately \$14.47 billion remains for potential disbursement. For more information about the reconstruction funding pipeline, see pages 68–69.

TABLE 3.5

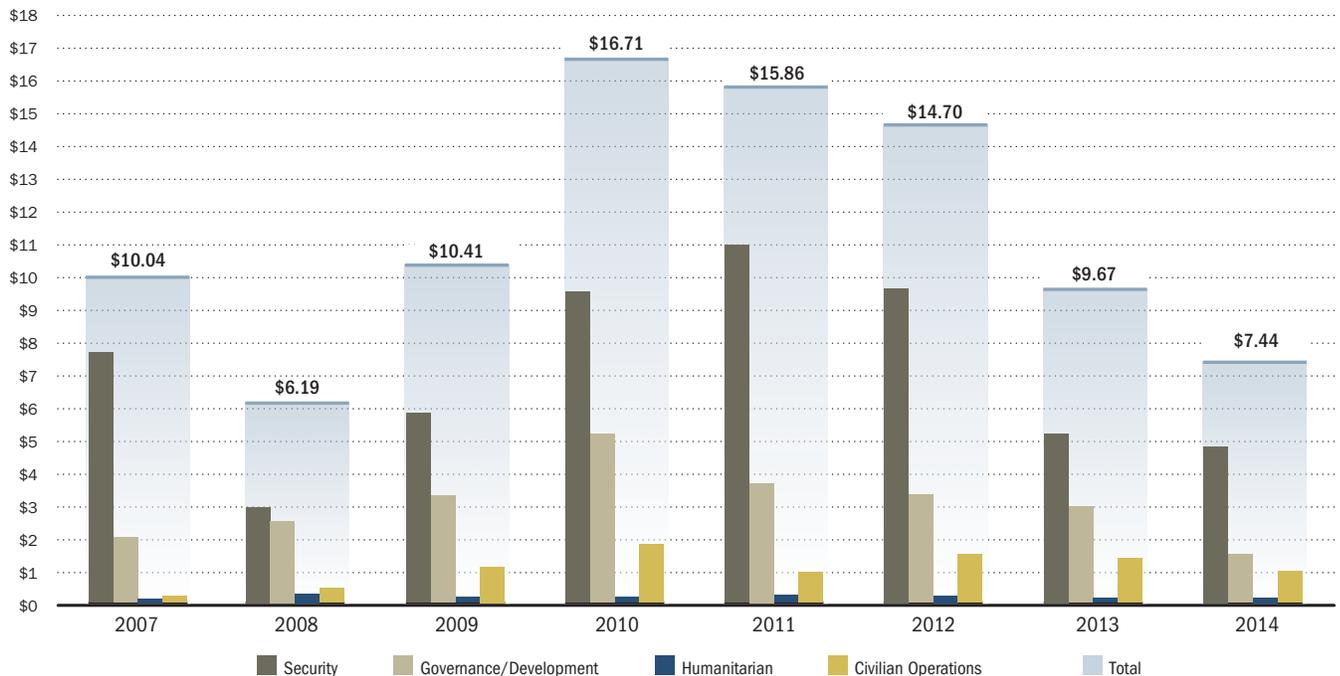
FY 2014 APPROPRIATIONS COMPARED TO THE FY 2015 BUDGET REQUEST (\$ MILLIONS)		
	FY 2014	FY 2015 Req
ASFF	\$4,726	\$4,109
CERP	30	15
AIF	199	0
TFBSO	64	5
DOD CN	86	148
ESF	852	1,225
INCLE	225	325
TOTAL	\$6,182	\$5,827

Note: Numbers have been rounded. TFBSO amount excludes funding used for the task force's operational costs.

Source: OMB, "Amendments to the President's Fiscal Year (FY) 2015 Overseas Contingency Operations (OCO) Request for the Department of Defense (DOD) and the Department of State and Other International Programs (State/OIP)," 6/26/2014; State, response to SIGAR data call, 4/15/2014; OMB, response to SIGAR data call, 7/16/2014.

FIGURE 3.6

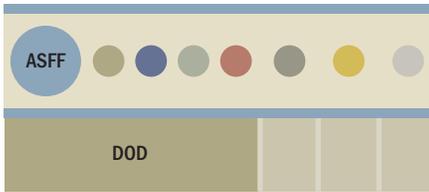
APPROPRIATIONS BY FISCAL YEAR, AMOUNT, AND CATEGORY (\$ BILLIONS)



Note: Numbers have been rounded. Total funding decreased this quarter due to a reduction in DOD CN funding. DOD transferred \$179.5 million from FY 2013 AIF to the ESF for USAID's NEPS transmission lines project. DOD reprogrammed \$1 billion from FY 2011 ASFF. DOD reprogrammed \$1 billion from FY 2012 ASFF. P.L. 113-6 rescinded \$1 billion from FY 2012 ASFF. DOD reprogrammed \$178 million from FY 2013 ASFF. DOD transferred \$101 million from FY 2011 AIF to FY 2011 ESF to fund an infrastructure project to be implemented by USAID.

Source: DOD, responses to SIGAR data call, 10/20/2014, 10/16/2014, 10/6/2014, 10/22/2012, 10/14/2009, and 10/1/2009; State, responses to SIGAR data call, 10/20/2014, 10/17/2014, 4/15/2014, 6/27/2013, 10/5/2012 and 6/27/2012; Treasury, response to SIGAR data call, 10/9/2014; OMB, responses to SIGAR data call, 7/14/2014, 7/19/2013 and 1/4/2013; USAID, responses to SIGAR data call, 10/9/2014, 10/15/2010, 1/15/2010, and 10/9/2009; DOJ, responses to SIGAR data call, 10/17/2014 and 7/7/2009; USDA, response to SIGAR data call, 4/2009; CRS, response to SIGAR data call, 1/8/2014; DFAS, response to SIGAR data call, 10/16/2014 and 7/17/2014; P.L. 113-76, 1/17/2014; P.L. 113-6, 3/26/2013; P.L. 112-74, 12/23/2011; P.L. 112-10, 4/15/2011; P.L. 111-212, 10/29/2010; P.L. 111-118, 12/19/2009; FY 2010 Defense Explanatory Statement.

STATUS OF FUNDS



ASFF FUNDS TERMINOLOGY

DOD reported ASFF funds as appropriated, obligated, or disbursed

Appropriations: Total monies available for commitments

Obligations: Commitments to pay monies

Disbursements: Monies that have been expended

Source: DOD, response to SIGAR data call, 4/13/2010.

AFGHANISTAN SECURITY FORCES FUND

The Congress created the Afghanistan Security Forces Fund (ASFF) to provide the ANSF with equipment, supplies, services, training, and funding, as well as facility and infrastructure repair, renovation, and construction.⁹² The primary organization responsible for building the ANSF is the North Atlantic Treaty Organization Training Mission-Afghanistan/Combined Security Transition Command-Afghanistan.⁹³ A financial and activity plan must be approved by the Afghanistan Resources Oversight Council (AROC) before ASFF funds may be obligated.⁹⁴

The Consolidated Appropriations Act, 2014, appropriated nearly \$4.73 billion for the ASFF for FY 2014, increasing total cumulative funding to nearly \$57.33 billion.⁹⁵ As of September 30, 2014, more than \$51.77 billion of total ASFF funding had been obligated, of which nearly \$48.94 billion had been disbursed.⁹⁶ Figure 3.7 displays the amounts made available for the ASFF by fiscal year.

DOD reported that cumulative obligations increased by more than \$1.74 billion over the quarter, and cumulative disbursements increased by nearly \$712.11 million.⁹⁷ Figure 3.8 provides a cumulative comparison of amounts made available, obligated, and disbursed for the ASFF.

FIGURE 3.7

ASFF APPROPRIATED FUNDS BY FISCAL YEAR
(\$ BILLIONS)

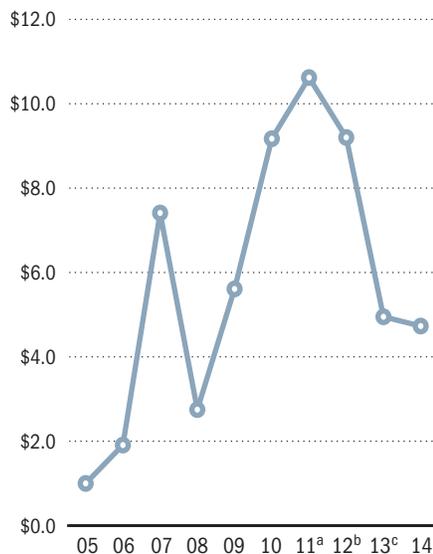
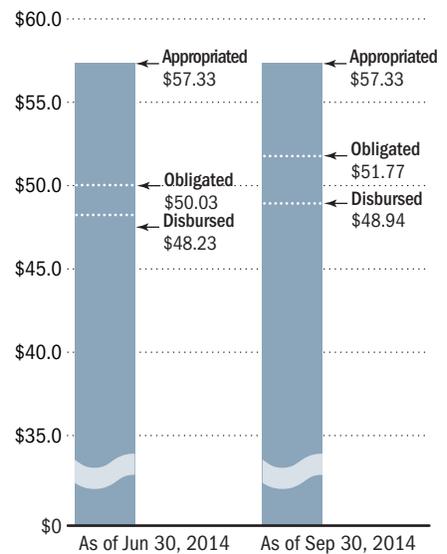


FIGURE 3.8

ASFF FUNDS, CUMULATIVE COMPARISON
(\$ BILLIONS)



Note: Numbers have been rounded.

^a DOD reprogrammed \$1 billion of FY 2011 ASFF.

^b DOD reprogrammed \$1 billion of FY 2012 ASFF; another \$1 billion was rescinded in P.L. 113-6.

^c DOD reprogrammed \$178 million of FY 2013 ASFF.

Source: DFAS, "AR(M) 1002 Appropriation Status by FY Program and Subaccounts September 2014," 10/16/2014; DOD, response to SIGAR data call, 7/17/2014; P.L. 113-76, 1/17/2014; P.L. 113-6, 3/26/2013.

STATUS OF FUNDS

ASFF BUDGET ACTIVITIES

DOD allocates funds to three budget activity groups within the ASFF:

- Defense Forces (Afghan National Army, ANA)
- Interior Forces (Afghan National Police, ANP)
- Related Activities (primarily Detainee Operations)

Funds for each **budget activity group** are further allocated to four **sub-activity groups**: Infrastructure, Equipment and Transportation, Training and Operations, and Sustainment.⁹⁸ The AROC must approve the requirement and acquisition plan for any service requirements in excess of \$50 million annually and any non-standard equipment requirement in excess of \$100 million.⁹⁹

As of September 30, 2014, DOD had disbursed nearly \$48.94 billion for ANSF initiatives. Of this amount, more than \$32.40 billion was disbursed for the ANA, and more than \$16.17 billion was disbursed for the ANP; the remaining nearly \$364.49 million was directed to related activities.¹⁰⁰

As shown in Figure 3.9, the largest portion of the funds disbursed for the ANA—nearly \$12.45 billion—supported ANA troop sustainment. Of the funds disbursed for the ANP, the largest portion—more than \$6.31 billion—also supported sustainment of ANP forces, as shown in Figure 3.10.¹⁰¹

Budget Activity Groups: categories within each appropriation or fund account that identify the purposes, projects, or types of activities financed by the appropriation or fund

Subactivity Groups: accounting groups that break down the command's disbursements into functional areas

Source: DOD, "Manual 7110.1-M Department of Defense Budget Guidance Manual," accessed 9/28/2009; Department of the Navy, "Medical Facility Manager Handbook," p. 5, accessed 10/2/2009.

FIGURE 3.9

ASFF DISBURSEMENTS FOR THE ANA
BY SUBACTIVITY GROUP,
FY 2005–SEP 30, 2014 (\$ BILLIONS)

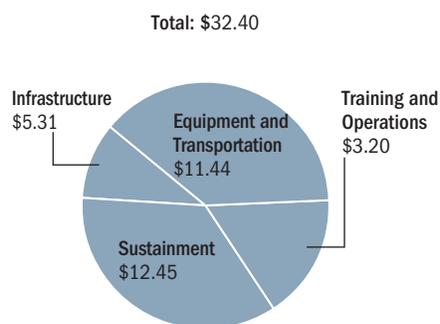
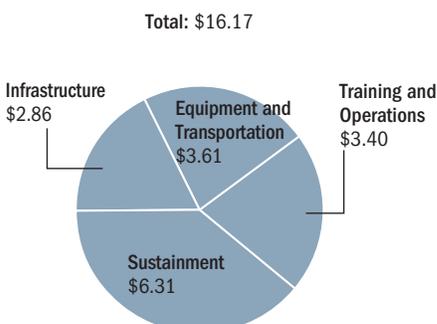


FIGURE 3.10

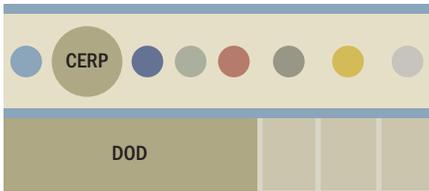
ASFF DISBURSEMENTS FOR THE ANP
BY SUBACTIVITY GROUP,
FY 2005–SEP 30, 2014 (\$ BILLIONS)



Note: Numbers have been rounded.

Source: DFAS, "AR(M) 1002 Appropriation Status by FY Program and Subaccounts September 2014," 10/16/2014.

STATUS OF FUNDS



CERP FUNDS TERMINOLOGY

DOD reported CERP funds as appropriated, obligated, or disbursed

Appropriations: Total monies available for commitments

Obligations: Commitments to pay monies

Disbursements: Monies that have been expended

Source: DOD, response to SIGAR data call, 4/14/2010.

COMMANDER'S EMERGENCY RESPONSE PROGRAM

The Commander's Emergency Response Program (CERP) enables U.S. commanders in Afghanistan to respond to urgent humanitarian relief and reconstruction requirements in their areas of responsibility by supporting programs that will immediately assist the local population. Funding under this program is intended for small projects that are estimated to cost less than \$500,000 each.¹⁰² Projects with cost estimates exceeding \$1 million are permitted, but they require approval from the Commander of U.S. Central Command; projects over \$5 million require approval from the AROC. CERP-funded projects may not exceed \$20 million.¹⁰³

The Consolidated Appropriations Act, 2014, appropriated \$30 million for CERP, increasing total cumulative funding to nearly \$3.67 billion.¹⁰⁴ Of this amount, DOD reported that nearly \$2.28 billion had been obligated, of which nearly \$2.26 billion had been disbursed as of September 30, 2014.¹⁰⁵ Figure 3.11 shows CERP appropriations by fiscal year, and Figure 3.12 provides a cumulative comparison of amounts appropriated, obligated, and disbursed for CERP projects.

FIGURE 3.11

CERP APPROPRIATIONS BY FISCAL YEAR
(\$ MILLIONS)

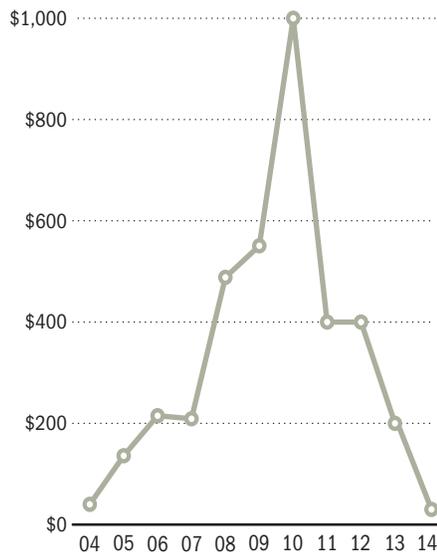
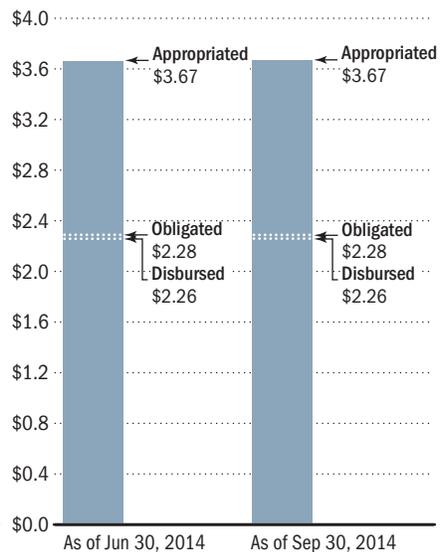


FIGURE 3.12

CERP FUNDS, CUMULATIVE COMPARISON
(\$ BILLIONS)



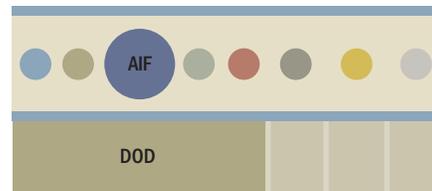
Note: Numbers have been rounded. Data may include inter-agency transfers.

Source: DOD, responses to SIGAR data call, 10/20/2014 and 7/17/2014; OMB, response to SIGAR data call, 1/4/2013; P.L. 113-76, 1/17/2014; P.L. 113-6, 3/26/2013; P.L. 112-74, 12/23/2011; P.L. 112-10, 4/15/2011.

AFGHANISTAN INFRASTRUCTURE FUND

The Afghanistan Infrastructure Fund (AIF) was established in FY 2011 to pay for high-priority, large-scale infrastructure projects that support the U.S. civilian-military effort. Congress intended for projects funded by the AIF to be jointly selected and managed by DOD and State. The AROC must approve all AIF-funded projects and project-execution plans, and the Secretaries of State and Defense must notify Congress with details of the proposed project, including a plan for its sustainment and a description of how it supports the counter-insurgency strategy in Afghanistan.¹⁰⁶

The Consolidated Appropriations Act, 2014, appropriated \$199 million for the AIF. During the quarter, DOD transferred \$179.5 million of FY 2013 AIF funds to the Economic Support Fund for USAID's Northeast Power System transmission lines project, decreasing AIF's cumulative appropriated amount to \$1.04 billion from the \$1.22 billion reported last quarter. To date, \$280.5 million has been transferred to USAID to carry out AIF-funded projects.¹⁰⁷ Figure 3.13 shows AIF appropriations by fiscal year. As of September 30, 2014, nearly \$751.63 million of total AIF funding had been obligated, of which more than \$296.91 million had been disbursed, as shown in Figure 3.14.¹⁰⁸



AIF FUNDS TERMINOLOGY

DOD reported AIF funds as appropriated, obligated, or disbursed

Appropriations: Total monies available for commitments

Obligations: Commitments to pay monies

Disbursements: Monies that have been expended

Source: DOD, response to SIGAR data call, 4/13/2012.

FIGURE 3.13

AIF APPROPRIATIONS BY FISCAL YEAR
(\$ MILLIONS)

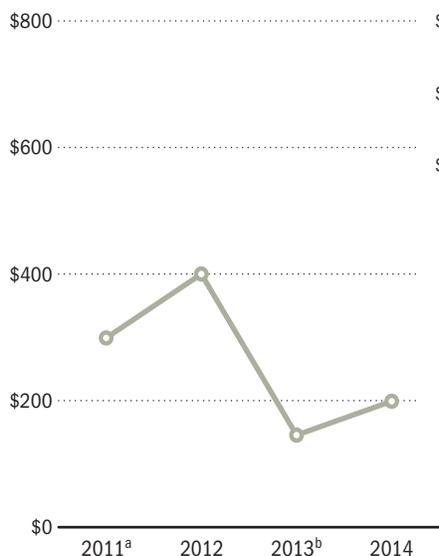
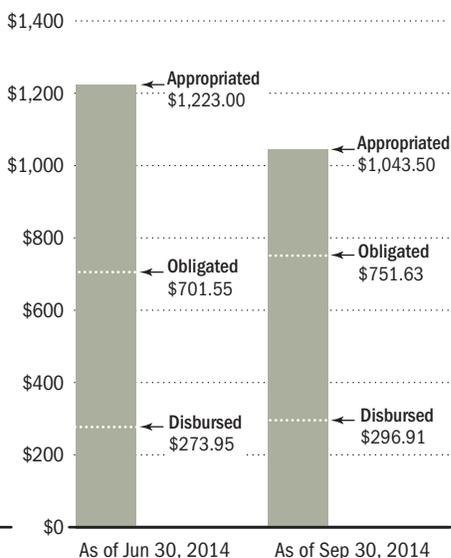


FIGURE 3.14

AIF FUNDS, CUMULATIVE COMPARISON
(\$ MILLIONS)



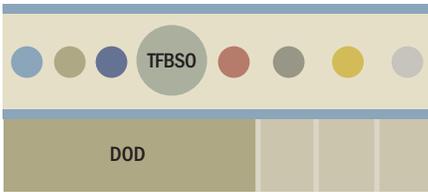
Note: Numbers have been rounded.

^a FY 2011 figure excludes \$101 million that was transferred to USAID to execute an AIF project.

^b FY 2013 figure excludes \$179.5 million that was transferred to USAID to execute an AIF project.

Source: DFAS, "AR(M) 1002 Appropriation Status by FY Program and Subaccounts September 2014," 10/16/2014; DFAS, "AR(M) 1002 Appropriation Status by FY Program and Subaccounts June 2014," 7/18/2014; P.L. 113-76, 1/17/2014; P.L. 113-6, 3/26/2013; P.L. 112-74, 12/23/2011; P.L. 112-10, 4/15/2011.

STATUS OF FUNDS



TFBSO FUNDS TERMINOLOGY

DOD reported TFBSO funds as appropriated, obligated, or disbursed

Appropriations: Total monies available for commitments

Obligations: Commitments to pay monies

Disbursements: Monies that have been expended

Source: DOD, response to SIGAR data call, 4/13/2010.

TASK FORCE FOR BUSINESS AND STABILITY OPERATIONS

In 2010, the Task Force for Business and Stability Operations (TFBSO) began operations in Afghanistan aimed at stabilizing the country and countering economically motivated violence by decreasing unemployment and creating economic opportunities for Afghans. TFBSO projects include activities that facilitate private investment, industrial development, banking and financial-system development, agricultural diversification and revitalization, and energy development.¹⁰⁹

Through September 30, 2014, the TFBSO has been appropriated more than \$122.24 million for FY 2014, increasing cumulative appropriations for the task force to nearly \$814.83 million.¹¹⁰ Of this amount, more than \$767.78 million had been obligated and more than \$595.12 million had been disbursed.¹¹¹ Figure 3.15 displays the amounts appropriated for TFBSO projects by fiscal year, and Figure 3.16 provides a cumulative comparison of amounts made available, obligated, and disbursed for TFBSO projects.

FIGURE 3.15

TFBSO APPROPRIATIONS BY FISCAL YEAR
(\$ MILLIONS)



FIGURE 3.16

TFBSO FUNDS, CUMULATIVE COMPARISON
(\$ MILLIONS)



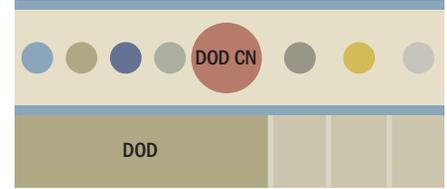
Note: Numbers have been rounded. Of the \$814.83 million appropriated for the TFBSO, \$358.03 million was from the Army's Operations and Maintenance account to pay for the sustainment of U.S. assets, civilian employees, travel, security, and other operational costs.

Source: DOD, responses to SIGAR data call, 10/6/2014, 7/8/2014, and 10/4/2011; P.L. 113-76, 1/17/2014; P.L. 113-6, 3/26/2013; P.L. 112-74, 12/23/2011; P.L. 112-10, 4/15/2011.

DOD DRUG INTERDICTION AND COUNTER-DRUG ACTIVITIES

DOD's Drug Interdiction and Counter-Drug Activities fund (DOD CN) supports efforts to stabilize Afghanistan by combating the drug trade and related activities.¹¹² DOD CN funds are appropriated by Congress to a single budget line for all military services. DOD reprograms the funds from the Counter-narcotics Central Transfer Account (CTA) to the military services and defense agencies, which track obligations of the transferred funds. DOD reported DOD CN accounts for Afghanistan as a single figure for each fiscal year.¹¹³

As of September 30, 2014, DOD CN has been appropriated \$2.70 billion since 2004. Of this amount, nearly \$2.62 billion had been transferred to the military services and defense agencies for DOD CN projects. DOD reported an overall funding reduction of \$225.58 million for the DOD CN fund from \$2.93 billion reported last quarter to \$2.70 billion due in part to the threat of sanctions against parts suppliers for the Russian Mi-17 helicopters used by the Afghan Air Force Special Mission Wing as well as reductions in the overall scope of Afghanistan counternarcotics operational support from prior years.¹¹⁴ Figure 3.17 shows DOD CN appropriations by fiscal year, and Figure 3.18 provides a cumulative comparison of amounts appropriated and transferred from the DOD CN CTA.



DOD CN FUNDS TERMINOLOGY

DOD reported DOD CN funds as appropriated, obligated, or disbursed

Appropriations: Total monies available for commitments

Obligations: Commitments to pay monies

Disbursements: Monies that have been expended

Source: DOD, response to SIGAR data call, 4/13/2010.

FIGURE 3.17

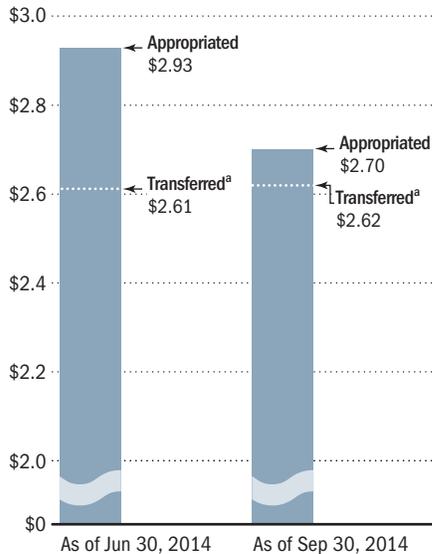
DOD CN APPROPRIATIONS BY FISCAL YEAR
(\$ MILLIONS)



Source: DOD, responses to SIGAR data call, 10/20/2014 and 7/3/2014.

FIGURE 3.18

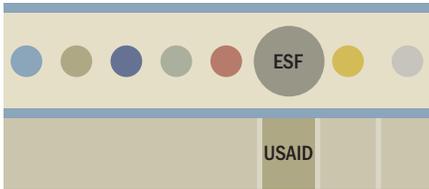
DOD CN FUNDS, CUMULATIVE COMPARISON
(\$ BILLIONS)



Note: Numbers have been rounded. Prior-year adjustments are done periodically to reflect deobligation and/or realignment of multi-year procurement funding. Obligations of FY14 appropriated funds have been significantly lower than the planned \$317.7 million. Factors causing the under-execution included a temporary lapse in global DoD CN authorities that were absent from the FY14 Continuing Resolution, tension in U.S.-Russia political relations and the threat of sanctions against Mi-17 parts suppliers, and reductions in the overall scope of Afghanistan operational support from prior years as the overall U.S. support footprint has declined.

^a DOD reprograms all funds to the military services and defense agencies for obligation and disbursement.

STATUS OF FUNDS



ESF FUNDS TERMINOLOGY

USAID reported ESF funds as appropriated, obligated, or disbursed

Appropriations: Total monies available for commitments

Obligations: Commitments to pay monies

Disbursements: Monies that have been expended

Source: USAID, response to SIGAR data call, 4/15/2010.

ECONOMIC SUPPORT FUND

Economic Support Fund (ESF) programs advance U.S. interests by helping countries meet short- and long-term political, economic, and security needs. ESF programs support counter-terrorism; bolster national economies; and assist in the development of effective, accessible, independent legal systems for a more transparent and accountable government.¹¹⁵

The ESF was appropriated \$852 million for FY 2014. During the quarter, DOD transferred \$179.5 million of FY 2013 AIF funds to the ESF for USAID's Northeast Power System transmission lines project, increasing cumulative funding for the ESF to more than \$17.72 billion. Of this amount, more than \$16.43 billion had been obligated, of which nearly \$12.25 billion had been disbursed.¹¹⁶ Figure 3.19 shows ESF appropriations by fiscal year.

USAID reported that cumulative obligations as of September 30, 2014, increased by nearly \$1.74 billion from the amount reported last quarter. Cumulative disbursements as of September 30, 2014, increased by nearly \$157.31 million over cumulative disbursements as of June 30, 2014.¹¹⁷ Figure 3.20 provides a cumulative comparison of the amounts appropriated, obligated, and disbursed for ESF programs.

FIGURE 3.19

ESF APPROPRIATIONS BY FISCAL YEAR
(\$ BILLIONS)

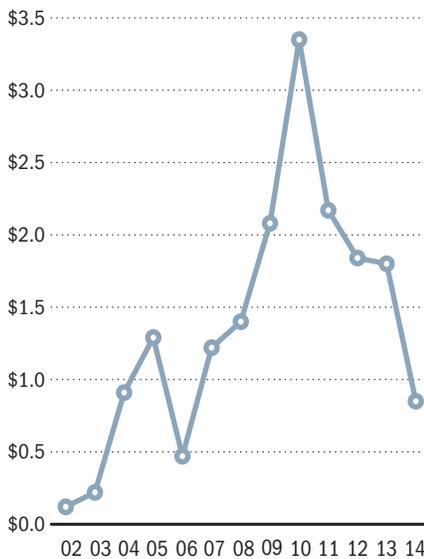
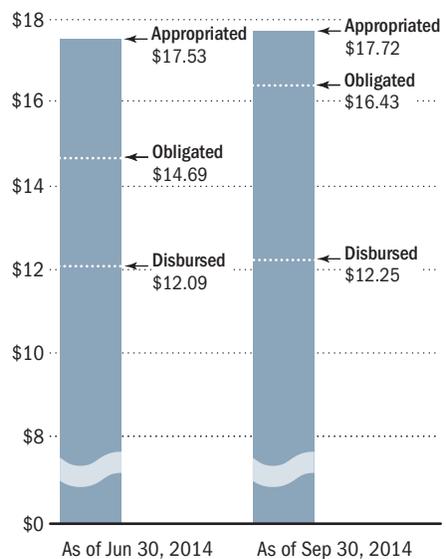


FIGURE 3.20

ESF FUNDS, CUMULATIVE COMPARISON
(\$ BILLIONS)



Note: Numbers have been rounded. FY 2011 figure includes \$101 million that was transferred to the ESF from the Afghanistan Infrastructure Fund (AIF). FY 2013 figure includes \$179.5 million that was transferred to the ESF from the AIF.

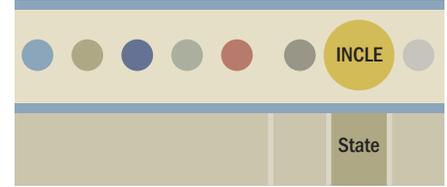
Source: USAID, responses to SIGAR data call, 10/9/2014 and 7/10/2014; State, responses to SIGAR data call, 4/15/2014.

INTERNATIONAL NARCOTICS CONTROL AND LAW ENFORCEMENT

The U.S. Bureau of International Narcotics and Law Enforcement Affairs (INL) manages an account for advancing rule of law and combating narcotics production and trafficking—the International Narcotics Control and Law Enforcement (INCLE) account. INCLE supports several INL program groups, including police, counternarcotics, and rule of law and justice.¹¹⁸

State reported that INCLE was appropriated \$225 million for FY 2014, bringing cumulative funding for INCLE to more than \$4.44 billion. Of this amount, more than \$4.16 billion had been obligated, of which, more than \$3.15 billion had been disbursed.¹¹⁹ Figure 3.21 shows INCLE appropriations by fiscal year.

State reported that cumulative obligations as of September 30, 2014, increased by more than \$600.55 million compared to cumulative obligations as of June 30, 2014. Cumulative disbursements as of September 30, 2014, increased by nearly \$150.55 million over cumulative disbursements as of June 30, 2014.¹²⁰ Figure 3.22 provides a cumulative comparison of amounts appropriated, obligated, and disbursed for INCLE.



INL FUNDS TERMINOLOGY

INL reported INCLE and other INL funds as appropriated, obligated, or disbursed

Appropriations: Total monies available for commitments

Obligations: Commitments to pay monies

Disbursements: Monies that have been expended

Source: State, response to SIGAR data call, 4/9/2010.

FIGURE 3.21

INCLE APPROPRIATIONS BY FISCAL YEAR
(\$ MILLIONS)

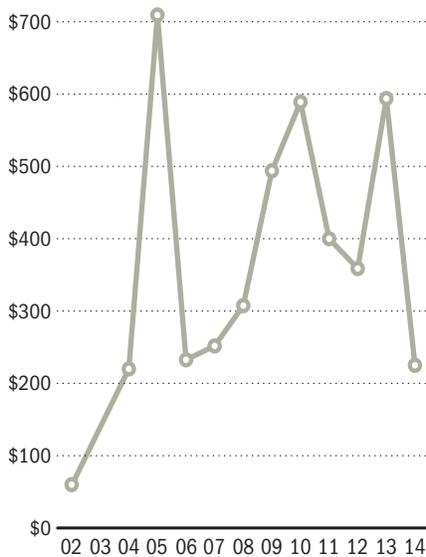


FIGURE 3.22

INCLE FUNDS, CUMULATIVE COMPARISON
(\$ BILLIONS)



Note: Numbers have been rounded. Data may include inter-agency transfers.
Source: State, responses to SIGAR data call, 10/17/2014 and 7/16/2014.

INTERNATIONAL RECONSTRUCTION FUNDING FOR AFGHANISTAN

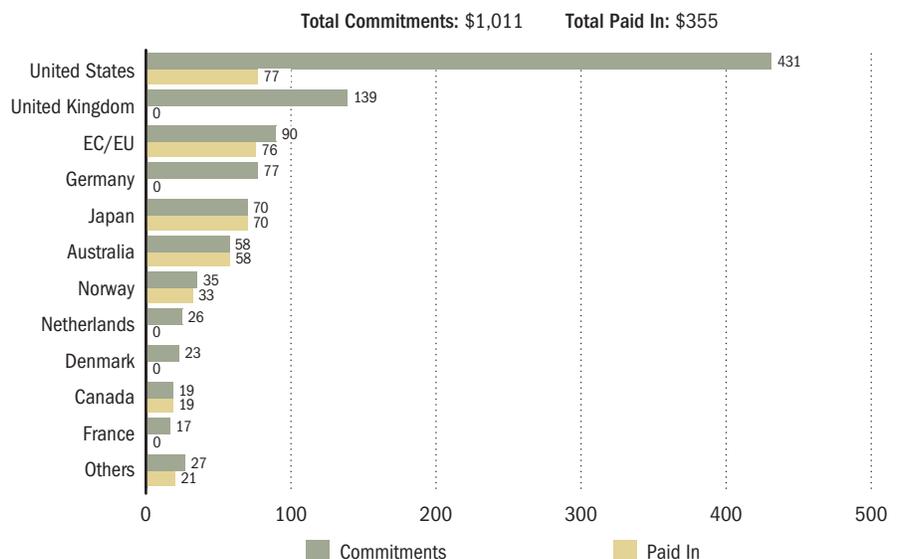
In addition to assistance provided by the United States, the international community provides a significant amount of funding to support Afghanistan relief and reconstruction efforts. As noted in previous SIGAR quarterly reports, most of the international funding provided is administered through trust funds. Contributions provided through trust funds are pooled and then distributed for reconstruction activities. The two main trust funds are the Afghanistan Reconstruction Trust Fund (ARTF) and the Law and Order Trust Fund for Afghanistan (LOTFA).¹²¹

Contributions to the Afghanistan Reconstruction Trust Fund

The largest share of international contributions to the Afghan operational and development budgets comes through the ARTF. From 2002 to September 22, 2014, the World Bank reported that 33 donors had pledged nearly \$7.92 billion, of which more than \$7.26 billion had been paid in.¹²² According to the World Bank, donors had pledged more than \$1.01 billion to the ARTF for Afghan fiscal year 1393, which runs from December 21, 2013 to December 20, 2014.¹²³ Figure 3.23 shows the 11 largest donors to the ARTF for FY 1393.

FIGURE 3.23

ARTF CONTRIBUTIONS FOR FY 1393 BY DONOR, AS OF SEPTEMBER 22, 2014 (\$ MILLIONS)



Note: Numbers have been rounded. FY 1393 = 12/21/2013–12/20/2014.

Source: World Bank, ARTF: Administrator's Report on Financial Status as of September 22, 2014, p. 1.

STATUS OF FUNDS

As of September 22, 2014, the United States had pledged more than \$2.39 billion and paid in nearly \$2.04 billion since 2002.¹²⁴ The United States and the United Kingdom are the two biggest donors to the ARTF, together contributing 45% of its total funding, as shown in Figure 3.24.

Contributions to the ARTF are divided into two funding channels—the Recurrent Cost (RC) Window and the Investment Window.¹²⁵ As of September 22, 2014, according to the World Bank, nearly \$3.14 billion of ARTF funds had been disbursed to the Afghan government through the RC Window to assist with recurrent costs such as salaries of civil servants.¹²⁶ The RC Window supports the operating costs of the Afghan government because the government’s domestic revenues continue to be insufficient to support its recurring costs. To ensure that the RC Window receives adequate funding, donors to the ARTF may not “prefer” (earmark) more than half of their annual contributions for desired projects.¹²⁷

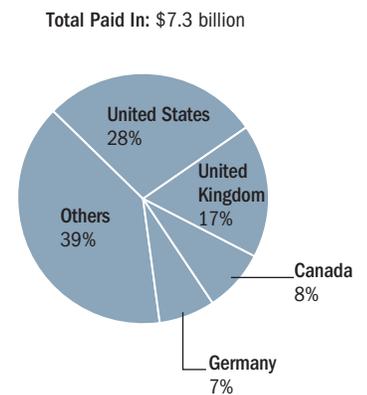
The Investment Window supports the costs of development programs. As of September 22, 2014, according to the World Bank, more than \$3.64 billion had been committed for projects funded through the Investment Window, of which nearly \$2.70 billion had been disbursed. The World Bank reported 22 active projects with a combined commitment value of more than \$2.33 billion, of which more than \$1.39 billion had been disbursed.¹²⁸

Contributions to the Law and Order Trust Fund for Afghanistan

The United Nations Development Programme (UNDP) administers the LOTFA to pay ANP salaries and build the capacity of the Ministry of Interior.¹²⁹ Since 2002, donors have pledged nearly \$3.83 billion to the LOTFA, of which nearly \$3.63 billion had been paid in, according to the most recent data available.¹³⁰ The LOTFA’s sixth support phase started on January 1, 2011. Phase VI was initially planned to end on March 31, 2013, but after two extensions, the planned end date is currently December 31, 2014.¹³¹ In the 42 months since Phase VI began, the UNDP had transferred nearly \$1.76 billion from the LOTFA to the Afghan government to cover ANP and Central Prisons Directorate staff remunerations and an additional \$47.10 million for capacity development and other LOTFA initiatives.¹³² As of June 30, 2014, donors had committed nearly \$2.30 billion to the LOTFA for Phase VI. Of that amount, the United States had committed nearly \$967.10 million, and Japan had committed more than \$744.76 million. Their combined commitments make up nearly 75% of LOTFA Phase VI commitments. The United States had committed more than \$1.52 billion and paid in nearly \$1.45 billion to the LOTFA since the fund’s inception.¹³³ Figure 3.25 shows the four largest donors to the LOTFA since 2002, based on the latest data available.

FIGURE 3.24

ARTF CONTRIBUTIONS PAID IN BY DONORS, SY 1381 (2002)–SEPTEMBER 22, 2014 (PERCENT)

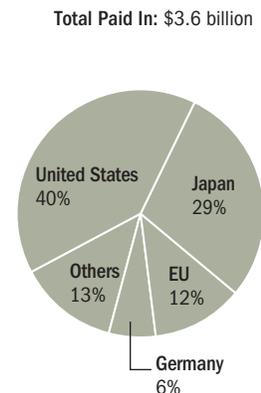


Note: Numbers have been rounded. “Others” includes 29 donors.

Source: World Bank, *ARTF: Administrator’s Report on Financial Status as of September 22, 2014*, p. 5.

FIGURE 3.25

DONOR CONTRIBUTIONS TO THE LOTFA SINCE 2002, AS OF JUNE 30, 2014 (PERCENT)



Note: Numbers have been rounded. EU = European Union. “Others” includes 18 donors.

Source: UNDP, *Law and Order Trust Fund for Afghanistan (LOTFA) 2014 Second Quarter Project Progress Report*, 9/24/2014, p. 33; SIGAR analysis of UNDP’s quarterly and annual LOTFA reports, 10/19/2014.

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SECURITY

As of September 30, 2014, the U.S. Congress had appropriated more than \$61.5 billion to support the Afghan National Security Forces (ANSF). Most of these funds (\$57.3 billion) were channeled through the Afghanistan Security Forces Fund (ASFF) and obligated by either the Combined Security Transition Command-Afghanistan (CSTC-A) or the Defense Security Cooperation Agency. Congress established the ASFF to build, equip, train, and sustain the ANSF, which comprises the Afghan National Army (ANA) and the Afghan National Police (ANP). Of the \$57.3 billion appropriated for the ASFF, approximately \$51.8 billion had been obligated and \$48.9 billion disbursed as of September 30, 2014.¹³⁴

This section gives an overview of U.S. funds used to build, equip, train, and sustain the ANSF; and provides an update on efforts to combat the cultivation of and commerce in illicit narcotics in Afghanistan. This section also discusses the challenges of transitioning to Afghan-led security by the end of this year.

KEY ISSUES AND EVENTS THIS QUARTER

Key issues and events this quarter include the signing of the U.S.-Afghan Bilateral Security Agreement (BSA), the change of command of the International Security Assistance Force (ISAF), the international community's renewed commitment to Afghanistan's future at the NATO summit in Wales, the transition of ISAF to its new support mission, the transition of convoy and facility security responsibilities from the Afghan Public Protection Force (APPF), and ongoing concerns about ANSF attrition levels. In addition, the United Nations (UN) reported a continuing trend of increased violence in Afghanistan.

Bilateral Security Agreement Finally Signed

After prolonged uncertainty and negotiation, the United States and Afghanistan signed a bilateral security agreement that, among other things, defines the legal status of U.S. forces in Afghanistan after 2014. The BSA—or formally the Security Cooperation and Defense Agreement between the United States of America and the Islamic Republic of Afghanistan—was

signed on September 30, 2014, one day after the inauguration of new Afghan president Ashraf Ghani. President Ghani and newly appointed Chief Executive Officer Abdullah Abdullah were on hand to witness U.S. Ambassador James Cunningham and Afghan National Security Advisor Mohammad Hanif Atmar sign the agreement.¹³⁵

Although the BSA does not establish how many U.S. troops will remain in Afghanistan, it is a necessary condition for them to remain after 2014.¹³⁶ President Obama announced in May that U.S. forces will be reduced to approximately 9,800 by the beginning of 2015.¹³⁷ The BSA enumerates protections that will be afforded to Department of Defense (DOD) military and civilian personnel. As under the 2003 status of forces agreement, under the BSA contractors are not immune from prosecution under the Afghan legal system, but U.S. soldiers are.¹³⁸ Among the many issues covered in the BSA, the agreement also:¹³⁹

- reaffirms the United States' obligation to develop, equip, and seek funding to support the ANSF
- establishes agreement to develop measures for analyzing Afghanistan's use of defense and security resources
- requires semiannual assessments of actual performance of Afghanistan's use of defense and security resources
- develops a process for making timely cooperative assessments of internal and external threats to Afghanistan
- directs that specific recommendations are made on enhancing information and intelligence sharing
- makes available facilities and areas, without fee, to U.S. forces and authorizes those forces to control entry into those facilities and areas
- authorizes U.S. forces to move freely by land, water, or air without being subject to fees
- provides for the United States to enter into contracts in Afghanistan and directs both countries to "work together to improve transparency, accountability, and effectiveness of contracting processes in Afghanistan with a view to preventing misuse and bad contracting practices."

The new BSA arrives as most foreign troops are leaving and as the Taliban is increasingly attacking areas around the country in an effort to regain control. According to DOD, the continued U.S. military presence in Afghanistan after 2014 will encourage the international community to continue to provide financial assistance to reconstruction programs, allowing Afghanistan to maintain progress in the security, governance, and economic sectors.¹⁴⁰

Following the signing of the BSA, a Status of Forces Agreement was signed by the Afghan national-security advisor and NATO's senior civilian representative to Afghanistan, Maurits R. Jochems.¹⁴¹ These agreements provide the legal framework for the United States, NATO, and its partner nations to continue their commitment to train, advise, and assist the ANSF.

NATO is expected to contribute 2,700 to 2,900 troops, bringing the total post-2014 international troop presence to 12,500 to 12,700 personnel. Those numbers will decline over the next year.¹⁴²

ISAF Change of Command

On August 26, 2014, U.S. Army General John F. Campbell assumed command of the International Security Assistance Force (ISAF) from U.S. Marine Corps General Joseph F. Dunford. Senior Afghan, NATO, and U.S. officials, including Chairman of the Joint Chiefs of Staff, Army General Martin E. Dempsey, attended the ceremony.¹⁴³ General Campbell, who is on his third tour in Afghanistan, will serve as the last ISAF commander before the NATO transition to the Resolute Support Mission (RSM).¹⁴⁴ The U.S. Senate confirmed General Dunford as the 36th commandant of the U.S. Marine Corps on July 23, 2014.¹⁴⁵

Wales Summit Declaration

On September 4, 2014, NATO allies and ISAF partners reaffirmed their intent to conduct a noncombat train, advise, and assist mission in Afghanistan beyond 2014 at a summit in Wales, United Kingdom.¹⁴⁶ In a declaration, participating heads of state and government reaffirmed their commitment to the RSM, as well as their support for the financial sustainment of the ANSF, and for a long-term NATO-Afghanistan partnership.¹⁴⁷ As the ISAF mission comes to a close at the end of this year, the ANSF will assume full responsibility for national security.¹⁴⁸ The international community reaffirmed its 2012 Chicago Summit commitment to provide over \$1 billion annually for ANSF sustainment through 2017.¹⁴⁹ Participants also restated their aim that the Afghan government should assume full financial responsibility for their security forces no later than 2024.¹⁵⁰

Resolute Support Mission

NATO's new RSM advisory mission will commence at the beginning of 2015. The RSM will advise the security ministries, ANA at the corps level, police at the zone level, and Afghan special-operations forces at the tactical level. This noncombat mission will initially include approximately 12,000 troops. Four NATO members have agreed to serve as "framework nations": Turkey will lead in the Kabul capital area, Germany in the north, Italy in the west, and the United States in the south and east.¹⁵¹

ISAF has developed a security-forces assistance framework that emphasizes improving the capacity of the defense and interior ministries and their associated institutions to perform eight essential functions:¹⁵²

- Planning, Programming, Budgeting, and Execution
- Internal Controls to Assure Transparency, Accountability, and Oversight
- Rule of Law and Governance
- Force Generation



U.S. Army General John Campbell takes command of ISAF, August 26, 2014. (U.S. Air Force photo)

“Tomorrow is going to begin just like today with the men and women of ISAF focused on training, advising and assisting the Afghan Security Forces as they secure the Afghan people. Tomorrow will begin just like today, coalition and Afghan forces taking the fight to the common enemy.”

—General Joseph F. Dunford

Source: ISAF change of command ceremony, “Gen. Campbell assumes ISAF command from Gen. Dunford,” 8/26/2014.

- Force Sustainment
- Command and Control
- Intelligence
- Strategic Communications

As the RSM begins its work next year, SIGAR will follow its progress in supporting the Afghan government and its security forces.

Transition of Afghan Public Protection Force Site Security Responsibilities Remain Unresolved

The Afghan Public Protection Force (APPF), a state-owned enterprise under the authority of the Ministry of Interior (MOI), was established to provide contract-based facility and convoy-security services in Afghanistan following President Karzai's 2010 decree prohibiting operation of private security companies.¹⁵³ However, on February 17, 2014, the Council of Ministers, acting on then-President Karzai's orders, directed the APPF to be dissolved and its guard functions transitioned to the ANP.¹⁵⁴ The United States has provided more than \$51 million to support the APPF, which provided security for many U.S.-funded programs and projects.¹⁵⁵

In response to a SIGAR request for information about why the APPF was dissolved, the NATO Training Mission-Afghanistan (NTM-A) explained that the Minister of Interior on June 10, 2014, told ISAF that the APPF "worked," but President Karzai "was not happy with its existence."¹⁵⁶ It was not clear why President Karzai was dissatisfied with a program he created. According to NTM-A, four committees were tasked to develop a plan for transitioning APPF operations into the ANP. Although the committees reportedly completed their work, the Minister of Interior, under considerable pressure from President Karzai, was dissatisfied with the progress of the transition and ordered the APPF's convoy-security operations to transfer to the ANP on May 22, 2014.¹⁵⁷

U.S. concerns about legal restrictions on using some U.S. reconstruction funding to pay for police services resulted, to some degree, in the MOI revising their plan.¹⁵⁸ One of those concerns was that the United States could end up paying double for ANP security services: once under terms established by the UN Law and Order Trust Fund for Afghanistan (LOTFA), and again in direct convoy-security fees.¹⁵⁹ Following conversations between the MOI, U.S. Forces-Afghanistan (USFOR-A), and USAID, the MOI restructured its security services into three parts:

- Convoy security will be provided by the Convoy Transportation Guard Brigade (CTGB). CTGB, under the MOI, will provide fee-for-service convoy-escort services, using uniformed civilian contract employees. According to NTM-A, CTGB was 70% manned at the end of July. According to ISAF's legal advisor, however, the final method by which convoy transportation guards are organized and paid is still in flux.¹⁶⁰
- The APPF will continue to provide security at fixed-site facilities.¹⁶¹

- The APPF-supported national business-operations center will continue to provide scheduling and invoicing for security services, collect funds, and reimburse the CTGB and APPF for guard salaries and operating expenses until an alternative is established. NTM-A reported that the Afghan National Security Council rejected MOI's proposal to select a risk-management company to perform these functions.¹⁶²

As of August 2014, the APPF provided security for two ISAF forward operating bases (FOBs): the New Kabul Compound (at a cost of \$2.26 million) and Camp Morehead (\$704,600). Private security companies secured an additional 36 FOBs, according to U.S. Central Command (CENTCOM).¹⁶³

According to NTM-A, the official number of APPF personnel is in flux due to *tashkil* changes, elimination of civilian billets assumed by the MOI, and ANP assumption of functions. The most recent APPF unofficial personnel count is 16,981 authorized and 16,015 assigned.¹⁶⁴

NTM-A said "Discussions indicate MOI is working to establish a process closely resembling APPF in order to mitigate concerns."¹⁶⁵ This again raises the question of why the APPF is being dissolved.

Tashkil: List of personnel and equipment requirements used by the MOD and MOI that detail authorized staff positions and equipment items. The word means "organization" in Dari.

Source: GAO, GAO-08-661, *Afghanistan Security*, 6/2008, p. 18.

ANSF Attrition Remains a Concern

Attrition continues to be a major challenge for the ANSF. Between September 2013 and August 2014, more than 36,000 ANA personnel were dropped from ANA rolls.¹⁶⁶ Moreover, the ANA continues to suffer serious combat losses. Between March 2012 and August 2014, more than 2,850 ANA personnel were killed in action (KIA) and 14,600 were wounded in action (WIA).¹⁶⁷

For the ANP, attrition fell from 2.35% for the month of July to 1.68% in the month of August, the latest period for which SIGAR was provided data. Unlike the ANA, the ANP does not report on personnel present for duty, absent without leave, or killed or wounded in action. The ANP remains short of its goal to maintain less than 1.4% monthly attrition.¹⁶⁸

UN Reports Afghan Violence Continuing to Rise

According to the UN Secretary-General, the conflict in Afghanistan continues to intensify. In his September 9 report to the UN Security Council, the Secretary-General said insurgent groups, international terrorists, and associated networks took advantage of the protracted electoral crisis and political uncertainty to mount major assaults around the country.¹⁶⁹ As reflected in Table 3.6 on the following page, the number of security incidents continued to increase, with this period reflecting the second-highest level of violence, after 2011, since the fall of the Taliban.¹⁷⁰

The majority of the security incidents once again occurred in the south, south-east, and east.¹⁷¹ The UN recorded 211 assassinations and 30 failed assassination attempts, an increase of 7.1% for both over the same period

TABLE 3.6

NUMBER OF SECURITY INCIDENTS			
Time Period	Number of Incidents	Number of Days	Average Number of Incidents per Day
November 16, 2013–February 15, 2014	4,649	92	50.5
March 1–May 31, 2014	5,864	92	63.7
June 1–August 15, 2014	5,456	76	71.8
Total	15,969	260	61.4

Source: UN Security Council, *The Situation in Afghanistan and its implications for international peace and security*, 9/9/2014, p. 6, 6/18/2014, p. 5, and 3/7/2014, p. 5.

in 2013.¹⁷² Armed clashes (47.3%) and improvised explosive device (IED) events (29.1%) accounted for 76.4% of all security incidents.¹⁷³ The UN reported that some insurgents attempted not only to capture but also to hold territory through the use of “swarm attacks” consisting of several hundred attackers attempting to overwhelm district administrative centers and security checkpoints.¹⁷⁴

Afghan and American commanders say the ANSF is holding well near main cities, but are being tested as more remote districts come under heavy attacks.¹⁷⁶ Afghan interior minister Mohammad Omar Daudzai

“In every job I had we got things done that I think made our Army better, and it was done by other people. All I did was try to pull people in the right direction and they went out and did great things.”

—Major General Harold J. Green

Source: WJLA, “Army Maj. Gen. Harold Greene, slain in Afghanistan, buried with honors at Arlington National Cemetery,” 8/14/2014.

In Tribute to Major General Harold Joseph ‘Harry’ Greene

Army Major General Harold J. Greene, Deputy Commanding General of CSTC-A, was honored by a memorial ceremony on August 13. MG Greene was killed by an Afghan soldier while visiting the Marshal Fahim National Defense University in Kabul on August 5. The two-star general was the highest-ranking U.S. military officer to be killed in a hostile action since the terrorist attack on the Pentagon on 9/11, and the highest-ranking officer killed in an active combat zone since the Vietnam War. U.S. Ambassador James Cunningham, Deputy Ambassador P. Michael McKinley, General Joseph F. Dunford, Afghan Defense Minister Bismillah Khan Mohammadi, Afghan General Shir Karimi, Afghan General Mohammad Ayub Salangi, and ISAF and SIGAR personnel



(U.S. Army photo)

attended the ceremony. On August 24, the Major General Harold J. Greene Building at ISAF headquarters in Kabul was dedicated as a residential facility for the multinational coalition service members and civilians. The general was interred with full military honors at Arlington National Cemetery.¹⁷⁵

testified to the Afghan parliament that the past six months had been the deadliest of the 13-year-long conflict, with 1,368 ANP personnel killed and 2,370 wounded since the beginning of the current Afghan year. Police casualties have generally run at twice the level of Afghan Army casualties through much of the war.¹⁷⁷

U.S. FORCES IN AFGHANISTAN

According to ISAF, 25,000 U.S. forces were serving in Afghanistan as of September 29, 2014, a decrease of 7,800 since June 1, 2014.¹⁷⁸ Approximately 12,154 Coalition forces were serving as of September 3, 2014.¹⁷⁹ On May 27, 2014, President Obama announced U.S. forces in Afghanistan will reduce to approximately 9,800 by January 2015 and will be reduced further throughout 2015.¹⁸⁰ Since operations began in 2001, a total of 2,208 U.S. military personnel have died in Afghanistan—83% of whom were killed in action—and 19,890 were wounded as of October 1, 2014.¹⁸¹

Coalition Forces Withdraw

Slovakia's mission in Afghanistan came to an end with a ceremony at Kandahar Airfield on September 22, 2014. The Slovaks advised one of the ANA mobile strike force kandaks and provided base defense.

Source: ISAF News, "Slovak land force ends mission in Afghanistan," 9/24/2014.

DESPITE WEAKNESSES IN CONTRACTING IDENTIFIED TWO YEARS AGO, DOD'S ACCOUNTABILITY REMAINS A CONCERN

In January 2012, more than 100 representatives of U.S. Central Command (CENTCOM), USFOR-A, ISAF Joint Command, contracting organizations, and others, held a contracting *shura* or conference in Kabul.¹⁸² The conference identified weaknesses in contracting including the "failure to enforce existing standards, policies and procedures by all entities" involved in federal contracting in Afghanistan.¹⁸³ DOD reported to Congress in June 2012 that the shura "identified and agreed to pursue 26 actions to improve contract oversight and management," and stated that "Actions are well under way."¹⁸⁴ SIGAR has repeatedly asked about the follow-up steps for the shura, whose summary memo also noted "poor accountability" for enforcing standards, policies and procedures.¹⁸⁵

As noted in the July 2014 *Quarterly Report to the United States Congress*, DOD has provided SIGAR with descriptions of steps taken to address the findings of the 2012 contracting conference. But it is unable to provide instances of people or entities being held accountable for failing to meet contracting standards.¹⁸⁶ Moreover, an October 2014 SIGAR interview with a Pentagon official indicated that DOD was not aware of any tracking mechanisms or metrics in place to determine whether the 26 follow-up actions, if implemented, had achieved desired results.¹⁸⁷ The official offered to seek additional information, and noted that DOD has faced several challenges to contracting in Afghanistan, among them short deployment times, rapid turnover, and the ongoing drawdown of personnel in country.

SIGAR recognizes the difficulties of contract management and oversight in combat zones and welcomes DOD's initiative in launching follow-up actions, but finds its apparent shortfalls in tracking, results assessment, and accountability unfortunate and troubling. As DOD's own current action plan notes, "Operational contract support (OCS) is a core defense capability and a critical component of total force readiness"; addressing shortfalls and transforming capability requires "an 'owner' for every task" and "continuous monitoring."¹⁸⁸ This is a sound judgment on an issue that is not confined to military doctrine. For example, a Massachusetts Institute of Technology presentation on "Project Management 101" lists "Track, Control, Report and Review" as a basic step in project management.¹⁸⁹ In view of the costs and mission criticality of the continuing heavy reliance on contractors in Afghanistan and in DOD total-force planning, more energetic and thorough effort in tracking OCS-improvement results and monitoring accountability for noncompliance appears to be needed.

SIGAR AUDIT

An ongoing SIGAR audit is assessing the reliability and usefulness of data on the number of ANSF personnel authorized, assigned, and trained.

ANSF STRENGTH

This quarter, ANSF's assigned force strength was 349,546, according to ISAF.¹⁹⁰ This is 97% of the ANSF's end-strength goal of 352,000 personnel. DOD's goal to reach 352,000 ANSF by 2014 (187,000 ANA by December 2012, 157,000 ANP by February 2013, and 8,000 Air Force by December 2014) has mostly been met.¹⁹¹ The ANA is within 4%, the ANP is within 2.5%, and the Afghan Air Force (expected to reach its goal at the end of the year) is within 6% of their target end strength, as shown in Table 3.7.

TABLE 3.7

ANSF ASSIGNED FORCE STRENGTH, AUGUST 20, 2014			
ANSF Component	Current Target	Status as of 8/2014	Difference Between Current Strength and Target End-Strength Goals
Afghan National Army	187,000 personnel by December 2012	181,439 (97%)	-5,561 (-4.1%)
Afghan National Police	157,000 personnel by February 2013	152,123 (97%)	-4,877 (-2.4%)
Afghan Air Force	8,000 personnel by December 2014	6,731 (84%)	-1,269 (-5.9%)
ANSF Total	352,000	340,293 (97%)	-11,707 (-3.4%)
ANA Civilians	8,004 personnel authorized	8,749 (109.3%)	745 (8.5%)
AAF Civilians	278 personnel authorized	227 (81.7%)	51 (-22.5%)
ANSF Total with Civilians	360,282	349,546 (97.0%)	10,736 (-3.1%)

Source: DOD, *Report on Progress Toward Security and Stability in Afghanistan*, 12/2012, p. 56; CSTC-A response to SIGAR data call, 10/2/2014; SIGAR analysis 10/2/2014.

ANA Civilians' Authorization Separated from ANA Strength

SIGAR has long been concerned about civilians being counted as part of ANA force strength. Over the years, CSTC-A has sometimes counted civilians in the ANA's force strength and sometimes not counted them, as reflected in Table 3.8.

TABLE 3.8

CIVILIANS COUNTED TOWARD ANA STRENGTH										
	Q2 2012	Q3 2012	Q4 2012	Q1 2013	Q2 2013	Q3 2013	Q4 2013	Q1 2014	Q2 2014	Q3 2014
Civilians Included in Force Strength?	Yes	No	No	No	Yes	Yes	Yes	Yes	Yes	No
Number of Civilians Included?	NA	NA	NA	NA	7,806	8,698	9,336	9,486	9,647	0

Note: Reflects calendar-year quarters; NA = unknown.

Source: CSTC-A responses to SIGAR data calls, 10/2/2014, 7/1/2014, 3/31/2014, 1/6/2014, 10/1/2013, 7/2/2013, 4/1/2013, 1/2/2013, 10/1/2012, and 7/2/2012.

In February 2012, a DOD Office of Inspector General (DOD OIG) report identified counting civilians as part of the ANA as a risk. In that report, the DOD OIG found that ANA finance officers had “coded” civilian personnel as military or armed forces personnel and included them for payment by CSTC-A, despite an agreement between NTM-A/CSTC-A and the Ministry of Defense (MOD) that only military personnel would be reimbursed. At that time, CSTC-A finance personnel were unaware that civilians had been included for military pay.¹⁹²

According to the Center for Naval Analyses' (CNA) independent assessment released earlier this year, “uniformed ANSF positions in the MOD and MOI should be civilianized. If civilians with the appropriate expertise cannot be recruited or trained for these positions—or if active-duty ANSF personnel cannot be transitioned to the civil service—then ANSF force structure will need to be increased to accommodate them.”¹⁹³

This quarter, CSTC-A reported separate authorizations for ANA military and civilian positions:¹⁹⁴

- Military: 195,000
- Civilian: 8,004
- **Total: 203,004**

This quarter, CSTC-A reported 8,976 civilians assigned to the ANA and Afghan Air Force—12% above the authorized level for civilian positions.¹⁹⁵

Civilian position: a civilian that is included in the ANA authorized end strength count.

Source: CSTC-A, response to SIGAR vetting, 4/10/2014.

ANSF Assessment's Classification Raises Concerns for Transparency and Oversight

The ANSF capability assessments prepared by the ISAF Joint Command (IJC) have recently been classified, leaving SIGAR without a critical tool to publicly report on development of the ANSF.¹⁹⁶

This is a significant change. SIGAR has routinely reported on assessments of the ANA and ANP as indicators of the effectiveness of U.S. and Coalition efforts to build, train, equip, and sustain the ANSF. These assessments provide both U.S. and Afghan stakeholders—including the American taxpayers who pay the costs of recruiting, training, feeding, housing, equipping, and supplying Afghan soldiers—with updates on the status of these forces as transition continues and Afghanistan assumes responsibility for its own security.

ISAF uses the Regional ANSF Status Report (RASR) to rate the ANSF.¹⁹⁷ According to the IJC, the RASR provides a monthly operational-level update on readiness, long-term sustainability, and associated shortfalls of the ANA and ANP.¹⁹⁸ From its inception until this quarter, the RASR executive summary, which provides a high-level overview of ANSF corps-level units across several operational effectiveness pillars, was unclassified. The remainder of the RASR, which assessed individual units in a more qualified and detailed way, was classified. From the RASR's foreword: "The [then-unclassified] EXSUM presents a synthesized analysis of observations and identified shortfalls, highlighting main findings and most pressing issues that hamper ANSF long-term sustainability."¹⁹⁹

SIGAR's reporting has been taken from the executive summary at an aggregated corps level, not at an operational or tactical level that might be of use to Afghan insurgents' attack planning. It is not clear what security purpose is served by denying the American public even high-level information. SIGAR will continue to press for explanations of the classification change and seek some modification of this serious obstacle to its oversight role in the security area of reconstruction. Until such time as parts of the ANSF assessment are again unclassified, SIGAR will report on developmental progress and/or shortfalls from other sources.

Afghan Training Advances

During September, two graduation ceremonies occurred to mark mobile strike force (MSF) training achievements. ANA soldiers completed three months of intense training before being commissioned into the 7th MSF. They were the last graduating class in this program; new training programs are being developed to better prepare Afghan forces to assume sole responsibility for combat missions at the end of this year. The new training will provide enhanced capabilities by integrating all specialty branches—armor, artillery, and infantry—for training, equipping, and deploying as combined-arms units.²⁰⁰

Also in September, 51 Afghan soldiers constituted the first graduating class of Mine-Resistant Ambush Protected (MRAP) vehicle and MRAP Recovery Vehicle (MRV) operators. The course covered MRAP operation, preventive maintenance, and driving. Training also included operating MRVs, the large support vehicles capable of righting overturned MRAPs or transporting damaged vehicles back to a base for repair.²⁰¹

By next summer, the ANA plans to have over 500 soldiers trained to operate the Afghan fleet of 200 MRAPs and 20 MRVs. The course will include training select Afghans how to teach the MRAP/MRV courses to future classes of Afghan soldiers.²⁰²

ANSF to Begin Providing Literacy Training but Planning Lags

Both the MOD and MOI agreed in April to full ownership of their respective literacy programs beginning January 1, 2015.²⁰³ The ANSF, with the advice and assistance of NTM-A, was to have finalized program and contracting plans by July 31, 2014, six months before the NTM-A contracts end.²⁰⁴ However no progress report has been received. The MOD and MOI are to develop:²⁰⁵

- centralized institutional literacy training for new recruits at regional training centers
- an organic literacy-training capability via a train-the-trainer program

NTM-A will continue to assist with literacy training contracting support. However, MOD and MOI procurement advisors are to take the lead for the final transition in January 2015.²⁰⁶

The NTM-A literacy program was to provide basic literacy training (Dari/Pashto reading and writing) to the ANSF and to develop the organic capability to teach basic literacy training.²⁰⁷ The NTM-A has met its goal to have 100,000 ANSF personnel (both ANA and ANP) functionally literate by December 2014. Further, NTM-A is unable to confirm how many of those trained personnel are still in the ANSF due to lack of personnel-tracking capabilities within the ANSF.²⁰⁸ NTM-A estimated that “due to attrition less than 30% of the ANSF will be functionally literate [level 3 literacy] by the end of December 2014.”²⁰⁹

NTM-A reported the number of ANSF personnel who have completed each literacy program level as of August 1, 2014, which is shown in Table 3.9.

TABLE 3.9

ANSF LITERACY TRAINING, AS OF AUGUST 1, 2014				
Literacy Trained	ANA	ANP	Total ANSF	Goal End 2014
Level 1	185,030	100,908	285,938	Up to 300,000
Level 2	68,556	64,749	133,305	120,000-130,000
Level 3	64,426	43,909	108,335	100,000-110,000

Source: CSTC-A, response to SIGAR data call, 10/6/2014.

Level 1 literacy is the ability to read and write single words, count up to 1,000, and add and subtract whole numbers. At level 2, an individual can read and write sentences, carry out basic multiplication and division, and identify units of measurement. At level 3, an individual has achieved functional literacy and can “identify, understand, interpret, create, communicate, compute, and use printed and written materials.”²¹⁰

From 2010 through 2013, the United States has funded literacy training contracts for the ANSF. Beginning in 2014, the NATO Trust Fund provided \$24.6 million funding for the literacy contracts. The final task orders for those contracts will expire on December 31, 2014, at which time, the literacy program will transition to the Afghan government. It will be the Afghan government’s responsibility to establish their own contracts and request funds from NATO to pay for those contracts.²¹¹ According to USFOR-A, the NATO ANA Trust Fund has identified ANA literacy training funds for 2015.²¹²

A SIGAR audit of ANSF literacy training in January highlighted NTM-A’s inability to fully measure the effectiveness of the literacy program for lack of independent verification of testing or personnel tracking.²¹³ NTM-A proposed an improved program plan, incorporating five years of lessons learned, for the MOD and MOI. NTM-A recommended that ANSF utilize the Ministry of Education (MOE) for personnel verification and tracking and capitalize on the MOE’s organic “train the trainer” capability currently being developed.²¹⁴

MINISTRY OF DEFENSE AND MINISTRY OF INTERIOR ASSESSMENTS ON HOLD UNTIL JANUARY

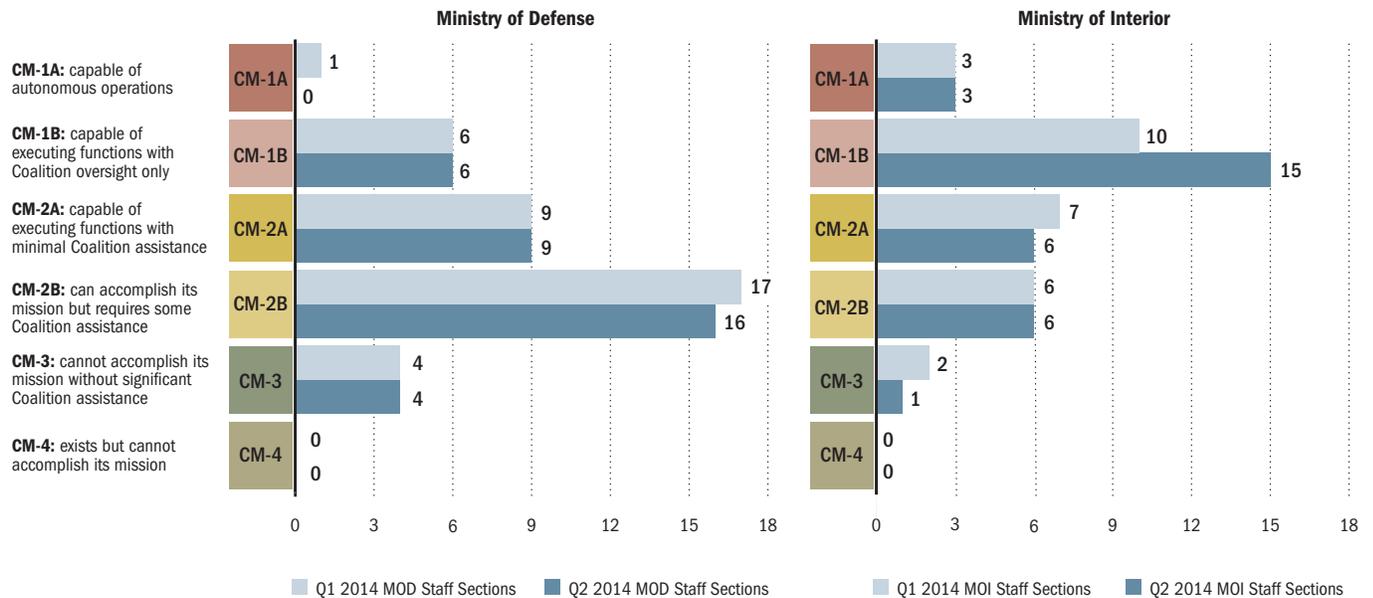
The assessment process for Afghan ministries is on hold until January. The DOD reported this quarter that the ministerial-development planning process for the MOD and MOI is undergoing a complete rewrite.²¹⁵ The objective is to have the new process in place to perform ministerial assessments for the period October–December 2014.²¹⁶

The final assessments under the Capability Milestone (CM) rating system, as reported last quarter, reflected no rating improvements in developing MOD and MOI capacity to perform critical functions, as shown in Figure 3.26. To rate the operational capability of these ministries, NTM-A used this system to assess staff sections (such as the offices headed by assistant or deputy ministers) and cross-functional areas (such as general staff offices) using four primary and two secondary ratings:²¹⁷

- CM-1A: capable of autonomous operations
- CM-1B: capable of executing functions with Coalition oversight
- CM-2A: capable of executing functions with minimal Coalition assistance
- CM-2B: can accomplish its mission but requires some Coalition assistance

FIGURE 3.26

CAPABILITY MILESTONE RATINGS OF MOD AND MOI, QUARTERLY STATUS



Note: MOD as of 6/30/2014. MOI as of 6/14/2014. Reflects downgrading of MOI Deputy Minister Counter Narcotics from CM-1B to CM-2A. Quarters are calendar-year.
 Source: CSTC-A responses to SIGAR data calls, 3/31/2014, 7/1/2014, 7/3/2014, and 9/22/2014.

- CM-3: cannot accomplish its mission without significant Coalition assistance
- CM-4: exists but cannot accomplish its mission

The last quarterly CM ratings were for 35 MOD staff sections and cross-functional areas, down from 37 in prior quarters.²¹⁸ Six MOD offices attained the second-highest rating of CM-1B.²¹⁹ Thirty-one staff sections at MOI were assessed. Three attained the highest rating of CM-1A: the Chief of Staff Public Affairs Office, the Deputy Minister for Security Office of the Afghan National Civil Order Police, and the Deputy Minister of Security for Force Readiness. In addition, 15 MOI staff sections had attained a CM-1B rating.²²⁰

The United States has provided \$1.2 million for the MOD and \$1.5 million for the MOI for ministry development.²²¹ ISAF has 191 personnel assigned to or supporting it for advising the MOD, and another 231 for advising the MOI.²²²

SIGAR SPECIAL PROJECT

In a special project report released last year, SIGAR found that CSTC-A had not conducted a comprehensive risk assessment of the capabilities of the MOD and MOI to manage and account for U.S. direct-assistance dollars, of which \$4.2 billion has been committed and nearly \$3 billion disbursed.

SIGAR AUDIT

SIGAR has an ongoing audit on the Combined Joint Special Operations Task Force-Afghanistan's implementation of the Afghan Local Police program.

AFGHAN LOCAL POLICE

The Afghan Local Police (ALP) is under MOI authority and functions under the supervision of the district Afghan Uniform Police (AUP). ALP members are selected by village elders or local power brokers to protect their communities against Taliban attack, guard facilities, and conduct local counterinsurgency missions.²²³ As of September 14, 2014, the ALP comprised 28,814 personnel, all but 4,298 of whom were fully trained, according to the NATO Special Operations Component Command-Afghanistan (NSOCC-A). The current goal is to have 30,000 personnel in 150 districts by the end of December 2014, assigned to 3,120 checkpoints across 29 provinces.²²⁴

As of September 29, 2014, \$409.2 million of the ASFF had been obligated and expended to support the ALP.²²⁵ According to NSOCC-A, the ALP will cost \$121 million per year to sustain once it reaches its target strength.²²⁶ To date the United States has provided the ALP with equipment such as rifles, machine guns, light trucks, motorcycles, and radios.²²⁷

According to NSOCC-A, between October 1, 2013, and September 30, 2014, the ALP had a retention rate of 93%. During that period, NSOCC-A reported a 1.6% attrition rate (losses not including casualties) while 6.4% of the force were killed or wounded in action.²²⁸

The Afghan government has not determined the final disposition of the ALP or its funding source. However, NSOCC-A noted that post-transition funding depends on when transition takes place.²²⁹ According to DOD, U.S. government policy on funding the ALP has not yet been determined.²³⁰ According to an independent assessment released last quarter, public perceptions of ALP's value to community security are positive overall, although there is room for improvement.²³¹ A second assessment, conducted by NSOCC-A based on data provided by Eureka Research and Evaluation focus-group surveys in ALP districts, is under way.²³² This second assessment will in part evaluate if actions recommended in the first assessment were implemented and had the desired effect. Those recommendations were:²³³

- support and supervision from the ANP
- transparent, locally-owned recruitment processes
- balanced tribal representation
- regular information exchanges between community leaders and ALP commanders

AFGHAN NATIONAL ARMY

As of September 30, 2014, the United States had obligated \$34.4 billion and disbursed \$32.4 billion of ASFF funds to build, train, equip, and sustain the ANA.²³⁴



Afghan National Defense University, under construction, Kabul, September 2014. (USACE photo)

ANA Strength

As of August 20, 2014, the overall end strength of the ANA was 195,257 personnel (187,427 Army and 7,830 Air Force), according to ISAF.²³⁵ However, as noted previously, this quarter ISAF reported separate authorizations for ANA military and civilian positions.²³⁶

- Military: 195,000
- Civilian: 8,004
- **Total: 203,004**

The above end strength includes a total of 8,976 civilians (8,749 ANA and 227 Air Force civilians).²³⁷ Overall, the total assigned is 96.5% of the combined end-strength goal. However, the ANA civilian count exceeds its authorization target by 9%; refer to Table 3.10 for details. All components except for the special-operations forces (SOF) had a modest authorization increase. Most components, however, experienced a decrease in the number of assigned personnel, as shown in Table 3.10. Personnel absent without official leave (AWOL) increased from 5,746 last quarter to 8,610 this quarter, but were still significantly less than the 10,292 reported AWOL in the last quarter of 2013.²³⁸

TABLE 3.10

ANA STRENGTH, QUARTERLY CHANGE						
ANA Component	Authorized			Assigned		
	Q2 2014	Q3 2014	Quarterly Change	Q2 2014	Q3 2014	Quarterly Change
201st Corps	18,130	18,205	75	17,606	17,401	(205)
203rd Corps	20,798	22,520	1,722	22,114	21,057	(1,057)
205th Corps	19,097	19,116	19	18,534	18,128	(406)
207th Corps	14,879	15,089	210	14,204	13,761	(443)
209th Corps	15,004	15,214	210	14,674	14,566	(108)
215th Corps	17,555	18,329	774	16,999	17,106	107
111th Capital Division	9,174	9,410	236	8,356	8,866	510
Special Operations Force	11,013	10,746	(267)	10,649	9,827	(822)
Echelons Above Corps ^a	36,002	37,713	1,711	36,610	38,248	1,638
TTHS ^b	-	13,359	13,359	12,299	10,908	(1,391)
Civilians	-	7,726	7,726	9,394	8,749	(645)
ANA Total	161,652	187,427	25,775	181,439	178,617	(2,822)
Afghan Air Force (AAF)	7,370	7,552	182	6,478	6,695	217
AAF Civilians	-	278	278	253	227	(26)
ANA + AAF Total	169,022	195,257	26,235	188,170	185,539	(2,631)

Note: Quarters are calendaryear; Q2 2014 data as of 5/31/2014; Q3 2014 data as of 8/2014.

^a Includes MOD, General Staff, and Intermediate Commands

^b Trainee, Transient, Holdee, and Student; these are not included in counts of authorized personnel; Q2 Assigned Includes 4,701 cadets; Q3 Assigned includes 5,157 cadets

Source: CSTC-A, responses to SIGAR data calls, 7/1/2014 and 10/2/2014.

The decrease in SOF strength does not bode well, but simply increasing SOF numbers would not necessarily improve the ANSF's ability to conduct special operations. The Center for Naval Analyses (CNA) said in a DOD-commissioned, independent assessment released earlier this year, "Afghanistan has a significant need for SOF, but the ANSF cannot support more SOF."²³⁹ CNA also said "ANA SOF currently depends on the U.S. and ISAF for logistics, intelligence, and air mobility. Simply increasing the number of ANA SOF personnel without addressing these support requirements would not increase the overall capability of SOF to disrupt insurgent and terrorist networks."²⁴⁰

ANA Attrition Challenges

Attrition continues to be a major challenge for the ANA. Between September 2013 and August 2014, more than 36,000 ANA personnel were dropped from ANA rolls.²⁴¹ The ANA continues to suffer serious losses from fighting. Between March 2012 and August 2014, more than 2,850 ANA personnel were killed in action (KIA) and 14,600 were wounded in action (WIA).²⁴²

ANA Sustainment

As of September 30, 2014, the United States had obligated \$13.4 billion and disbursed \$12.4 billion of ASFF funds for ANA sustainment.²⁴³

ANA Salaries, Food, and Incentives

As of September 30, 2014, CSTC-A reported that the United States had provided \$2.5 billion through the ASFF to pay for ANA salaries, food, and incentives since FY 2008. CSTC-A also estimated the annual amount of funding required for ANA base salaries, bonuses, and incentives at \$693.9 million. That estimate did not change from last quarter, but the allocation increased pay-related expenditures by \$85.5 million and decreased incentives by the same value. However, CSTC-A noted that funding is provided on the basis of 100% of the ANA's authorized strength. Since December 21, 2013, CSTC-A no longer provides funding for food.²⁴⁴

ANA Equipment, Transportation, and Ammunition

After a challenging period which saw multiple corrections to the recorded cost of equipment procured for the ANA, CSTC-A reported an increase in the total cost from \$5.5 billion to \$5.8 billion.²⁴⁵ The trend in total ANA weapons, vehicles, and communication equipment costs is shown in Table 3.11.

Additionally, CSTC-A reported the cost of ANA equipment remaining to be procured is \$82.9 million, a slight decrease from last quarter.²⁴⁶

As of September 30, 2014, the United States had obligated \$11.5 billion and disbursed \$11.4 billion of the ASFF for ANA equipment and transportation.²⁴⁷ Most of these funds were used to purchase vehicles, weapons and

SIGAR AUDIT

A SIGAR audit last quarter on the ANA Mobile Strike Force (MSF) found that: the security environment limited the contractor from providing training and maintenance services; U.S. government oversight personnel had limited ability to visit MSF locations outside Kabul; an absence of spare parts hindered vehicle operability; MSF vehicle operators needed training; and difficulties had occurred with ANA supply-chain ordering and distribution of spare parts.

TABLE 3.11

CUMULATIVE U.S. COSTS TO PROCURE ANA EQUIPMENT (\$ MILLIONS)				
	Weapons	Vehicles	Communications	Total
April 2013	\$878.0	\$5,556.5	\$580.5	\$7,015.0
July 2013	622.8	5,558.6	599.5	6,780.9
October 2013	447.2	3,955.0	609.3	5,011.5
December 2013	439.2	4,385.8	612.2	5,437.2
March 2014	461.2	4,385.8	670.3	5,517.3
July 2014	461.2	4,385.8	670.3	5,517.3
September 2014	522.3	4,638.9	688.2	5,849.4

Source: CSTC-A, responses to SIGAR data calls, 4/1/2013, 7/2/2013, 10/1/2013, 12/30/2013, 3/31/2013, 7/1/2014, and 9/29/2014.

related equipment, communications equipment, aircraft, and aviation-related equipment. More than 79% of U.S. funding in this category was for vehicles and transportation-related equipment, as shown in Table 3.12.

TABLE 3.12

COST OF U.S.-FUNDED ANA WEAPONS, VEHICLES, AND COMMUNICATION EQUIPMENT		
Type of Equipment	Procured	Remaining to be Procured
Weapons	\$522,336,282	\$13,803,951
Vehicles	4,638,861,237	38,124,578
Communications	688,157,101	31,010,799
Total	\$5,849,354,620	\$82,939,328

Source: CSTC-A, response to SIGAR data call, 9/29/2014.

The United States has also procured \$1.6 billion in ammunition, \$4.6 billion in aircraft for the ANA, and \$9.6 billion worth of other equipment and supplies to sustain the ANA. However, SIGAR has some concern about how that \$9.6 billion cost of other equipment and supplies was determined. According to CSTC-A, it was determined by subtracting the cost of weapons, vehicles, communications equipment, aircraft, and ammunition from overall equipment and sustainment costs—in other words, computed as a residual, rather than based on an inventory list or actual record keeping.²⁴⁸

ANA Infrastructure

As of September 30, 2014, the United States had obligated \$6.2 billion and disbursed \$5.3 billion of the ASFF for ANA infrastructure.²⁴⁹ At that time, the United States had completed 329 infrastructure projects (valued at \$4.3 billion), with another 46 projects ongoing (\$950 million) and nine planned (\$97.8 million), according to CSTC-A.²⁵⁰

The largest ongoing ANA infrastructure projects this quarter were brigade garrisons for the 3rd Brigade/205th Corps in Kandahar (\$91 million) and the 2nd Brigade/215th Corps in Nimroz (at a cost of \$78.7 million), and

SIGAR INSPECTION

SIGAR has initiated an inspection of the U.S.-funded construction of the MOD headquarters to determine if construction is being completed in accordance with contract requirements and if any occupied portions of the headquarters are being properly maintained and used as intended.



Ministry of Defense Headquarters Building under construction in Kabul, September 2014. (CSTC-A photo)

phase three of the MOD headquarters and garrisons (\$58.6 million).²⁵¹ In addition, five projects were awarded this quarter at a cost of \$61.7 million, 16 projects were completed at a cost of \$226.6 million, six contracts were descope to a value of \$182.1 million, including the brigade garrisons for the 2nd Brigade/201st Corps in Kunar (originally costing \$115 million), and one contract worth \$31.3 million was terminated.²⁵² CSTC-A reported that 18 facilities were transferred to the ANSF since the end of July; an additional 13 facilities will be transferred by the end of January 2015.²⁵³

According to CSTC-A, the projected operations-and-maintenance (O&M), sustainment, restoration, and minor-construction cost for ANA infrastructure for FY 2015 through FY 2019 is \$168 million a year, for a total of \$840 million.²⁵⁴

According to DOD, the MOD Construction and Property Management Department's capacity to plan, design, contract, and execute new construction is limited to \$20 million per year until greater capacity is demonstrated.²⁵⁵

ANA and MOD Training and Operations

As of September 30, 2014, the United States had obligated and disbursed \$3.2 billion of the ASFF for ANA and MOD operations and training.²⁵⁶ Aside from literacy training discussed previously in this section, the other training includes English-language, officer, and operational-specialty training such as artillery, infantry, logistics, and medical.²⁵⁷ SIGAR received incomplete responses to its questions on operations and training for this quarter.

Women in the ANA and Afghan Air Force

Women currently make up less than 1% of the ANA, despite the current recruitment and retention goal published in September 2013 for 10% of the force to be female. To achieve this goal, the ANA has waived a requirement that the recruitment of women be balanced among Afghanistan's various ethnic groups. Additionally, assignment locations are being reviewed to pinpoint locations with accommodation for females, such as separate restrooms. The ANA Recruiting Command also airs local television commercials directed at women beginning 20 days before training classes.²⁵⁸

ISAF said the Coalition believes that as more women serve in the ANSF, men will learn to accept and respect women in the workplace. The involvement of families and communities is critical to recruiting women. ISAF has requested funding for media advertisements and programming to educate the Afghan public about the need for women to join the army and police.²⁵⁹

This quarter, the ANA reported to ISAF that 833 women serve in the ANA: 785 in the Army and 48 in the Air Force. Of those, 291 were officers, 324 were non-commissioned officers (NCOs), 140 were enlisted, 29 were in training, and 49 were cadets. In addition, the ANA reported to CSTC-A that there are 413 civilian women supporting the ANA.²⁶⁰ The ANA's

12-week Basic Warrior Training course includes a class on behavior and expectations of male soldiers who work with ANA women. The Afghan Independent Human Rights Commission conducts two-day seminars for the ANSF that include training in eliminating violence against women.²⁶¹

The National Defense Authorization Act for FY 2014, Public Law 113-66, authorizes \$25 million to be used for the programs and activities to support the recruitment, integration, retention, training, and treatment of women in the ANSF.²⁶²

SIGAR received incomplete responses to its questions on women in the ANA and the Air Force this quarter.

Afghan Air Force and the Special Mission Wing

The United States has a considerable investment in the Afghan Air Force. Between FY 2010 and FY 2014, the United States provided more than \$6.5 billion to support and develop the 6,922-person Afghan Air Force, including over \$3 billion for equipment and aircraft. In addition, DOD requested more than \$925 million, including \$21.4 million for equipment and aircraft, in FY 2015 for the Afghan Air Force. However, the majority of the funding requested is for sustainment and training, as shown in Table 3.13.

SIGAR has questioned the Afghan Air Force's ability to fully utilize the aircraft that the United States has provided at a considerable cost to the American taxpayer. For example, after DOD provided the Afghan Air Force with two C-130H medium transport aircraft, SIGAR questioned DOD plans to deliver two additional C-130Hs after an audit raised concerns about the Afghan Air Force's ability to absorb the new aircraft. As a result, DOD this quarter concurred with SIGAR's recommendation to defer the decision on delivering a fourth aircraft until a review of Afghan Air Force requirements is completed, for a potential savings of \$40.5 million. A third aircraft will be delivered to mitigate the risk to Afghan air capabilities should one of the aircraft become unavailable.²⁶³

TABLE 3.13

U.S. FUNDING TO SUPPORT AND DEVELOP THE AFGHAN AIR FORCE, 2010–2015 (\$ THOUSANDS)						
Funding Category	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015 (request)
Equipment and Aircraft	\$461,877	\$778,604	\$1,805,343	\$111,129	\$2,300	\$21,442
Training	62,438	187,396	130,555	141,077	164,187	123,416
Sustainment	143,784	537,650	571,639	469,230	520,802	780,370
Infrastructure	92,200	179,600	113,700	53,000	0	0
Total	\$760,299	\$1,683,250	\$2,621,237	\$774,436	\$687,289	\$925,228

Source: DOD, Budget Fiscal Year (FY) 2012, Justification for FY 2012 Overseas Contingency Operations Afghanistan Security Forces Fund, 2/2011, pp. 8, 19, 30, and 44; DOD, Budget Fiscal Year (FY) 2013, Justification for FY 2013 Overseas Contingency Operations Afghanistan Security Forces Fund, 2/2012, pp. 5, 13, 19, and 32; DOD, Budget Fiscal Year (FY) 2014, Justification for FY 2014 Overseas Contingency Operations Afghanistan Security Forces Fund, 5/2013, pp. 5, 11, 20, and 37; DOD, Budget Fiscal Year (FY) 2015, Justification for FY 2015 Overseas Contingency Operations Afghanistan Security Forces Fund, 6/2014, pp. 10, 24, 26, and 29.



An A-29 Super Tucano arrives at Moody Air Force Base, Georgia, September 26, 2014. (U.S. Air Force photo)

According to CENTCOM and the NATO Air Command–Afghanistan, as of October 11, 2014, the Afghan Air Force inventory consisted of 101 aircraft:²⁶⁴

- 56 Mi-17 transport helicopters (down from 58 after two combat losses; includes three on loan to the Special Mission Wing)
- 26 C-208 light transport planes
- Six C-182 fixed-wing training aircraft
- Five MD-530F rotary-wing helicopters
- Five Mi-35 attack helicopters
- Three C-130H medium transport aircraft

Twelve additional MD-530F helicopters equipped with air-to-ground attack capability are on contract, as is conversion of five existing MD-530F helicopters to air-to-ground attack capability, thereby providing the AAF with 17 attack helicopters.²⁶⁵

Beginning in the fourth quarter 2015, the first of 20 A-29 Super Tucanos, a light attack aircraft for counterinsurgency, close air support, and aerial reconnaissance, will be deployed to Afghanistan following the training in the United States, beginning in February 2015, of pilots and the initial maintenance cadre.²⁶⁶ Four Super Tucanos will be delivered each year in 2015, 2016, and 2017; and eight in 2018.²⁶⁷ The planes are intended to replace aging Mi-35 aircraft.

The Afghan Air Force has 131 fully trained pilots. All pilots are officers who have attended the Air Academy or a similar officer training program and completed undergraduate pilot training.²⁶⁸ The AAF capability to

perform casualty evacuation (CASEVAC) missions has steadily increased over the last three years:²⁶⁹

- 2012: 391 missions
- 2013: 1,540 missions (128/month; 394% increase)
- 2014: 1,295 missions YTD (162/month); assuming this trend continues through
- December, a total of 1,944 missions this year is expected (150% increase)

Despite this improving CASEVAC capability, the AAF still faces challenges such as increasing operational demand without commensurate gain in capability, lack of trained CASEVAC medics, and misuse of limited CASEVAC resources.²⁷⁰

The Special Mission Wing (SMW), while not part of the AAF, provides aerial intelligence, surveillance, and reconnaissance (ISR) capability to support counterterrorism and counternarcotics operations, and—aside from two Afghan Air Force crews—is the only ANSF unit to be night-vision goggle-qualified for air-assault and fixed-wing ISR capability.²⁷¹ The SMW has 266 members, of which 76 are pilots.²⁷² Of SMW missions flown during FY 2014, 26% have been counterterrorism related, and 74% counternarcotics related.²⁷³

MOI, MOD, and National Directorate of Security leaders signed the SMW air charter on May 14, 2014, outlining the creation of a new Joint Command and Control Coordination Center (JCCC) to facilitate priority SMW support. Both MOD and MOI special operations forces will have liaison officers to the JCCC. The AAF is to provide personnel, recruiting, and other administrative (non-operational) support to SMW. The SMW commander meets weekly with special operations unit leaders to discuss pending operations and synchronize requirements and priorities.²⁷⁴

With the AAF's FY 2015 budget in excess of \$900 million, aggressive cost cutting was needed to bring the budget in line with the estimated donor-ation funding of \$450 million by FY 2017 as agreed to at the Chicago Summit in 2012.²⁷⁵ A joint Secretary of the Air Force-International Affairs and Department of Defense Acquisition, Technology and Logistics (AT&L) team was assembled to assist NATO Air Training Command-Afghanistan (NATC-A) in creating a construct and mechanism to reduce to overall cost and improve AAF self-sufficiency.²⁷⁶ After three weeks of research in a combat environment, the team proposed changes in four main areas:²⁷⁷

- Increase capacity for maintenance training.
- Decrease the number of Western contract logistics support (CLS) contractor personnel.
- Consolidate each individual CLS supply system into one AAF aviation supply depot.
- Reduce aviation maintenance redundancies.

Using these concepts, the team proposed 65 major changes in the contracts supporting the AAF's Mi-17, Mi-35, PC-12, C-130, C-208, C-182,

SIGAR ALERT LETTERS

During an ongoing review, SIGAR learned that the Defense Logistics Agency had scrapped 16 G222 aircraft that had been delivered to Afghanistan but saw little usage and were ultimately grounded due to safety concerns and their inability to fully meet operational requirements. Scrap metal from those 16 aircraft—now shredded but originally valued at nearly \$390 million in acquisition and sustainment costs—were sold for approximately 6 cents a pound or \$32,000 for all 16 aircraft. SIGAR has not been notified of any decision regarding the ultimate disposition of the remaining four G222 aircraft in Germany. SIGAR reported its concern to the Secretary of Defense and the Secretary of the Air Force. DOD officials have said they kept lawmakers informed of this matter for nearly two years. Congress provided the authority to convert equipment no longer needed by the ANSF to DOD equipment in the 2014 National Defense Authorization Act. After determining that the aircraft were unusable and obsolete, DOD notified Congress it was converting the G222s to DOD stock and was preparing them to be scrapped. For more information, see Section 2, page 47.

SIGAR's preliminary review of an audit of AAF capability to absorb additional equipment indicates DOD plans to provide two more C-130 aircraft that may not be needed or sustainable by the Afghans. SIGAR reported its concern to DOD, CENTCOM, ISAF, and NTC-A.

MD-530, and A-29 programs. They estimated that if all of the 65 requested changes were adopted, programmed FY 2014–FY 2019 cost savings would be \$895 million. These efforts, combined with a potential reduction in medium airlift acquisition, and the accelerated consolidation of CLS support to the Kabul International Airport, met COMISAF’s directed \$450 million budget cap in FY 2017.²⁷⁸ According to DOD, these results will be factored into planning that is currently under way to determine sustainment requirements for DOD-fielded aircraft. The costs may be adjusted following this more in-depth review of these requirements.²⁷⁹

Encouraged by the team results, CSTC-A adopted the methodology to resolve issues with its ANA wheeled-vehicles program.²⁸⁰ SIGAR will report on those results next quarter.

AFGHAN NATIONAL POLICE

As of September 30, 2014, the United States had obligated \$17 billion and disbursed \$16.2 billion of ASFF funds to build, equip, train, and sustain the ANP.²⁸¹

ANP Strength

This quarter, the overall strength of the ANP totaled 153,317 personnel, including 113,515 Afghan Uniform Police (AUP), 21,643 Afghan Border Police (ABP), 14,881 Afghan National Civil Order Police (ANCOP), 2,492 students in training, and 786 “standby” personnel awaiting assignment.²⁸² Of the 113,515 personnel in the AUP, 25,512 were MOI headquarters staff or institutional support staff.²⁸³ Overall, the ANP’s strength increased 1,194 since last quarter, as shown in Table 3.14.

TABLE 3.14

ANP STRENGTH, QUARTERLY CHANGE						
ANP Component	Authorized			Assigned		
	Q2 2014	Q3 2014	Quarterly Change	Q2 2014	Q3 2014	Quarterly Change
AUP ^a	122,644	120,003	(2,641)	113,385 ^b	113,515 ^c	130
ABP	23,573	22,955	(618)	21,667	21,643	(24)
ANCOP	13,106	15,223	2,117	12,731	14,881	2,150
NISTA	3,000	3,000	-	4,313	2,492	(1,821)
Standby ^d	-	-	-	27	786	759
ANP Total	162,323	161,181	(1,142)	152,123	153,317	1,194

Note: Quarters are calendar-year; Q2 2014 data as of 5/2014; Q3 2014 data as of 8/2014. AUP = Afghan Uniform Police; ABP = Afghan Border Police; ANCOP = Afghan National Civil Order Police; NISTA = Not In Service for Training.

^a Includes MOI headquarters and institutional support and CNPA personnel.

^b Includes 28,092 MOI headquarters staff.

^c Includes 25,512 MOI headquarters staff.

^d Personnel that are pending assignment.

Source: CSTCA, responses to SIGAR data calls, 7/1/2014 and 10/6/2014.

According to CSTC-A, the MOI, unlike the ANA, does not report ANP personnel who are on leave, AWOL, sick, or on temporary assignment in its personnel reports. For this reason, the actual effective strength of the ANP is not known.²⁸⁴

SIGAR received incomplete responses to its data-call questions on ANP strength this quarter.

ANP Sustainment

As of September 30, 2014, the United States had obligated \$6.7 billion and disbursed \$6.3 billion of ASFF funds for ANP sustainment.²⁸⁵ This includes \$1.3 billion in U.S. contributions to the Law and Order Trust Fund for Afghanistan (LOTFA) to support the ANP.²⁸⁶

ANP Salaries

From 2008 through September 30, 2014, the U.S. government had provided \$1.32 billion, paid through the LOTFA, to pay ANP salaries, food, and incentives (extra pay for personnel engaged in combat or employed in specialty fields), CSTC-A reported.²⁸⁷ An additional \$158.5 million has been provided since 2010 for the Afghan Local Police and subject-matter experts' salaries and incentives, which are not funded from LOTFA.²⁸⁸

According to CSTC-A, when the ANP reaches its final strength of 157,000 personnel, it will require an estimated \$483 million per year to fund salaries (\$263 million) and incentives (\$220 million). This is a decrease of \$38.2 million from last quarter's estimate, based on a foreign-exchange rate of 56 afghanis to one U.S. dollar. Beginning in fiscal year 1394 (December 21, 2014), food costs are no longer covered by CSTC-A.²⁸⁹

ANP Equipment, Transportation, and Ammunition

As of September 30, 2014, the United States had obligated and disbursed \$3.6 billion of ASFF funds for ANP equipment and transportation.²⁹⁰ Most of these funds were used to purchase weapons and related equipment, vehicles, and communications equipment.²⁹¹ More than 83% of U.S. funding in this category was for vehicles and vehicle-related equipment, as shown in Table 3.15.

TABLE 3.15

COST OF U.S.-FUNDED ANP WEAPONS, VEHICLES, AND COMMUNICATION EQUIPMENT		
Type of Equipment	Procured	Remaining to be Procured
Weapons	\$187,251,477	\$4,093,066
Vehicles	2,046,681,026	2,385,261
Communications	211,062,672	544,573
Total	\$2,444,995,175	\$7,022,900

Source: CSTC-A, response to SIGAR data call, 9/29/2014.

SIGAR SPECIAL PROJECTS

This quarter, SIGAR issued an inquiry letter to the State Department to raise concerns about Afghan government budgetary shortfalls. In that letter, SIGAR also noted its concern about reports that Afghan police units had cut power to Kandahar due to a lack of funding over the next several years. For more information, see Section 2, page 44.

SIGAR sent an inquiry letter this quarter to UNDP and CSTC-A expressing concern that the UNDP is not overseeing how LOTFA funds are spent, that they are not proactively addressing problems, and that they claim to lack authority to conduct oversight. For more information, see Section 2, pages 43-44.

Border Patrol Boat Status

In FY 2011, CSTC-A requested eight rigid-hull, inflatable, riverine border-patrol boats for the ANP. CSTC-A canceled the \$3 million procurement near the end of the boats' manufacturing process. On July 25, 2014, DOD notified Congress that the boats purchased with ASFF funds were no longer required by the ANSF and would be treated as DOD stock. The boats remain in storage awaiting a Department of the Navy determination whether to use, sell, or dispose of the them.

Source: OUSDP, response to SIGAR data call, 10/6/2014.

For two earlier quarters, CSTC-A reported no change in the total cost of the weapons and communications equipment procured for the ANP. This quarter, however, CSTC-A reported increases in the total cost of vehicles and ammunition procured for the ANP of \$80.6 million and \$167.6 million, respectively.²⁹²

The United States has also procured \$534.3 million in ammunition for the ANP and \$1.3 billion worth of other equipment and supplies to sustain the ANP. However, SIGAR has some concern about how that \$1.3 billion cost of other equipment and supplies was determined. According to CSTC-A, it was determined by subtracting the cost of weapons, vehicles, communications equipment, and ammunition from overall equipment and sustainment costs, rather than being based on inventory lists or actual record keeping.²⁹³ In response to a vetting draft of this report, USFOR-A asserted that the \$1.3 billion cost of other equipment is not calculated in this way, but instead was used to calculate the numbers that were provided to SIGAR. USFOR-A also said that "Headquarters ISAF has always made it a point to advise the MOI on ammunition forecasting and inventory procedures" and that "this is very much a priority in force train, advise, and assist efforts."²⁹⁴ SIGAR will seek clarification for its next report and request that future reporting reflect actual accounting for equipment and supplies provided to the ANP.

Examples of some equipment purchased for the ANP include sophisticated items such as high-mobility, multi-purpose wheeled vehicles (HMMWV); MRAP vehicles; night-vision devices; global-positioning systems; explosive-ordnance disposal equipment; and biometrics; as well as ordinary items such as ambulances, spare parts, pistols, machine guns, radios, clothing, dental and medical equipment, and transportation services.²⁹⁵

ANP Infrastructure

As of September 30, 2014, the United States had obligated \$3.2 billion and disbursed \$2.9 billion of ASFF funds for ANP infrastructure.²⁹⁶ At that time, the United States had completed 685 infrastructure projects (valued at \$3.2 billion), with another 45 projects ongoing (\$327.6 million), and one planned (\$7 million), according to CSTC-A.²⁹⁷

This quarter, three projects valued at \$25.9 million were awarded, 16 projects valued at \$48.3 million were completed, and one valued at \$614 million was terminated.²⁹⁸ The largest ongoing ANP infrastructure projects were a building and utilities (\$34.3 million) at MOI headquarters, an AUP provincial headquarters in Kandahar (\$25 million), and the ANP command center and barracks at MOI headquarters (\$24.1 million).²⁹⁹ CSTC-A reported that seven facilities were transferred to the ANSF since the end of July.³⁰⁰

According to CSTC-A, the projected annual operations and maintenance, sustainment, restoration, and minor-construction cost for ANP infrastructure for FY 2015 through FY 2019 is \$147 million (\$735 million over five years), with 2,184 skilled personnel required to maintain the facilities.³⁰¹



Ministry of Interior headquarters under construction in Kabul, September 2014. (USACE photo)

CSTC-A noted that any estimated post-transition costs are based on current capacity levels and do not take into account any future policy decisions that could affect cost estimates.³⁰²

ANP Training and Operations

As of September 30, 2014, the United States had obligated \$3.5 billion and disbursed \$3.4 billion of the ASFF for ANP and MOI operations and training.³⁰³ Since January 1, 2014, the NATO Trust Fund has paid the cost for all ANSF literacy training. Additionally, Japan has assumed the cost of most of the police-academy training in Turkey formerly funded by the United States. Aside from the literacy training discussed previously in this section, other training includes English-language and operational-specialty training, such as police intelligence, logistics, medical, and special-operations force.³⁰⁴

ANP Still Struggling to Meet Quotas for Women Police Personnel

As in prior quarters, the number of women in the ANP is increasing, but the ANP is far from reaching its goal of 5,000 women by the end of 2014. Women still make up only 1% of the force. This quarter, ANP personnel included 2,074 women, according to CSTC-A.³⁰⁵ This is an increase of 103 women since last quarter and an increase of 870 since August 22, 2011.³⁰⁶ However, the annual attrition rate for women in the ANP is high at 16%.³⁰⁷ ISAF said the ANP is focused on finding secure workplaces with appropriate facilities for females and developing strategies to attract and retain qualified female recruits.³⁰⁸

As noted previously, the National Defense Authorization Act for FY 2014, Public Law 113-66, provides \$25 million to be used for the programs and activities to support the recruitment, integration, retention, training, and treatment of women in the ANSF.³⁰⁹

ANSF MEDICAL/HEALTH CARE

As of September 30, 2014, the United States had funded construction of 181 completed ANSF medical facilities valued at \$184.5 million.³¹⁰ The figure includes this quarter's completion of four hospitals and facilities valued at \$8.5 million. The sole construction project in progress is the national medical hospital barracks renovation including the construction of a barracks for women.³¹¹

This quarter, ISAF reported the ANSF health-care system had 808 physicians; of these, 464 were assigned to the ANA and 344 were assigned to the ANP. This represents two quarters with a decreasing number of physicians: seven left last quarter and 151 this quarter. The ANA has a shortage of 140 physicians and the ANP a shortage of 168.³¹² The ANSF also has 2,826 nurses, physicians' assistants, and other medical personnel; although 950

positions remain unfilled in part due to increased authorizations to staff new hospital.³¹³

ISAF reports efforts to solidify the healthcare logistics operations for both the ANA and ANP. Advisors are developing a system to report on combat life-saving training in the field with the capability for corps commanders to identify where point-of-injury care is needed.³¹⁴ Additionally advisors are in the final stages of an Afghan-led program that will allow for online access to free continuing education for physicians. Another initiative under way is a course in repairing equipment and facilities. Advisors are also assisting the ANP, in concert with the Ministry of Public Health (MOPH) and Ministry of Higher Education, to recruit healthcare-professional graduates.³¹⁵

REMOVING UNEXPLODED ORDNANCE

Since FY 2002, the U.S. Department of State (State) has provided more than \$283 million in funding for weapons destruction and demining assistance to Afghanistan, according to its Bureau of Political-Military Affairs' Office of Weapons Removal and Abatement (PM/WRA).³¹⁶ Through its Conventional Weapons Destruction program, State funds five Afghan nongovernmental organizations (NGOs), four international NGOs, and one U.S. government contractor. These funds enable clearance of areas contaminated by explosive remnants of war (ERW) and support removal and destruction of abandoned weapons that insurgents might use to construct improvised explosive devices (IEDs).³¹⁷

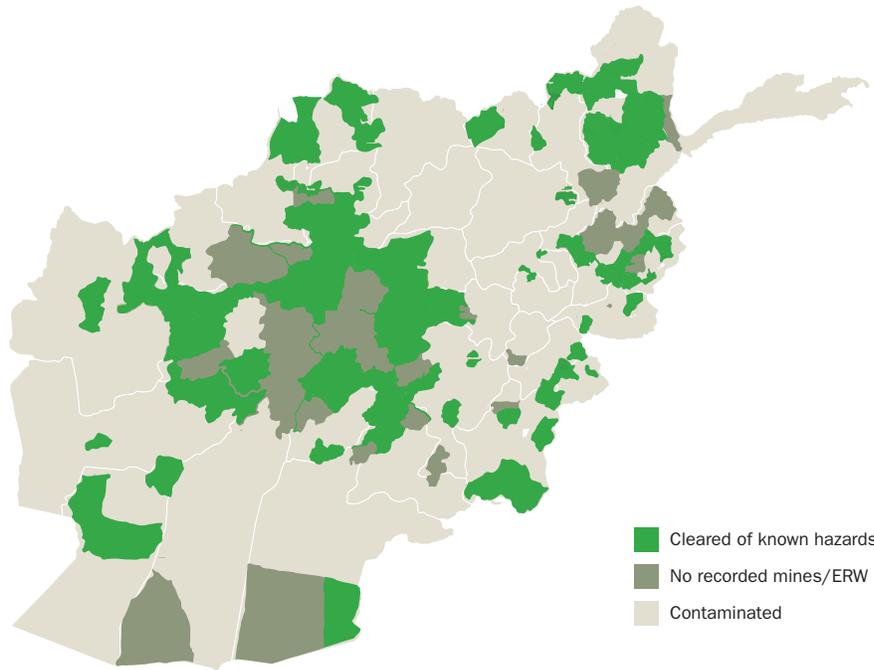
The Mine Action Coordination Centre of Afghanistan (MACCA), which keeps a database of contaminated areas, estimates that 100 individuals suffer casualties monthly from detonations of unexploded ordnance (UXO). This is a significant decrease from 2002, when about 750 people suffered casualties from UXO monthly.³¹⁸ The head of MACCA states that 4,400 areas in Parwan, Khowst, Logar, Nangahar, Herat, Jowzjan, Faryab, and other provinces still need to be cleared. Those areas would be cleared by 2023 according to the landmine-clearance plan.³¹⁹ Figure 3.27 shows the contaminated and non-contaminated areas as of July 2014.

As of June 30, 2014, State-funded implementing partners have cleared more than 159 million square meters of land and removed or destroyed approximately 7.8 million land mines and other ERW such as UXO, abandoned ordnance, stockpiled munitions, and homemade explosives (see Table 3.16). There is a substantial decrease in the contaminated area as MACCA has revised its estimate and no longer includes contaminated firing ranges.³²⁰ PM/WRA defines a minefield as the area contaminated by land mines, whereas a contaminated area can include both land mines and other ERW.³²¹

Comprehensive fourth-quarter FY 2014 reports are not yet available. Quarterly reports are generally available one month after the end of each

FIGURE 3.27

MINE CONTAMINATION STATUS, AS OF JULY 1, 2014



Source: Mine Action Coordination Centre of Afghanistan (MACCA), *Mine Action Programme of Afghanistan, Newsletter*, August 2014.

TABLE 3.16

CONVENTIONAL WEAPONS DESTRUCTION PROGRAM METRICS, JANUARY 1, 2013–JUNE 30, 2014						
Date Range	AT/AP Destroyed	UXO Destroyed	SAA Destroyed	Fragments Cleared	Minefields Cleared (m ²)	Estimated Contaminated Area Remaining (m ²)
1/1–3/31/2013	1,984	100,648	105,553	3,722,289	7,978,836	552,000,000
4/1–6/30/2013	1,058	18,735	49,465	1,079,807	5,586,198	537,000,000
7/1–9/30/2013	1,243	21,192	98,306	1,673,926	4,229,143	521,000,000
10/1–12/30/2013	8,211	2,460	54,240	3,064,570	5,729,023	518,000,000
1/1–3/31/2014	1,780	254,734	245,380	262,750	5,473,170	638,400,000
4/1–6/30/2014	1,077	3,264	25,362	3,227,697	5,163,035	519,000,000
TOTAL	15,353	401,033	578,306	13,031,039	34,159,405	519,000,000

Note: AT/AP = anti-tank/anti-personnel ordnance. UXO = unexploded ordnance. SAA = small-arms ammunition. Fragments are reported because their clearance requires the same care as for other objects until their nature is determined.

Source: PM/WRA, response to SIGAR data call, 10/6/2014.

quarter; thus, the fourth-quarter FY 2014 (covering July 1, 2014, through September 30, 2014) will be published in SIGAR's next quarterly report in January 2015.³²²

SIGAR AUDIT

A SIGAR audit this quarter examined the financial support provided to the Counternarcotics Police of Afghanistan (CNPA) provincial units by State, DOD, and DEA. SIGAR learned that it was not possible to fully determine the amount of direct assistance given to those units and that no formal assessments of their operational capabilities existed, making it difficult to quantify the effectiveness of the U.S. aid. Although provincial units have received some support, overall U.S. financial resources devoted to the CNPA have only tangentially benefitted them. For more information, see Section 2, page 25.

COUNTERNARCOTICS

As of September 30, 2014, the United States has provided \$7.8 billion for counternarcotics efforts in Afghanistan since 2002. Congress appropriated most of these funds through the DOD Drug Interdiction and Counter-Drug Activities (DOD CN) Fund (\$2.7 billion), the ASFF (\$1.4 billion), the Economic Support Fund (\$1.4 billion), and \$2.1 billion of the State Department's International Narcotics Control and Law Enforcement (INCLE) account.³²³ In addition to reconstruction funding, the Drug Enforcement Administration (DEA) receives funding through direct appropriations to operate in Afghanistan. (See Appendix B.)

Since 2009, the focus of U.S. drug-control policy has shifted from eradication to interdiction and a greater emphasis on agricultural-development assistance that aims to provide farmers with alternative livelihoods.³²⁴ The Department of State's Bureau of International Narcotics and Law Enforcement Affairs (INL) laid out the following objectives for its programs in Afghanistan in its fiscal year 2013 Program and Budget Guide: (1) disrupt and dismantle the narcotics/insurgent/corruption-nexus targets, (2) increase support for the Afghan government's demand-reduction and treatment programs, (3) support subnational supply-reduction programs, (4) improve counternarcotics strategic communications, (5) combat corruption and expand access to justice, (6) develop a corrections system in line with international standards, and (7) develop the justice sector's institutional capacity.³²⁵

INL's programs support the U.S. counternarcotics strategy for Afghanistan and the key priorities of Afghanistan's National Drug Control Strategy, approved in October 2013.³²⁶ The Ministry of Counter Narcotics (MCN) coordinates the actions of other ministries and takes the lead in developing counternarcotics policy.³²⁷

Drug-reduction activities occur under the Governor Led Eradication (GLE), the Good Performer's Initiative (GPI), and Counternarcotics Public Information programs.³²⁸ Interdiction activities are carried out by the CNPA with DOD and ISAF elements providing training and support. The Combined Joint Interagency Task Force-Nexus (CJIATF-N) whose mission ended in September 2014, and the Interagency Operations Coordination Center (IOCC) also support interdiction efforts.³²⁹

Counternarcotics Efforts Hindered by Troop Drawdown and Election Security Challenge

The drawdown of Coalition personnel has impacted interdiction results, particularly in southern regions of the country. The reduced troop presence limited the number of joint operations between Coalition or U.S. drug-enforcement personnel and Afghan forces.³³⁰ Similarly, poppy eradication decreased this year in part because Afghan security forces were diverted from that effort to assist with election security.³³¹ Opium-cultivation

results are not yet available, but according to UN data, final results will likely exceed last year's all-time record. According to the United Nations, more land is being cultivated with poppy in 2014 than in 2013 in Helmand, Afghanistan's chief opium-producing province.³³² Moreover, eradication decreased by 63% in 2014 from the previous year, which the MCN attributed partly to the need for presidential-election security.³³³ According to some analysts, nearly every district where security has been handed over from ISAF to Afghan security forces has seen an increase in attacks.³³⁴ Those conditions impede both reconstruction and eradication efforts.

The Director of the Defense Intelligence Agency (DIA) noted in testimony before the Senate Armed Services Committee earlier this year that Afghan security forces had fought successfully against insurgents, but could not control contested areas long-term.³³⁵ He further noted that while the Taliban-led insurgency failed to gain control of Kandahar and Helmand in 2013, it increased attacks targeted at the ANSF with nationwide destructive effects comparable to those of the previous two years.³³⁶ Nangahar's southern districts, for instance, experienced deteriorating security conditions during the months preceding December 2013, when winter crops were planted.³³⁷

Rural areas of Nangahar were not under the government's control, as illustrated by the rise in poppy cultivation across the province in early 2014.³³⁸ Specifically, in Upper Achin, the provincial police chief met with the elders in December 2013 to ask them to refrain from poppy cultivation—a request the farmers largely ignored.³³⁹ The government's weakness in rural areas of Nangahar led to increased cultivation of poppy there.³⁴⁰

The World Bank, in its latest report on the Afghan economic outlook, anticipates the political and security uncertainty to continue through the first half of 2015.³⁴¹ Given these parameters, areas under poppy cultivation will probably expand next year.

Governor Led Eradication Program

INL funds Afghanistan's Governor Led Eradication Program (GLE). The GLE eradicates poppies with tractors or manually, using sticks, blades, or hand uprooting.³⁴² The MCN, in partnership with UNODC, is responsible for verifying poppy cultivation and eradication.³⁴³ During the quarter, the INL office in Kabul hosted a GLE Lessons Learned conference for Afghan provincial governors that focused on methods to improve eradication efforts. Additionally, INL is expecting delivery and distribution of 47 new tractors designated for provincial poppy eradication.³⁴⁴

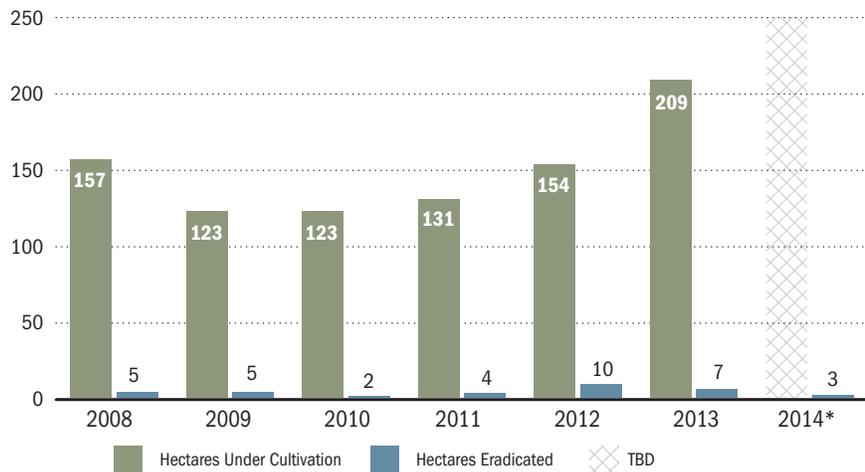
UNODC and the MCN published their final poppy-eradication verification report for this year. Compared to 2013, results decreased by 63%: 2,692 hectares were eradicated in 17 provinces versus 7,348 hectares eradicated in 18 provinces in 2013. The MCN attributes the decrease to the convergence of the eradication campaigns and presidential elections. Security presented a challenge as well in all provinces where eradication took place.³⁴⁵ The report

SIGAR SPECIAL PROJECT

This quarter, a SIGAR special project reported that despite over \$7 billion in U.S. spending on counternarcotics efforts, poppy-cultivation levels in Afghanistan are at an all-time high. SIGAR and the U.S. Army Geospatial Center developed maps for the project that provide a more refined view of the concentration of poppy cultivation. Using geospatial overlays of arable land in Afghanistan combined with district-level opium-poppy cultivation rates, these maps show the intensity of opium cultivation and where those cultivation levels are rising or receding. For more information, see Section 2, page 48.

FIGURE 3.28

HECTARES OF POPPY CULTIVATED AND ERADICATED, 2008–2013 (THOUSANDS)



Note: A hectare is 10,000 square meters, or almost 2.5 acres. *2014 cultivation data has yet to be released by UNODC. Source: UNODC, *Afghanistan Poppy Eradication Verification Final Report*, 8/2014, p. 4; UNODC, *Afghanistan Opium Survey 2013*, 12/2013, pp. 18, 33–35, 99; UNODC, *World Drug Report*, 6/2014, p. 21.

The growth stages of poppy are:

1. emergence stage or growth of seedlings
2. cabbage stage, when poppy plants are easily recognizable and form rosette-type leaves and stalks
3. stem-elongation stage
4. flowering stage
5. capsule stage
6. lancing stage, when harvesters make cuts on the poppy capsule so opium latex will ooze out and dry. Harvesters scrape off the dry latex. Several lancing cycles occur in the traditional method.

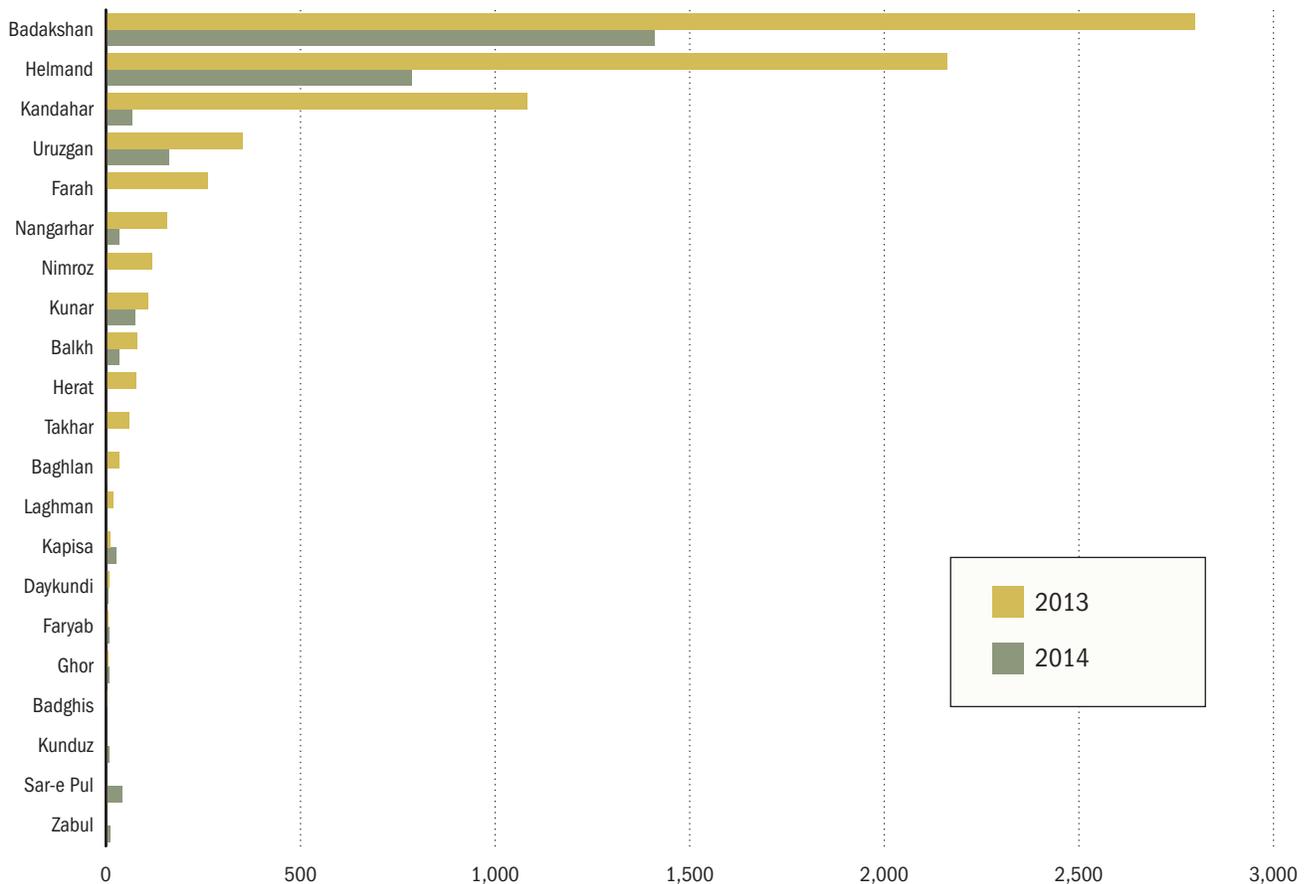
Source: UNODC, *Afghanistan Poppy Eradication Verification, Final Report*, 8/2014, pp. 3, 16; UNODC, *Bulletin on Narcotics: Cultivation of the Opium Poppy and the Oil Poppy in the Soviet Union*, 1/1969; UNODC, *World Drug Report Methodology*, 6/2014, p. 9.

notes the poor quality of eradication this year, particularly in Badakhshan, where fields were eradicated by beating the plants with sticks due to the terrain. Manual eradication, which is the traditional practice, in some cases only resulted to partial eradication, as shown by a review of aerial imagery.³⁴⁶ Moreover, if eradication occurred at the “cabbage” stage, when plants are still young, there is a greater likelihood of regrowth of the poppy plant.³⁴⁷ Figure 3.28 compares eradication levels for 2013 and 2014 by province and illustrates the significant increase in manual eradication this year. Figure 3.29 provides the final eradication results by province.

Last quarter, INL told SIGAR the Afghan government’s eradication target for 2014 was 22,500 hectares.³⁴⁸ Based on the poppy-eradication verification final report, the Afghan government resoundingly missed that objective: only 2,692 hectares were eradicated this year, or 12% of the target level. The presidential election and ballot audit likely played a role by diverting official energies. INL also informed SIGAR that an interministerial GLE plan was not approved until late in the season, thereby limiting its effectiveness. INL noted that political will at the national and provincial level is necessary for the GLE program to be effective.³⁴⁹

FIGURE 3.29

GOVERNOR LED ERADICATION RESULTS BY PROVINCE, 2013 AND 2014 (HECTARES)



Note: Provinces declared poppy-free are not listed.

Source: UNODC, *Afghanistan Poppy Eradication Verification Final Report*, 08/2014, p. 16; UNODC, *Afghanistan Opium Survey 2013*, 12/2013, p. 33.

Good Performer's Initiative

INL also supports the MCN's efforts to achieve and sustain poppy-free provinces through the Good Performer's Initiative (GPI).³⁵⁰ Under the current terms of the GPI program, a province is eligible for \$1 million in GPI development projects for each year that it achieves poppy-free status, as verified by UNODC.³⁵¹ INL told SIGAR that the GPI program incentivizes continued counternarcotics performance in the year ahead. It also shows provincial leadership and citizens that there are tangible benefits to countering poppy cultivation, and it reinforces the writ of the government in the province, district, and community.³⁵²

The MCN in partnership with UNODC verifies poppy cultivation and eradication. According to UNODC's *Afghanistan Opium Survey 2013* published last winter, 15 of the country's 34 provinces were declared poppy free—two less than in 2012. According to INL, poppy cultivation increased overall in 2013 partly due to economic insecurity and high opium prices. INL told SIGAR that fluctuations in cultivation can and will occur as Afghan authorities take on increasing responsibilities. The goal is to encourage and facilitate sustainable overall poppy-cultivation reductions over the long term.³⁵³

GPI II was announced on August 30, 2014, and expands the award categories for “good performers” to include public outreach and law enforcement beginning with the 2014–2015 poppy-cultivation season. GPI II development assistance will also be tailored to better meet the needs of rural communities by prioritizing alternative-livelihoods projects that support farmers as they transition away from poppy cultivation. GPI II also reduces the amount a province may receive for being poppy-free to \$500,000.³⁵⁴

As of August 31, 2014, there were 221 approved GPI projects with a total value of \$108 million: 132 projects were completed, 83 projects are ongoing, and six projects are nearing completion. The 89 ongoing projects all relate to infrastructure or construction, and include alternative-livelihoods infrastructure projects such as irrigation structures and protection walls, which prevent erosion.³⁵⁵ Based on third-party audit recommendations, GPI changed its practice of using a flat conversion rate of one U.S. dollar to 50 afghanis (AFN), rather than using the actual conversion rate on the day of the project bid, per Da Afghanistan Bank's official website. The total value of GPI projects in prior quarterly reports is therefore not directly comparable to the values in this report.³⁵⁶

Under INL's direction and through the “Strengthening Sub-National Governance” grant with the Aga Khan Foundation (AKF), the AKF facilitated workshops between community, district, and provincial level representatives and stakeholders of the GPI program between September and December 2013. The purpose of these workshops was to disseminate information about GPI and to solicit feedback on the program, including recommendations for improvement.³⁵⁷ The AKF November 2013 report submitted to INL found that GPI projects failed to address the needs of rural farmers for competitive, licit livelihood alternatives to poppy cultivation.³⁵⁸ Conducting the bidding and procurement process from Kabul led to project delays and increased costs, and provided no economic benefit to local communities.³⁵⁹ Moreover, the preponderance of infrastructure projects did not demonstrate to the local communities the benefits of reducing poppy cultivation.³⁶⁰

Certain poppy-free regions were ignored, possibly leading to the perception that farmers needed to cultivate poppy in order to qualify for GPI funding and thereby negating the program's aspirations. The district

governors of areas free of poppy cultivation recommended a review of the policy and procedures to include non-poppy-growing areas.³⁶¹ INL informed SIGAR that GPI implementing instructions do not preclude non-poppy-growing areas from eligibility for GPI projects though workshop participants, and that the AKF recommended GPI projects directly benefit rural poppy-growing communities.³⁶²

Based on the workshop feedback, AKF submitted three recommendations to INL in its report: (1) increase the number of district and community level institutions, women, and other stakeholders in poppy-growing communities consulted throughout the project identification and implementation process to ensure more contextually appropriate projects are prioritized; (2) decentralize project selection, procurement, and contractual bidding, making the process more localized to reduce award processing times and costs, and increasing indirect economic and employment benefits to rural poppy-growing communities; and (3) shift from infrastructure projects based around provincial capitals, to projects that directly benefit rural poppy-growing communities by offering competitive and sustainable sources of income to poppy cultivation.

According to INL, the MCN and INL incorporated two of the three recommendations into GPI II, to be launched with the 2014–2015 poppy cultivation season. The 2014 GPI Awards, which will be made following the publication of the UNODC *Afghanistan Opium Survey 2014*—currently scheduled for October 2014—will be the final awards for achievements under the old GPI program. The first awards under GPI II will be made in the fall of 2015.

INL told SIGAR that GPI II awards will continue to be issued at the provincial level. Provincial governors, who have the best knowledge of local conditions throughout their province, will continue to select which communities receive GPI projects. Project selection will be the result of consultations with the input of local community structures, such as agricultural cooperatives and community-development councils; district stakeholders, including district governors and district development assemblies; and the provincial government. Where feasible and relevant, local structures will be responsible for the ongoing maintenance of GPI II projects.³⁶³

INL informed SIGAR that after much consideration, INL and the MCN decided not to implement the AKF's third recommendation to decentralize the GPI procurement and contractual bidding processes. INL said the changes would weaken INL's oversight of the program, and had the potential to increase project costs and decrease project quality by restricting bidding to local companies. Under the current GPI procurement process, projects are bid nationally, which does not preclude local contractors that meet the bidding requirements, such as previous experience and financial liquidity, from bidding. Bid openings are conducted in the provincial capitals, in the presence of bidders, the MCN, and provincial officials. Once the bids have been recorded, the bid documents are transported to Kabul.

As part of its oversight of the GPI program and under the requirements of the GPI On-Budget Memorandum of Understanding, INL participates in the bid evaluation and decision processes. Due to security restrictions, however, INL is unable to participate in procurement activities in the provinces. Conducting bid evaluation activities in Kabul provides the U.S. government with greater management control and oversight of the GPI program. INL and the MCN will consider future modifications to the procurement and bidding processes as lessons are learned under GPI II.³⁶⁴

Kandahar Food Zone

The Kandahar Food Zone (KFZ) program is a two-year project funded by USAID and designed to identify and address the drivers of poppy cultivation in targeted districts of the province through grants.³⁶⁵ As of early September 2014, no infrastructure or alternative-livelihood projects have been implemented, but over \$5 million have been disbursed.³⁶⁶ The August 2014 monthly report lists USAID vetting approval as one of the challenges to project implementation. Security instability is frequently an impediment to the KFZ projects, causing delays or interruptions.

The USAID pillar of this \$18.7 million USAID program has two components: (1) building MCN capacity and (2) providing alternative livelihoods (AL) and community infrastructure.³⁶⁷ Seven districts were chosen by USAID, the MCN, and the provincial governor to participate in the program. KFZ's anticipated goals and results are to:³⁶⁸

- rehabilitate more than 150 km of irrigation canals in three target districts
- have more than 85,000 people benefit from infrastructure and alternative livelihood activities
- improve approximately 20,000 hectares with irrigation to provide farmers with alternative licit income
- reduce poppy cultivation in areas where KFZ improved the irrigation system³⁶⁹

According to USAID, the KFZ is using community-based planning to support alternatives to poppy cultivation. This approach involves communities in identifying root causes of poppy cultivation and addressing them through projects approved by community representatives or elders, Community Development Councils (CDCs), District Development Assemblies, district governors, the KFZ-Coordination Committee (KFZ-CC), and the provincial governor.³⁷⁰

USAID informed SIGAR that the two-year timeframe for the KFZ program is problematic since 2014 and 2015 are Afghan election years (the presidential election in 2014 and parliamentary elections in 2015). USAID noted that the Afghan government and provincial offices could be less willing to eradicate poppy during this period. Moreover, the agency says the causes of poppy cultivation are long-term problems that cannot be

addressed within a two-year period.³⁷¹ According to USAID, the MCN wishes to apply the KFZ model to the 17 remaining provinces with poppy cultivation, including Uruzgan, Farah, Badakshan, and Nangarhar. The MCN is seeking support from other donors as USAID has no plans to fund the proposed food-zone expansion.³⁷²

According to USAID, the KFZ program coordinates closely and intimately with the Regional Agriculture Development Program (RADP) interventions so as to maximize impact and avoid duplication.³⁷³ The USAID-funded Regional Agricultural Development Program-South (RADP-S) is a five-year program which aims at improving the productivity of wheat, high-value crops, and livestock in southern Afghanistan, including Helmand Province.³⁷⁴ USAID told SIGAR that KFZ and RADP-S in Zharai and Panjwayi districts are working together closely to avoid targeting the same areas for greenhouse projects. Additionally, RADP-S will continue working with those beneficiaries once the KFZ program comes to a close. USAID also informed SIGAR that KFZ and RADP-S coordinate interventions for the Afghanistan National Agriculture Sciences and Technology University (ANSTU), where KFZ intends to construct a demonstration greenhouse and RADP-S intends to build a demonstration farm for high-value orchard and vineyard crops.³⁷⁵

Drug Demand Reduction Activities

INL supports 76 treatment programs. This quarter, INL provided support for clinical-staff training, treatment services, and outpatient and village-based demand-reduction programs, while continuing to implement a transition plan to transfer 13 of its 76 treatment programs to Afghan responsibility.³⁷⁶

The transition plan includes building staff capacity and promoting continued cooperation between the MCN and MOPH. INL said it seeks to create uniformity among the treatment centers nationwide and to help incorporate existing Afghan treatment professionals into the Afghan government civil service. Under the plan, treatment programs will transition to the Afghan government as INL support to programs slowly decreases over the coming years.³⁷⁷

According to the final September 2014 report of the Afghan National Development Strategy (ANDS), the MCN set a target to increase drug-prevention and treatment capacity for heroin and opium users by 30% between 2012 and 2016.³⁷⁸ Considering the country's insufficient number of treatment facilities, that goal may be overly ambitious. By contrast, the 2013 U.S. goal for lowering illicit drug consumption among 12-to-17-year-olds in the United States is only 15% by 2015.³⁷⁹

State also funded the Afghanistan National Urban Drug Use Study (ANUDUS) to glean reliable information on illicit drug use in order to develop approaches for demand reduction and prevention.³⁸⁰ Nearly 2,200 households were randomly selected, representing over 19,000 household

Opiate Consumption

According to UNODC, local consumption accounts for at most 5% of the Afghanistan's opium production.³⁸⁵ Afghan opium is exported to Western and Central Europe through Iran and Turkey, through the so-called Balkan route.³⁸⁶ China and India also receive direct shipments by air or land.³⁸⁷ Heroin from Afghanistan is heavily used in Eastern Europe, where levels of opiate use are higher than the global average.³⁸⁸ Afghan opium is exported through the country's northern neighbors for the Russian Federation market.³⁸⁹ The Canadian government also estimates that 90% of its heroin originates in Afghanistan.³⁹⁰

Nevertheless, little heroin in the United States originates in Afghanistan. Although a recently released U.S. government report noted a significant rise of U.S. heroin overdose deaths,³⁹¹ DEA reports that the availability of heroin from Afghanistan has not increased and is not increasing in the United States based on all its indicator programs and investigative reporting. New England, in particular, has seen a surge of heroin used, but DEA told SIGAR there is no indication that heroin from Afghanistan is crossing the border from Canada into New England.³⁹² DEA's indicator programs and investigative reporting identify that most of the heroin available in New England originates from South America.³⁹³

Source: UNODC, *World Drug Report 2014*, 6/2014, pp. x, 2, 26, 27, 95; UNODC, *Afghanistan: Opium Survey 2013*, 10/2013, pp. 69, 71; CDC, *Increases in Heroin Overdose Deaths—28 States, 2010 to 2012*, 10/3/2014.

members. Over 5,200 people were tested.³⁸¹ The ANUDUS survey found that drug use was more than twice as high among Afghan men as the world average for adults. In all provinces, 10.7% of Afghan men tested positive for drug use, compared to 4.3% of women and 2.2% of children.³⁸² UNODC estimates that 5.2% of adults worldwide have used illicit drugs, with 0.7% being the best global estimate for the opioid user and 0.35% for users of opiates.³⁸³ Opioids were the most prevalent drug in the biological samples, although prescription drugs (prescription pain pills, sedatives, and tranquilizer) were the most commonly reported in the past 30 days in the questionnaires.

Monitoring, Verification and Regional Cooperation

The Paris Pact Policy Consultative Group Meeting (PCGM) occurred at the end of September in Vienna; INL participated. **The Paris Pact** functions as a balanced and neutral forum to promote collaborative action in the region, emphasizing long-term donor assistance to Afghanistan and drawing attention to cross-border smuggling and illicit drug abuse in the region.³⁸⁴

INL currently has two ongoing monitoring and evaluation programs to assess its counternarcotics work:

1. a cooperative agreement to develop an analytical framework to assess the effect of programs designed to encourage Afghan farmers to reduce opium cultivation

The Paris Pact: the partnership of several countries and international organizations to combat illicit opium traffic from Afghanistan. It originated from a meeting of various ministers held in Paris in 2003 on central Asian drug routes. It aims at reducing opium poppy cultivation, production and global consumption of heroin and other opiates, and at the establishment of a broad international coalition to combat illicit traffic in opiates.

Source: Paris Pact, website "What is it?" <https://www.paris-pact.net>, accessed 7/16/2014.

2. a contract to develop a simulation model of the Afghan drug industry that will enable INL to assess the impact of its CN programs in Helmand

INL awarded the MCN Public Financial Management Risk Assessment contract on September 19, 2014, for \$172,120. During the quarter, UNODC performed eradication verification in support of the Afghanistan Opium Survey, tentatively scheduled for release in October.³⁹⁴

Counter Narcotics Community Engagement

INL also funds the Counter Narcotics Community Engagement (CNCE) program, which assists the Afghan government in combating the production, trafficking, and use of narcotics in Afghanistan through periodic communication and outreach campaigns in targeted provinces. CNCE, implemented through Sayara Media Communications, targets farmers through national and local public-awareness and media campaigns in opium-poppy-growing areas.³⁹⁵ To date, INL has disbursed \$5.3 million of the \$8.2 million obligated under CNCE.

Sayara monitors the effectiveness of media campaigns through target-audience analysis reports, including a baseline report to identify provincial drivers of drug trafficking and cultivation, and public sentiment about narcotics. Sayara also conducts geographic information system mapping in partnership with a contractor and has 42 observers in all provinces. The provinces are ranked in tiers based on cultivation levels. The observers gather information on and gauge perceptions of the counternarcotics message campaigns. Sayara also conducts monthly media monitoring, assesses how counternarcotics media products fit into the current Afghan media landscape, and evaluates counternarcotics-related items in the media.

According to INL, the CNCE program began in 2013, so no correlation would exist between 2013 cultivation data and program activities. Cultivation estimates are not yet available for the current calendar year.³⁹⁶ The CNCE program will conclude in May 2015 and after that, the MCN, currently undergoing capacity-building training, will take over responsibility for CN media and public information campaigns.³⁹⁷

Aga Khan Foundation Grant

INL funded \$6 million of the project called Strengthening Sub-National Governance in Afghanistan, implemented by the Aga Khan Foundation (AKF), which ended May 28, 2014.³⁹⁸ The AKF is a non-profit, international development agency that focuses on health, education, civil society and other development projects.³⁹⁹ INL provided assistance to local governance institutions to shift six provinces in central and northern Afghanistan away from growing poppies and toward licit livelihoods.⁴⁰⁰

In July 2014, INL awarded a new \$12 million grant to AKF for the Strengthening Afghan Governance and Alternative Livelihoods (SAGAL) project. The grant will enable AKF to work in 16 provinces across Afghanistan to improve alternative livelihoods for vulnerable populations. SAGAL has five main objectives to help address the key drivers of poppy cultivation:

- improve agricultural yields of high-potential licit crop systems
- increase economic return for licit crop systems
- improve farmers' access to financing
- reduce vulnerability of at-risk populations to engage in the illicit economy
- improve sub-national governance systems⁴⁰¹

According to INL, the SAGAL project builds upon the work of USAID projects wherever possible and expands U.S. government-funded alternative-livelihood projects to new areas. INL and its implementing partners consult with USAID to avoid pitfalls such as duplicative work with the same beneficiaries or offering competing activities, and to develop complementary activities wherever possible.⁴⁰²

Ministry of Counter Narcotics Capacity Building Program

The MCN and INL signed the MCN Capacity Building Program/Advisor Support memorandum of understanding on February 18, 2014. The program, which was renewed for 18 months, provides funding for 24 local and national advisors and helps build the MCN's capacity. INL is developing benchmarks for methods and processes that will track and evaluate the program's effectiveness. According to INL, this process not only helps stakeholders monitor the success of the advisor-support program, but also improves the MCN human resources department's employee-evaluation practices.⁴⁰³

This quarter, MCN with INL's assistance, conducted a skills assessment of nearly 200 MCN staff. The results of that assessment will be used to design a series of courses, to be taught by a local university, with the goal of increasing staff members' work-related skills and overall capacity. INL informed SIGAR it is expecting delivery and distribution of six four-wheel-drive vehicles for the MCN Kabul headquarters and 34 trucks for MCN provincial offices, which need reliable transportation. Also this quarter, three female students from the Asian University for Women began fellowships at MCN.⁴⁰⁴

Interdiction Operations

DOD reported that from July 1, 2014, to September 19, 2014, Afghan security and law-enforcement forces conducted 40 drug-interdiction operations resulting in the detention of 64 individuals. Overall, 441 individuals have been detained this fiscal year (168 detainees during the first quarter, 119

detainees during the second quarter, and 90 during the third quarter). These operations included routine patrols, cordon-and-search operations, vehicle interdictions, and detention operations. The U.S. military provided general logistics and intelligence support, while the DEA provided mentorship and support to specialized Afghan investigative units.⁴⁰⁵

INL provides operations-and-maintenance support to the CNPA Headquarters and the specially vetted units in Kabul. INL does not provide operations-and-maintenance support to the provincial CNPA.⁴⁰⁶ The U.S. Intelligence Community provided supplemental targeting and analytical support to coalition mentors. Afghan operations during this period also resulted in the seizures of the following narcotics contraband:

- 11,888 kg of opium
- 467 kg of heroin
- 4,850 kg of morphine
- 1,437 kg of hashish/marijuana
- 18,062 kg of **precursor chemicals**⁴⁰⁷

According to DOD, most interdiction activities occurred in southern and southwestern Afghanistan, where the majority of opiates are grown, processed, and smuggled out of the country. Almost all U.S. interdiction activities partnered with Afghan forces as ISAF continued its drawdown during this reporting period. Interagency elements, including the Combined Joint Interagency Task Force-Nexus (CJIATF-N) and the Interagency Operations Coordination Center (IOCC), continued to support combined Afghan and ISAF interdiction efforts. Both CJIATF-N and IOCC integrated data from military and law enforcement sources to enable operations against corrupt narco-insurgent elements. All operations were coordinated with and received support from U.S. and Coalition military commanders on the ground.⁴⁰⁸ The CJIATF-N mission ended in September 2014.⁴⁰⁹

Interdiction Results

Since 2008, a total of 2,818 Afghan and Coalition interdiction operations have resulted in 2,939 detentions and seizure of the following narcotics contraband:

- 747,977 kg of hashish
- 391,080 kg of opium
- 52,957 kg of morphine
- 29,207 kg of heroin
- 460,067 kg of precursor chemicals⁴¹⁰

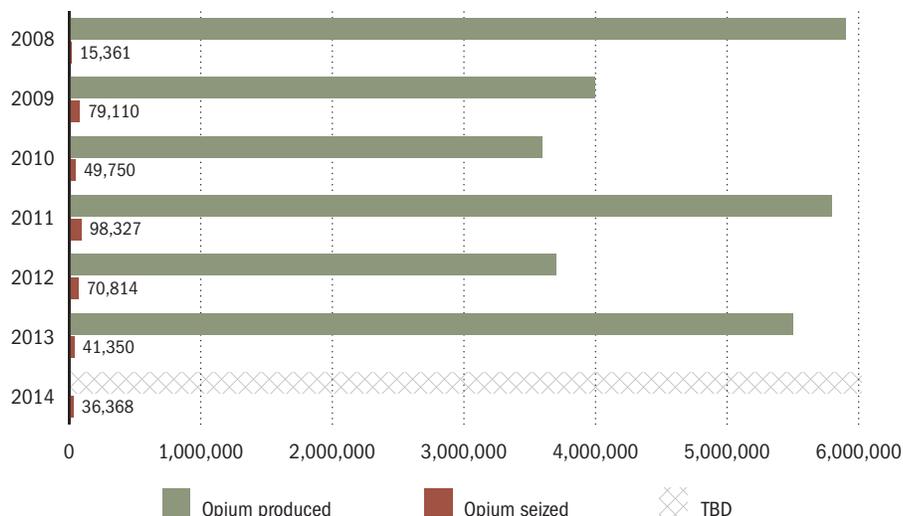
According to DOD, the drawdown of Coalition forces has had a negative impact on the CNPA and other Afghan counternarcotics agencies. The impact is most pronounced in Helmand and Kandahar, where the coalition troop surge and subsequent withdrawal was focused. Overall, counterdrug

Precursor chemical: substance that may be used in the production, manufacture and/or preparation of narcotic drugs and psychotropic substances.

Source: UNODC, *Multilingual Dictionary of Precursors and Chemicals*, 2009, viii.

FIGURE 3.30

AFGHAN OPIUM PRODUCED AND SEIZED, 2008–2014 (KILOGRAMS)



Note: 2014 production data has yet to be released by UNODC.

Source: UNODC, *Afghanistan Opium Survey 2013*, 12/2013, pp. 12, 40, 42, 44; DOD, response to SIGAR data call, 9/30/2014.

operations decreased 17%, from 624 in fiscal year 2011 at the height of the ISAF surge, to 518 in fiscal year 2013. Heroin seizures decreased 77%, from 10,982 kg in fiscal year 2011 to 2,489 kg in fiscal year 2013. Opium seizures decreased 57%, from 98,327 kg in fiscal year 2011 to 41,350 kg in fiscal year 2013, according to the Consolidated Counterdrug Database (CCDB). DOD told SIGAR that the decrease of overall counterdrug missions was likely the result of reduced partnering of ISAF with Afghan forces conducting counterdrug operations.⁴¹¹ As shown in Figure 3.30, seizures have been declining since 2012.

Information entered into the CCDB comes from multiple sources including the ANSF. DOD told SIGAR it was unable to verify ANSF-reported unilateral interdictions conducted by Afghan military or law-enforcement units where Coalition mentors are not present. In those instances, the Defense Intelligence Agency (DIA), which maintains the database, seeks to corroborate the reported seizure from other sources to increase confidence in the information.⁴¹²

DOD said they assess the majority of Afghan seizures to be the result of routine police operations near population centers or transportation corridors, such as at checkpoints or border crossings. Drug labs, storage sites, and major trafficking networks are concentrated in rural areas and

according to DOD, are increasingly denied to Afghan forces due to the ISAF drawdown and declining security in these areas. The notable exceptions are U.S.-and UK-supported vetted Afghan counterdrug units like the Intelligence and Investigative Unit (IIU), Sensitive Investigative Unit (SIU), Technical Investigative Unit (TIU), and National Interdiction Unit (NIU), which have shown increased ability to conduct counter-network drug investigations and operations. These units also have been negatively impacted by the Coalition drawdown, most significantly by losing access to ISAF-provided enablers. However, DOD said that over the past year, the units have successfully conducted complex counterdrug investigations and operations without coalition assistance.⁴¹³

Aviation Support

During this reporting period, Department of State aircraft provided a total of 60.9 flight hours, conducted 51 sorties, moved 260 passengers, and transported 13,272 pounds of cargo in Afghanistan. DEA flight hours are unusually low this quarter because the program was restricted from conducting CN missions during the election recount.⁴¹⁴ According to INL, State provided no flight hours supporting DEA intelligence, surveillance, and reconnaissance missions, no flight hours supporting DEA interdiction efforts, and 10.3 flight hours supporting Afghan NIU and DEA passenger movements and training flight hours. INL maintains an air wing at Kandahar Airfield with dedicated helicopters supporting DEA missions in southern Afghanistan.⁴¹⁵

The Consolidated Counterdrug Database (CCDB) is a database that tracks drug interdictions and seizures in Afghanistan and is maintained by DIA.

Source: DOD, response to SIGAR data call, 9/30/2013.

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As of September 30, 2014, the United States had provided nearly \$30.6 billion to support governance and economic development in Afghanistan. Most of this funding, more than \$17.7 billion, was appropriated to the Economic Support Fund (ESF) administered by the State Department and the United States Agency for International Development (USAID). The current ESF appropriation of \$852 million is down from a high of \$3.3 billion that was appropriated in 2010.

KEY EVENTS

On September 29, 2014, Ashraf Ghani was inaugurated president of Afghanistan following a highly contentious election process. President Ghani's inauguration marked the first democratic transition of power in Afghanistan's history.⁴¹⁶

After the acting Supreme Court chief justice swore in Ashraf Ghani as president, the new president administered oaths of office to his first and second vice presidents, Abdul Rashid Dostum and Sarwar Danish. He also swore in his former presidential election rival, Abdullah Abdullah, to the newly created chief executive officer position, as well as Muhammad Khan and Muhammad Mohaqiq—Abdullah's former vice presidential running mates—to serve as Abdullah's deputies. President Ghani also swore in Ahmad Zia Massoud to serve in the newly created position of high representative for reform and governance.⁴¹⁷

The messy aftermath of the Afghan presidential election dominated the quarter. After a June runoff election, presidential candidate Abdullah claimed victory in July and again in September, while the Independent Election Commission (IEC) released preliminary results showing Ghani to be the presumptive victor.⁴¹⁸ The UN Secretary-General warned in September that the elections impasse created “grave destabilizing consequences for the political, security, economic and social environment of the country.”⁴¹⁹ He attributed the disruption to more aggressive actions by the Taliban, other insurgent and terrorist groups, criminals, and local power brokers, and to popular disenchantment reflecting post-election political uncertainty and the international military drawdown.⁴²⁰



On September 29, Ambassador James Cunningham and John Podesta, head of the U.S. delegation to the inauguration of new Afghan President Dr. Ashraf Ghani and Chief Executive Officer Dr. Abdullah Abdullah, held a press conference to congratulate Ghani and Abdullah. (State Department photo)



U.S. Secretary of State John Kerry shakes hands with Afghan presidential candidates Abdullah Abdullah and Ashraf Ghani after a press conference in Kabul on August 8, 2014. (State Department photo)

President Barack Obama and Secretary of State John Kerry made significant interventions encouraging the candidates to agree to an audit process and form a national unity government. Following the June 14 runoff election, President Obama called both candidates six times, Secretary Kerry called the candidates 30 times and twice visited the country, and U.S. Ambassador James Cunningham held 81 meetings with the candidates.⁴²¹

ELECTIONS

Afghanistan held its first round of presidential elections and provincial council elections on April 5. None of the presidential candidates secured a majority of votes, triggering a legal requirement for a second, runoff election that was held on June 14. On July 7, the preliminary results for the second round were released, against the advice of the United Nations, while talks were ongoing between the candidates' teams.⁴²² The preliminary results showed Ghani with 56.4% and Abdullah with 43.6% of the vote.⁴²³ This was a reversal from the first round, in which Abdullah scored 45% of the validated votes and Ghani scored 31.6%.⁴²⁴

The results of the provincial council elections were due on June 7; however, these results were delayed due to the IEC's focus on the presidential election.⁴²⁵ According to State, the delay in finalizing the provincial council election results has meant that "lame duck" members of the *Meshrano Jirga* (the upper house of parliament) continue to hold office. The *Meshrano Jirga*, however, has continued to do its work in the interim.⁴²⁶

After negotiations with Secretary Kerry, both Abdullah and Ghani stated in his presence on July 12 that they had agreed to a framework for a

national-unity government.⁴²⁷ The following day, however, the candidates' campaigns offered differing interpretations: Abdullah's spokesmen proposed a "shared government" with an executive prime minister who would be appointed by presidential decree; Ghani's spokesmen said the losing candidate could participate in the new government "through legal ways," but that details would be negotiated after the presidential winner was announced.⁴²⁸

Following the agreement between the candidates to establish a government of national unity, protests broke out on August 17 in Kandahar City during which some protesters threatened to support the Taliban if a coalition government were "imposed."⁴²⁹

In a press conference on September 8, Abdullah announced that he was the victor in both the first and second rounds and that he would not "accept a government based on fraudulent votes."⁴³⁰ The following day, the UN Secretary-General urged the two candidates to respect their previous commitments and form a national-unity government.⁴³¹

Following Abdullah's announcement, on September 10, Ghani called for the release of the audit results and said that any political deal should not result in a "two-headed government."⁴³² The next day, September 11, the UN deputy secretary-general visited Afghanistan to meet with the candidates and urge a resolution. Following a meeting with the deputy secretary general, Abdullah's camp said there were no communications between the rival campaigns.⁴³³

The two campaigns continued to disagree on the national-unity government concept until September 21, when they signed a power-sharing deal at the presidential palace.⁴³⁴ This final agreement followed two visits by Secretary Kerry that resulted in previous agreements between the campaigns: the Technical and Political Framework issued on July 12 and the Joint Declaration issued on August 8.⁴³⁵ The Ghani and Abdullah camps committed to the following:

- convening a *loya jirga* (grand assembly) to amend the Afghan constitution and to consider the proposal to create the post of executive prime minister
- completing distribution of electronic/computerized identity cards to all citizens as quickly as possible
- creating, by presidential decree, the position of chief executive officer (CEO), supported by two deputies, with the functions of an executive prime minister
- proposing reforms in all government agencies and decisively combating official corruption
- acknowledging that the president, as the head of state and government, will lead the cabinet
- acknowledging that the CEO will be responsible for managing the cabinet's implementation of government policies and will head a council of ministers distinct from the cabinet



Afghan presidential candidates Abdullah Abdullah and Ashraf Ghani sign the Joint Declaration of the Electoral Teams in Kabul on August 8, 2014. (State Department photo)

- ensuring parity between the president and the CEO in selecting personnel at the level of head of key security and economic institutions and independent directorates
- establishing a special commission to reform the election system⁴³⁶

Five hours after the signing of the national-unity government agreement, the IEC announced that Ashraf Ghani was the winner of the election. As a condition of the national-unity government deal, the IEC did not immediately announce the full elections results.⁴³⁷ On September 26, however, the IEC presented then President-Elect Ghani with a winner's certificate stating that Ghani won 55.27% of the total votes (3.93 million out of 7.12 million votes). At the same event, the IEC chairman was quoted saying that "the IEC was not the only institution involved in fraud. Fraud was wide-ranging."⁴³⁸ The Abdullah campaign issued a statement complaining that the results certificate was contrary to the agreement reached between the campaigns and that the certified results were not authentic.⁴³⁹

Assuming the results listed on the IEC certificate given to Ghani are accurate, the audit reduced Ghani's share of the vote by 1.17% and increased Abdullah's by 1.21%.⁴⁴⁰

Audits and Fraud Detection

On July 12, Secretary Kerry, along with candidates Abdullah and Ghani, announced terms of an agreement to overcome the runoff election impasse. One of the items agreed to was a comprehensive audit of all of the 8.1 million votes cast in the second round.⁴⁴¹

On September 14, the IEC announced that the audit was completed. According to the IEC chairman, 1,683 of 2,200 complaints lodged by Abdullah's campaign were found legitimate and 242 of the 729 complaints lodged by Ghani's campaign were found legitimate.⁴⁴² Ultimately, 1,260 out of 23,000 polling stations were invalidated by the IEC.⁴⁴³

The European Union Election Assessment Team (EU EAT) deployed one of the largest international-observer missions to support the runoff audit, with up to 410 observers.⁴⁴⁴ It labeled the audit process "unsatisfactory" and claimed the audit produced clear evidence of large-scale fraud, particularly ballot stuffing.⁴⁴⁵ EU EAT estimated that between two and three million runoff votes were fraudulent.⁴⁴⁶

A senior State Department official, in a background briefing, noted that while the runoff audit sought to meet best international standards, institutionalized fraud by the IEC prevented any audit from resolving all allegations of fraud.⁴⁴⁷ According to EU EAT, effective anti-fraud measures have been neglected for years in Afghanistan. EU EAT assessed that the negotiated audit procedures in the recent audit were inconsistently applied during a time of elevated political tensions. EU EAT did not specify which



Workers of IEC count ballots at a polling center in Kabul during the presidential runoff. (USAID Afghanistan photo)

organizations, international or domestic, they found deficient, but promised to issue a full report shortly.⁴⁴⁸

The National Democratic Institute (NDI) issued a statement on September 24 that “while electoral fraud as well as certain problems in the audit process make it impossible for any official results to precisely reflect the votes cast, evidence was not unveiled that would cause the outcome to be reversed.”⁴⁴⁹

This quarter, USAID declined to assess the conduct of the IEC and ECC during the 2014 elections and said it will be unable to do so until the process, including the provincial council elections, is concluded.⁴⁵⁰ According to State, Afghan preparations for the elections consistently exceeded expectations, with Afghan electoral institutions and security ministries working in cooperation to ready plans and deliver materials “in the hope for a credible, inclusive, and transparent election.” State also assessed the ECC to have handled complaints efficiently and in a timely manner.⁴⁵¹

Initial Appointments

On October 1, President Ghani issued a decree designating existing ministers and directors as acting heads of their respective ministries and directorates until their replacements are appointed. Acting ministers and directors are not allowed to hire or dismiss government employees in the interim.⁴⁵² A Ghani legal advisor told ToloNews that President Ghani intends to form the new cabinet within 45 days after the inauguration.⁴⁵³

At press time, the following appointments had been made in the new Ghani administration:

- Ahmad Zia Massoud was appointed as the special representative to the president in the national-unity government for reform and governance affairs.⁴⁵⁴
- Former Finance Minister Hazrat Omar Zakhilwal was appointed national-economy advisor and acting minister of finance.
- Former Minister of Interior Mohammad Hanif Atmar was appointed national-security advisor.⁴⁵⁵
- Salam Rahimi was appointed head of office of the administrative affairs and council of ministers secretariat.
- Hekmat Karzai was appointed deputy minister of foreign affairs.
- Ahmad Ali Mohammadi was appointed legal advisor to the president.⁴⁵⁶

U.S. Support for the Elections

The U.S. government funded programs providing technical support, outreach, and deployment of domestic and international observers intended to help the Afghan government hold “credible, inclusive, and transparent elections.”⁴⁵⁷

USAID expects to contribute \$65.7 million to the United Nations Development Programme (UNDP) Enhancing Legal and Electoral Capacity

for Tomorrow-Phase II (ELECT II) to help the Afghan electoral management bodies by providing technical assistance to the IEC, the ECC, and the Media Commission. Additionally, UNDP ELECT II develops the capacity of the electoral management bodies to administer elections on its own for future election cycles. UNDP ELECT II is supported through a multilateral “basket fund” that includes funding from at least a dozen other donors. For instance, the United Kingdom, the European Union, Italy, Germany, France, Netherlands, Sweden, Denmark, Norway, and Japan contributed the remainder of the \$129 million that ELECT II estimated was necessary to support the recent elections.⁴⁵⁸

ELECT II is currently undergoing a midterm review that will allow for an assessment of the fraud-mitigation measures used in the recent election.⁴⁵⁹ The review will examine the progress, risks, and challenges of Afghanistan’s election-management bodies including the IEC, ECC, and the Media Commission as well as the ELECT II program.⁴⁶⁰

USAID supported election-observation missions through awards to three organizations: NDI via the Supporting Political Entities and Civil Society (SPECS) program; Democracy International (DI); and the Organization for Security and Co-operation in Europe (OSCE).⁴⁶¹ DI fielded 18 observers for the first and second rounds of the presidential election to 90 and 105 polling stations, respectively, for coverage of 0.005% of total polling stations.⁴⁶² NDI also deployed 100 NDI Afghan staff to observe the runoff elections at 312 polling stations in 26 provinces.⁴⁶³

SPECS awarded subgrants to four Afghan civil-society organizations to deploy approximately 2,200 domestic elections observers.⁴⁶⁴ During the first round, USAID-supported domestic monitoring groups deployed observers to 2,999 polling stations with coverage of 15.4% of all polling stations. During the second round, these same groups deployed observers to 4,032 polling stations with coverage of 17.7% of all polling stations. Domestic observer groups, in collaboration with journalists, contributed 8,402 reports to an online incident-mapping activity. These groups reported an additional 369 reports during the second round.⁴⁶⁵

USAID further supported the elections through the Initiative to Promote Afghan Civil Society (IPACS II) and the Afghan Civic Engagement Program (ACEP) as well as the Peaceful Election Campaign (PEC). IPACS II and ACEP contributed to the elections through small-grant support to civil society and media partners for conducting civic-education activities, get-out-the-vote election awareness sessions, distributing election-related publications, and radio and television advertisements. IPACS II ended on March 31, 2014, and spent approximately \$800,000 in support of the election, while ACEP spent approximately \$1.4 million.⁴⁶⁶ PEC supported a “Vote for Peace” campaign using community-outreach events such as athletics and poetry, as well as a multimedia program using radio, television, and the Internet to increase voter turnout, reduce violence, and raise

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TABLE 3.17

USAID PROGRAMS INTENDED TO SUPPORT THE 2014 PRESIDENTIAL AND PROVINCIAL COUNCIL ELECTIONS				
Project Title	Start Date	End Date	Total Estimated Cost (\$)	Cumulative Disbursements as of 9/30/2014 (\$)
Afghan Civic Engagement Program (ACEP)*	12/4/2013	12/3/2018	\$70,000,000	\$8,804,817
Enhancing Legal and Electoral Capacity for Tomorrow (ELECT) II	9/28/2013	12/31/2014	65,720,825	28,397,554
Electoral Reform and Civic Advocacy (AERCA)	7/7/2009	12/31/2015	38,702,682	30,704,119
Supporting Political Entities and Civil Society (SPECS)	7/7/2013	7/6/2016	18,000,000	9,278,855
International Election Observation (NDI)	2/1/2014	12/31/2014	6,017,700	3,781,699
International Election Observation (DI)	2/1/2014	12/31/2014	6,959,188	5,652,697
Peaceful Elections Campaign**	9/10/2013	9/30/2015	3,000,000	1,362,237
International Election Observation (TAF)	8/4/2014	1/5/2015	2,356,724	161,977

Note:

*ACEP programming that contributed to the April and June 2014 elections cost approximately \$1.4 million as of June 30, 2014.

**As of September 15, 2014. These disbursements do not reflect operational expenditures.

Source: USAID, responses to SIGAR data call, 9/29/2014 and 10/9/2014.

awareness that future peace and stability in Afghanistan required a peaceful transfer of power.⁴⁶⁷

A summary of USAID programs that supported the 2014 elections appears in Table 3.17.

The International Security Assistance Force (ISAF) and UN transported second-round ballot boxes from 33 provinces to Kabul. According to DOD, the IEC and Afghan National Security Forces (ANSF) had the capability and capacity to move the ballot boxes, but did not due to political concerns. ISAF and UNDP helicopters transported the ballots to regional hubs and from there to the IEC compound in Kabul via fixed-wing aircraft and road movements.⁴⁶⁸

U.S. ASSISTANCE TO THE AFGHAN GOVERNMENT BUDGET

The World Bank reported this quarter 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.⁴⁶⁹ The Ministry of Finance (MOF) reported that Afghanistan is suffering from acute budgetary shortfalls⁴⁷⁰ and the World Bank estimates a shortfall of \$500 million in FY 1393 (December 21, 2013–December 20, 2014), threatening to affect payments of civil servant salaries, pensions, and operating and development spending. However, the Bank warns that the fiscal gap will be even larger if revised government-revenue targets are not reached and donor grants are not paid.⁴⁷¹ For more information on the revenue challenges, please see pages 164–167 in this report.

In May, the Afghan Minister of Finance was quoted saying that donors have not released on-budget development funding to the Afghan

On-budget assistance encompasses donor funds that are aligned with Afghan government plans, included in Afghan government budget documents, and appropriated by the parliament and managed by the Afghan treasury system. On-budget assistance is primarily delivered either through direct bilateral agreements between the donor and Afghan government entities, or through multidonor trust funds.

Off-budget assistance encompasses donor funds that are excluded from the Afghan national budget and not managed through Afghan government systems.

Source: SIGAR, *Quarterly Report to the United States Congress*, 7/30/2014, p. 130; Ministry of Finance, "Aid Management Policy for Transition and Beyond," 12/10/2012, p. 8.

government, creating “a major hole in [the Afghan government’s] development budget.”⁴⁷² In August, a MOF spokesman warned that a host of development projects to build and maintain roads, schools, and clinics had been suspended for lack of funds.⁴⁷³ The MOF instituted control measures to reduce discretionary spending and operations and maintenance expenses.⁴⁷⁴

According to USAID, most nonsecurity donor contributions to the Afghan government are to the development budget and intended to be spent on development-project activities. In practice, however, the provision of donor funding for a particular purpose can free Afghan government funds that would have otherwise been expended for that particular item. Donor funding can, in effect, provide the Afghan government with the budgetary latitude to prioritize and redistribute its own funding based on its most pressing needs, including covering recurrent costs such as salaries.⁴⁷⁵

In August and September, the deputy minister of finance and the director general of the treasury publicly expressed concerns regarding Afghanistan’s fiscal solvency, forcing a delay in salary payments to civil servants in late September.⁴⁷⁶ According to USAID, the Afghan government is facing its greatest shortfall in discretionary spending, something that is generally not supported by on-budget assistance. Only the ARTF Recurrent Cost Window, including the Incentive Program, would relate directly to the current shortfall.⁴⁷⁷ State said U.S. officials are in discussions with the MOF about the scope and cause of the shortfall. USAID said the MOF has not yet formally requested support from the international community.⁴⁷⁸ According to U.S. Ambassador James Cunningham, Afghanistan has discussed the funding shortfall through the end of the year; however, any requested funds would have to be borrowed from coming years’ donor commitments. According to Cunningham, “There isn’t going to be new money.”⁴⁷⁹

SIGAR SPECIAL PROJECT

SIGAR sent an inquiry letter this quarter to the Special Representative for Afghanistan and Pakistan and the U.S. Ambassador to Afghanistan regarding the reports of budget shortfalls and the planned US response. See Section 2, page 44.

Summary of On-Budget Agreements

To improve governance and align development efforts with Afghan priorities, international donors have committed to increase the proportion of development aid delivered on-budget through the Afghan government.⁴⁸⁰

Four years ago, international donors at the 2010 Kabul Conference committed to increase the proportion of civilian development aid delivered on-budget through the Afghan government to at least 50% to improve governance and align development efforts. The donors, including the United States, reiterated this pledge at the July 2012 Tokyo Conference.⁴⁸¹

At the 2012 Chicago Conference, the international community committed to financially support the Afghan security forces through separate mechanisms for the army and police with an estimated annual budget of \$4.1 billion.⁴⁸² This quarter at the Wales Summit, NATO allies and partners renewed their commitment to contribute significantly to financial sustainment of the ANSF through the end of 2017 and to financially sustain the ANSF over the next 10 years. The international community has pledged

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nearly €1 billion, approximately \$1.29 billion,⁴⁸³ annually to sustain the ANSF for 2015 through the end of 2017. The United States has requested up to \$4.1 billion in the 2015 budget, which would help sustain the ANSF surge end strength of 352,000 through 2015. The United States expects that Afghanistan will assume an increasing portion of ANSF sustainment costs, beginning with \$500 million in 2015, as agreed to at the Chicago Summit.⁴⁸⁴

As shown in Table 3.18, USAID expects to spend \$971 million dollars on active direct bilateral assistance programs. It also expects to contribute \$1.9 billion to the ARTF, on top of \$1.37 billion disbursed under the previous

TABLE 3.18

USAID ON-BUDGET PROGRAMS							
Project/Trust Fund Title	Afghan Government On-Budget Partner	Special Bank Account?	Start Date	End Date	Total Estimated Cost (\$)	Cumulative Disbursements as of 9/30/2014 (\$)	
Bilateral Government-to-Government Projects							
Power Transmission Expansion and Connectivity Project (PTEC)	Da Afghanistan Breshna Sherkat (DABS)	Yes	12/5/2012	12/31/2016	\$342,000,000	\$7,049,338	
Partnership Contracts for Health Services (PCH) Program	Ministry of Public Health (MOPH)	Yes	7/20/2008	1/31/2015	236,455,840	182,975,290	
Sheberghan Gas Development Project (SGDP)	Ministry of Mines and Petroleum (MOMP)	Yes	5/26/2012	4/30/2015	90,000,000	0	
Kajaki Unit 2 Project (Installation of Turbine Generator Unit 2 at Kajaki Dam Hydropower Plant)	DABS	Yes	4/30/2013	12/31/2015	75,000,000	9,067,538	
Agriculture Development Fund (ADF)	Ministry of Agriculture, Irrigation and Livestock (MAIL)	Yes	7/18/2010	12/31/2014	74,407,662	54,000,000	
Basic Education and Literacy and Vocational Education and Training (BELT) - Community-Based Education	Ministry of Education (MOE)	Yes	10/29/2013	10/28/2017	56,000,000	0	
Civilian Technical Assistance Program (CTAP)	Ministry of Finance (MOF)	Yes	9/30/2009	9/30/2014	36,256,560	28,810,610	
Afghanistan Workforce Development Project (AWDP)	MOE	Yes	7/31/2013	04/03/2016	30,000,000	150,150	
Basic Education and Literacy and Vocational Education and Training (BELT) - Textbooks Printing	MOE	Yes	11/16/2011	12/31/2014	26,996,813	23,016,555	
E-Government Resource Center (EGRC)	Ministry of Communications and Information Technology (MOCIT)	Yes	8/28/2013	6/1/2016	3,900,000	0	
Multi-Donor Trust Funds							
Afghanistan Reconstruction Trust Fund (ARTF) (current award)*	Multiple	No	3/31/2012	3/31/2017	721,057,556	604,829,100	
Afghanistan Infrastructure Trust Fund (AITF)	Multiple	No	3/7/2013	3/6/2018	417,600,000	105,000,000	

Note:

**USAID had a previous award to the ARTF that concluded in March 2012 and totaled \$1,371,991,195 in disbursements. Cumulative disbursements from the two ARTF awards is currently \$1,976,820,295.

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

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grant agreement between USAID and the World Bank.⁴⁸⁵ USAID also plans to contribute more than \$417.6 million to the AITF.⁴⁸⁶

DOD expects to spend approximately \$2.09 billion through the LOTFA and disbursed approximately \$1.16 billion as of June 30.⁴⁸⁷ DOD also expects to spend approximately \$826.3 million this year on direct contributions to MOD with approximately \$227.7 million in development disbursements and \$587.1 million in operating disbursements.⁴⁸⁸

Civilian On-Budget Assistance

USAID provides on-budget civilian assistance through (1) bilateral agreements with seven Afghan government entities and (2) through contributions to two multidonor trust funds, the Afghanistan Reconstruction Trust Fund (ARTF) and the Afghanistan Infrastructure Trust Fund (AITF).⁴⁸⁹ According to USAID, all bilateral-assistance funds are deposited in a separate bank account established by the MOF expressly for each program.⁴⁹⁰

The ARTF, administered by the World Bank, provides funds to both the Afghan government's operating and development budgets in support

TABLE 3.19

US GOVERNMENT AFGHANISTAN RECONSTRUCTION TRUST FUND (ARTF) PREFERENCES*					
Preferred Projects	Agency	Afghan Government On-Budget Partner	Year of First Preference	Year of Latest Preference	Cumulative Amount Preferred (\$)
National Solidarity Program (NSP)	USAID	Ministry of Rural Rehabilitation and Development (MRRD)	Solar Year (SY) 1383 (3/20/2004-3/20/2005)	Fiscal Year (FY) 1391 (3/21/2012-12/20/2012)	\$865,000,000
Education Quality Improvement Program (EQUIP II)	USAID	Ministry of Education (MOE)	SY 1387 (3/20/2008-3/20/2009)	FY 1392 (12/21/2012-12/21/2013)	92,000,000
Strengthening Health Activities for the Rural Poor (SHARP)	USAID	Ministry of Public Health (MOPH)	FY 1393 (12/22/2013-12/21/2014)	FY 1393 (12/22/2013-12/21/2014)	107,230,000
National Solidarity Program (NSP)**	DOD	MRRD	SY 1389 (3/21/2010-3/20/2011)	SY 1389 (3/21/2010-3/20/2011)	50,000,000
National Emergency Employment Program (NEEP)	USAID	MRRD & Ministry of Public Works (MOPW)	SY 1384 (3/21/2005-3/20/2006)*	SY 1387 (3/20/2008-3/20/2009)	23,000,000
On-Farm Water Management Project (OFWM)	USAID	Ministry of Agriculture, Irrigation, and Livestock (MAIL)	FY 1393 (12/22/2013-12/21/2014)	FY 1393 (12/22/2013-12/21/2014)	15,000,000
Public Financial Management Reform Project (PFMR II)	USAID	Ministry of Finance (MOF)	FY 1392 (12/21/2012-12/21/2013)	FY 1392 (12/21/2012-12/21/2013)	6,000,000
Microfinance for Poverty Reduction Project	USAID	Microfinance Investment and Support Facility Afghanistan (MIFSA)	SY 1383 (3/20/2004-3/20/2005)	SY 1383 (3/20/2004-3/20/2005)	5,000,000
Capacity Building for Results Facility Project (CBR)	USAID	Independent Administrative Reform and Civil Service Commission (IARCSC)	FY 1393 (12/22/2013-12/21/2014)	FY 1393 (12/22/2013-12/21/2014)	5,000,000
(Unpreferred funding, total)	USAID	Multiple	SY 1381 (3/21/2002-3/20/2003)	FY 1393 (12/22/2013-12/21/2014)	927,020,295

Note:
 *This table includes programs for which the US government expressed a minimum of \$5 million preference as well as the cumulative unpreferred funds. According to the agreement with the ARTF Administrator (World Bank), donors can only express a preference on how their donations are used up to 50% of their total contribution. The remaining ARTF funds are unpreferred and may be used at the World Bank's discretion.
 **These funds were transferred from the DOD Commander's Emergency Response Fund (CERP) to the NSP Community Recovery Intensification and Prioritization (CRIP) as part of the Afghanistan Peace and Reintegration Program (APRP).

Source: USAID, OPPD, response to SIGAR data call, 10/9/2014; World Bank, *Administrator's Report on Financial Status*, 9/22/2014, p. 6.

of Afghan government operations, policy reforms, and national priority programs.⁴⁹¹ The AITF, a multidonor trust fund administered by the Asian Development Bank, coordinates donor assistance for infrastructure projects in Afghanistan.⁴⁹² According to USAID, the majority of on-budget funding has been and will continue to be directed through the multidonor trust funds, particularly the ARTF.⁴⁹³

As shown in Table 3.19, the US government has “preferenced” portions of its contributions to the ARTF to the following programs. According to the agreement with the ARTF Administrator (World Bank), donors cannot dictate how their donations are used. They can only express preferences, up to 50% of their total contribution. The remaining ARTF funds are unpreferenced and may be used at the World Bank’s discretion.⁴⁹⁴

In May 2012, the Norwegian Agency for Development Cooperation (NORAD) issued an evaluation of Norway’s donor assistance to Afghanistan. NORAD noted that multidonor trust funds reduce donor exposure to risk and may reflect donors’ desire to reduce their management and oversight burden.⁴⁹⁵ The review found that the World Bank-hired monitoring agent for nonsecurity Afghan government operating costs had, from March 2009 to issuance of the report, not conducted any site visits outside of Kabul due to security risks.⁴⁹⁶

This quarter, SIGAR requested USAID to provide information on the ARTF monitoring agent for operating costs (recurrent-cost window). USAID said it does not know how frequently monitoring agents visit the provinces and has no findings from these visits. The agency added that while the World Bank may share monitoring-agent reports with donors at its discretion, it does not regularly provide them.⁴⁹⁷ USAID has previously reported that the monitoring agent at the time of the NORAD report has been replaced and that the new monitoring agent has staff stationed in the provinces.⁴⁹⁸

According to USAID, the actual disbursement of funds through bilateral on-budget programs is slower than either side would like. USAID has attributed the low budget-execution rate to limited Afghan government capacity and the risk-mitigation measures USAID applies to on-budget assistance.⁴⁹⁹

At the 2010 Kabul Conference, the Afghan government was directed to develop National Priority Programs (NPP) in response to limited donor resources and the weak implementation capacity of ministries. Each NPP contains key objectives, goals, and a medium-term implementation plan with results, outcomes, deliverables, and key activities. Unlike previous strategies where the international community took the lead role, NPPs are led by the Afghan government with donors, civil society, and private sector serving as partners for the whole process.⁵⁰⁰

According to the USAID Assistance to Legislative Bodies of Afghanistan program (ALBA), there has been no fundamental change in the way the Afghan budget is aligned or implemented despite the introduction of NPPs. The development-budget execution rate continues to be around 50% or

less. According to ALBA, most ministries and donors have not shown any noticeable change in the way projects within the NPPs are aligned and implemented to achieve the performance indicators and goals outlined in the NPPs. ALBA attributed the lack of NPP progress to limited Afghan cabinet-level commitment contributing to a “business as usual” attitude toward NPPs, fragmented donor efforts, and a general lack of performance orientation in ministries that focus mainly on expenditures rather than ministry-level performance monitoring. ALBA acknowledged that ministries have articulated performance indicators; however, they are in the form of narratives and are not supported by a sound accountability framework and follow-up mechanisms.⁵⁰¹

On-Budget Assistance to the ANSF

A large portion of on-budget assistance is for the Afghan security forces. DOD provides on-budget assistance to the Afghan government through (1) direct contributions from the Afghanistan Security Forces Fund (ASFF) to the Ministry of Defense (MOD) and the Ministry of Interior (MOI), and (2) ASFF contributions to the multidonor Law and Order Trust Fund for Afghanistan, or LOTFA. Administered by the UNDP, LOTFA primarily funds Afghan National Police (ANP) salaries.⁵⁰² Direct-contribution funding is also provided to the MOF, and later allotted incrementally to the MOD and MOI, as required.⁵⁰³

According to DOD, the Combined Security Transition Command-Afghanistan (CSTC-A) has several mechanisms for monitoring U.S. direct contributions to the Afghan budget for the Afghan security forces. CSTC-A uses a bilateral-commitment letter to ensure that the Afghan government understands the terms and conditions for proper utilization of CSTC-A funds (including purpose, time, and amount) and the possible consequences of improper use of funds.⁵⁰⁴

In August 2013, CSTC-A adopted a “financial levers” strategy which, combined with an incremental disbursement of donor funds, aims to incentivize Afghan partners to implement accountable and transparent financial processes (see pages 149–151 of SIGAR’s April 2014 *Quarterly Report to the United States Congress* for more information on the lever strategy including key phases). CSTC-A commitment letters stipulate that the MOD and MOI must allocate funds to specific accounting codes and require the ministries to use automated accounting systems such as the Afghanistan Financial Management Information System (AFMIS). CSTC-A established an audit division to perform independent assessments, which place greater scrutiny over Afghan financial processes.⁵⁰⁵

CSTC-A audits of MOI fuel purchases, MOI clothing purchases, and MOD payroll in Herat Province are currently in the withhold phase of the financial levers process, in which CSTC-A delays disbursement of 50% of the affected budget code.⁵⁰⁶ As of September 2014, CSTC-A identified

SIGAR SPECIAL PROJECTS

SIGAR issued inquiry letters to CSTC-A and UNDP this quarter expressing concern regarding the administration of LOTFA. See Section 2, pages 43–44.

recoupment of 651 million afghani (\$13 million) inappropriately paid in clothing purchases due to noncompliance with the Berry Amendment (a 1941 law meant to promote purchase of certain U.S. goods, including textiles)⁵⁰⁷ and an estimated 96 million afghani (\$2 million) in unbilled expenses subject to the Berry Amendment.⁵⁰⁸

Every week CSTC-A monitors AFMIS expenditure reports to detect abnormalities that warrant further investigation. According to CSTC-A, these abnormalities generally occur when expenditures are registered in accounting codes that CSTC-A does not fund or when expenditures in the correct accounting code exceed the amounts specified in the commitment letter.⁵⁰⁹ CSTC-A also uses AFMIS data to note whether a particular expenditure code, for example, wages and salaries or acquisition of assets, is “under-executed” (below the expected disbursements).⁵¹⁰ According to CSTC-A, direct contributions to the Afghan government are at risk for reduction due to their failure to fully execute (spend) the current Afghan fiscal-year budget. Interestingly, CSTC-A considers slow execution rates of items such as goods and services as undercutting the ability of Afghan ministries to show they are good stewards of donor contributions.⁵¹¹

CSTC-A acknowledges that AFMIS data is entered by Afghan ministry staff, making the reliability of AFMIS data dependent on those same Afghan government staff. If a transaction is omitted, for example, CSTC-A would not necessarily be aware of it. CSTC-A does not know of any periodic data-validity checks of AFMIS data quality.⁵¹²

Additionally, ISAF Commander General John Campbell has noted that going forward, international forces face new challenges in overseeing funds for the Afghan security forces. According to General Campbell, international forces no longer have the presence—“touch points”—at brigade and battalion levels to observe the end use of international funds. Instead, international forces will be restricted to the corps and ministries to focus on Afghan government budget planning and execution systems. He acknowledged that these systems are challenging for outsiders to understand.⁵¹³

CSTC-A’s assessment is that once funds enter the Afghan government’s bank account, oversight becomes significantly more challenging. According to the CSTC-A commanding general in February 2014, “It is important to remember that once funds are donated to the Government of the Islamic Republic of Afghanistan, the sovereign nation may use those funds without further coordination with the United States Department of Defense.”⁵¹⁴ CSTC-A direct contributions are pooled with all sources of Afghan government revenues (including other donor-nation and domestic revenues) deposited in the single treasury account of the central bank. According to CSTC-A, this approach has the advantage of simplicity and provides the Afghan government flexibility, but requires additional effort from CSTC-A to reconcile the reported use of funds.⁵¹⁵ The Department of Defense Inspector General (DOD OIG) found that as a result of CSTC-A’s



Ashraf Ghani, president of the Islamic Republic of Afghanistan, speaks during a meeting held at the presidential palace in Kabul. (U.S. Army photo)

use of the Treasury Single Account, CSTC-A could not verify that the ASFF direct contributions were used for their intended purposes as defined by the commitment letters.⁵¹⁶ This quarter, CSTC-A reported that it has requested MOF to establish a special bank account and provide bank statements for direct contributions.⁵¹⁷

In August, DOD OIG released an audit that concluded that the Afghan government lacked the basic controls to provide reasonable assurance that it appropriately spent \$3.3 billion of ASFF direct contributions.⁵¹⁸ The audit found that MOD and MOI did not have adequate controls in place over the payroll process to ensure that ASFF direct contributions were used as intended and that ANSF salaries appropriately paid. According to DOD OIG, this occurred because MOD and MOI lacked the capacity to develop and implement controls over the payroll process.⁵¹⁹ The Afghan government had developed accounting (AFMIS) and human-resources systems, but the necessary interfaces between the financial and human-resources systems were not in place.⁵²⁰

DOD OIG also observed that MOF changed the fund codes within AFMIS from ASFF direct contribution codes to Afghan government revenue codes when funds were received. MOF officials stated that AFMIS and personnel lack the capacity to perform fund accounting, in which the sources of funds (such as CSTC-A's direct contributions) are identified. DOD OIG observed that AFMIS is a fund-based system and, therefore, should be able to track this information.⁵²¹ The DOD OIG audit did not elaborate on why the MOF would change the revenue codes.

NATIONAL GOVERNANCE

The United States provides assistance to Afghan governing institutions to build capacity to perform critical services and thereby increase their legitimacy in the eyes of the Afghan population. Assistance is provided in two ways: (1) through contracts, grants, and cooperative agreements, and increasingly, (2) through on-budget assistance. In this final year of the security transition, the U.S. government is particularly focused on increasing the financial and program-management capabilities of Afghan government institutions. It is using a combination of capacity building and on-budget programs to achieve this end.⁵²²

The Tokyo Mutual Accountability Framework (TMAF) serves as a cornerstone of international engagement and is the agreed instrument for measuring mutual accountability.⁵²³ The international community and Afghan government agreed to the TMAF at the Tokyo Conference of Donors in July 2012. Later the TMAF was augmented with intermediate targets for the Afghan government and the international community called “hard deliverables,” such as the passage of a mining law.⁵²⁴

SIGAR has previously reported on the progress of TMAF “hard deliverables.” (See pages 127–129 of SIGAR’s April 2014 *Quarterly Report to the United States Congress* for more information.) A Special Joint Coordination and Monitoring Board (JCMB) meeting was held on January 29, 2014, to assess TMAF progress and to formulate guidance in anticipation of a new Afghan government following the elections.⁵²⁵ According to USAID, the JCMB meeting was the final opportunity for reviewing the existing set of hard deliverables. The United States temporarily extended the window for passage of a mining law to April 16, 2014, but the window closed before the government passed the law.⁵²⁶

This quarter USAID reported that, as a matter of policy, the U.S. Embassy Kabul is no longer evaluating or updating the initial version of hard deliverables. USAID is looking forward to engaging with a new government and a “refreshed” TMAF this fall after an international conference on Afghanistan tentatively planned for November in London.⁵²⁷ According to USAID, the previous set of hard deliverables is no longer part of the discussion. Some incomplete actions from the original list may make it into the future framework, but that determination has not yet been made.⁵²⁸ USAID reported last quarter that the process of finalizing these new targets will likely continue through the London conference and into early 2015.⁵²⁹

During his first meeting with the cabinet, President Ghani directed the ministers to report within 15 days on each ministry’s political appointees and contracted staff with information on staff gender, level of education, and years of service.⁵³⁰

Capacity-Building Programs

USAID capacity-building programs seek to improve Afghan ministries’ ability to prepare, manage, and account for on-budget assistance. SIGAR’s January 2014 audit of USAID’s assessments of seven Afghan ministries receiving on-budget assistance from the U.S. government found that these assessments and reviews identified no ministry capable of effectively managing and accounting for funds without implementing risk-mitigation measures.⁵³¹ As shown in Table 3.20, programs include USAID’s

TABLE 3.20

USAID CAPACITY-BUILDING PROGRAMS AT THE NATIONAL LEVEL						
Project Title	Afghan Government Partner	Start Date	End Date	Total Estimated Cost (\$)	Cumulative Disbursements as of 9/30/2014 (\$)	
Leadership, Management, and Governance Project	Ministry of Public Health Ministry of Education	9/25/2012	10/31/2014	\$31,248,400	\$24,963,134	
Assistance to Legislative Bodies of Afghanistan (ALBA)	Parliament	3/28/2013	3/27/2018	23,455,326	5,367,139	
Ministry of Women's Affairs Organizational Restructuring and Empowerment (MORE)	Ministry of Women's Affairs	12/20/2012	12/19/2015	14,182,944	3,686,349	

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

\$31 million Leadership, Management, and Governance Project that aims to strengthen Afghanistan's financial-management systems and the capacity of the Ministry of Public Health and the Ministry of Education to meet requirements set at the 2010 Kabul International Conference for increased on-budget aid.⁵³² USAID is also funding the \$15 million Ministry of Women's Affairs Organizational Restructuring and Empowerment (MORE) project, which among other things assists the ministry to improve its financial management, as required for future on-budget assistance.⁵³³

To encourage Afghan ministries to rely more heavily upon the civil service and reduce dependency on the "parallel civil service" created through certain donor-funded programs, USAID has decided to move assistance to the ARTF's Capacity Building for Results (CBR) program.⁵³⁴ For example, the Independent Directorate of Local Governance (IDLG) acknowledged in 2012 that "the large majority of the civil servants on the regular pay scale have a limited skill set and cannot execute most of the tasks that the [Afghan government] and the international community needs IDLG to deliver." IDLG therefore had to rely heavily upon externally funded staff holding management, technical, and administrative positions in the IDLG. These staff in effect acted as civil servants even though they usually did not have that formal status and formed the "Second Civil Service."⁵³⁵ CBR supports ongoing public administration reforms across government, training for selected civil servants, and limited technical assistance to support ministry reforms.⁵³⁶

The CBR organizes Afghan ministries into three tiers of increasing levels of support. All Afghan government ministries are automatically classified initially as Tier 1 and must compete for higher levels of support afforded Tiers 2 and 3. The seven criteria for Tier 2 include progress on pay and grade reforms at the central and subnational levels; a functional human resources department with 30% of pay- and grade-reform civil service staff evaluated through performance evaluations; an approved strategic or business plan with at least one annual progress report; a development-budget execution rate (the portion of budgeted amounts that controlling agencies actually spend) of at least 40%; and the ministry either (1) collects key revenues of at least 5% of the revenues collected by all ministries or (2) the ministry contributes to at least one key governmental service in human capital development, key economic infrastructure development, or judicial services. In order to advance to Tier 2 status, a ministry must meet at least five of the seven criteria.⁵³⁷

In August 2014, the World Bank found moderately unsatisfactory progress toward the CBR development objective of assisting the Afghan government in improving the capacity and performance of select line ministries carrying out their mandates and delivering services. The World Bank noted that the ministries themselves are the only data source for indicators covering improved business processes and service-delivery progress, and that this data is not confirmed by the CBR program.⁵³⁸

Overall progress has been slow due to aspects of the project design, capacity issues, and political-economic factors. According to USAID, there is now clear demand for the program across government with two major service-delivery ministries now participating and over 50% of eligible ministries having submitted their pre-qualification applications. USAID believes that CBR will ultimately be more sustainable than relying on donor-funded staff.⁵³⁹ However, the pace of project implementation requires significant acceleration to reach the project objectives within the targeted time frame.⁵⁴⁰

USAID funds the \$23.5 million Assistance to Legislative Bodies of Afghanistan project (ALBA) to help Afghanistan's parliament operate as an independent and effective legislative, representative, and oversight body.⁵⁴¹ Over the past few months, ALBA worked closely with the Meshrano Jirga secretariat leadership to support the Meshrano Jirga orientation session scheduled for October 2014. This orientation is meant to provide information and training to newly elected senators. This orientation/training will help senators understand rules and procedures, the Meshrano Jirga structure, and their key legislative, oversight, and representational duties. During the past quarter, ALBA also held a series of widely attended trainings for *Wolesi Jirga* and Meshrano Jirga secretariat staff during the recent parliamentary recess. ALBA also supported interactions between Afghan civil society and the parliament through regular parliamentary reporting—including daily plenary reports, key commission reports, and legislative tracking reports—that were widely disseminated to the civil society community.⁵⁴²

An ALBA report on NPPs found that the Afghan parliament has not been involved with the NPPs and was never consulted or formally informed about them. This is despite Article 90 of the Afghan constitution that gives the parliament the power to “approve plans for economic, social, cultural and technological developments, [and] approve the state budget.”⁵⁴³

National Assembly

Parliament was on recess from July 23 to September 6.⁵⁴⁴ According to State, the recess and the resolution of the election slowed parliamentary approval of executive-branch activities.⁵⁴⁵

On September 7, the Meshrano Jirga (the upper house) held its first plenary session of the fall term. Quorum was reached with 60 of 102 senators present. USAID anticipates future challenges with achieving quorum in the Meshrano Jirga until the provincial-council results are certified and senators are elected from the provincial councils to the Meshrano Jirga.⁵⁴⁶

The Wolesi Jirga (the lower house) also held its first plenary session of the fall term on September 7. Quorum was not reached; only 64 of 249 members were present. However, USAID anticipates that members will return from the provinces, making quorum less of an issue.⁵⁴⁷

The Wolesi Jirga summoned the minister of public works (MOPW) for questioning in the case of MOPW-contracted, Asian Development Bank-supported road in Faryab and Badghis Provinces. Over \$100 million was reported paid to the contractor, who left after completing only 15% of the work. The minister of public works was quoted saying “I have always been against this contract of the Asian Development Bank” and blamed the companies involved in the project.⁵⁴⁸

The Meshrano Jirga summoned the ministers of defense and interior for questions regarding the security situation and issues along the border with Pakistan. A member of parliament was escorted out of the session after accusing the minister of defense of being a Taliban spy.⁵⁴⁹ The Meshrano Jirga also summoned the minister of finance to discuss government salaries; however, the deputy minister attended in the place of the minister.⁵⁵⁰

SUBNATIONAL GOVERNANCE

The United States government supports initiatives at the subnational level to give Afghans a greater stake in their own government. The goal is to make local government more visible, accountable, and responsive to the Afghan people, particularly in the south and east, where the insurgency has been tenacious.⁵⁵¹

On October 2, President Ghani announced that all provincial governors will serve as acting governors, without the authority to hire or dismiss employees, until their replacements are appointed. Ghani suggested that benchmarks be established for governors’ appointments.⁵⁵² Governor Atta Mohammad Noor, the acting governor of Balkh Province and a prominent supporter of Abdullah Abdullah, who was quoted during the election impasse as saying “if the vote recount is one-sided or fraudulent, we will not bow down and accept the results,” called President Ghani to say that he would respect a replacement order.⁵⁵³

Rural Stabilization Programs

USAID has several stabilization programs aimed at helping the Afghan government extend its reach into unstable areas and build local governance capacity. These programs include USAID’s four Stability in Key Areas (SIKA) projects, the two Community Cohesion Initiative (CCI) programs, the Afghan Civilian Assistance Program II (ACAP II), and the ARTF’s National Solidarity Program (NSP). The United States has requested that \$865 million of its ARTF contributions support the NSP, but has not preferred support for NSP since 2012.⁵⁵⁴ Table 3.21 summarizes total program costs and disbursements to date.

The USAID Measuring Impacts of Stabilization Initiatives (MISTI) project, a third-party monitoring and evaluation program that evaluates the impact of USAID stabilization programs, has conducted 84 verifications in support

GOVERNANCE

TABLE 3.21

USAID SUBNATIONAL (RURAL) PROGRAMS				
Project Title	Start Date	End Date	Total Estimated Cost (\$)	Cumulative Disbursements as of 9/30/2014 (\$)
National Solidarity Program (NSP) via the Afghanistan Reconstruction Trust Fund (ARTF)*	2004	2012	\$865,000,000	\$865,000,000
Stability in Key Areas (SIKA) South**	4/10/2012	4/9/2015	234,213,281	48,627,514
SIKA East	12/7/2011	9/6/2015	177,054,663	78,182,534
Community Cohesion Initiative (East, South, Southwest)***	3/1/2012	2/28/2015	161,499,422	60,127,085
Afghanistan Civilian Assistance Program (ACAP II)	9/27/2011	9/26/2014	64,000,000	45,194,000
SIKA West	1/29/2012	8/31/2015	54,000,000	34,412,722
SIKA North	3/15/2012	4/30/2015	38,000,000	24,089,255
Community Cohesion Initiative (North, West)**	9/10/2013	9/9/2015	36,221,640	3,758,532

Note:

*This includes USAID contributions to the ARTF with an express preference for the National Solidarity Program (NSP). According to the agreement with the World Bank, donors can only express a preference on how their donations are used up to 50% of their total contribution. The remaining, unpreferred funds provided to the ARTF may also be used to support NSP

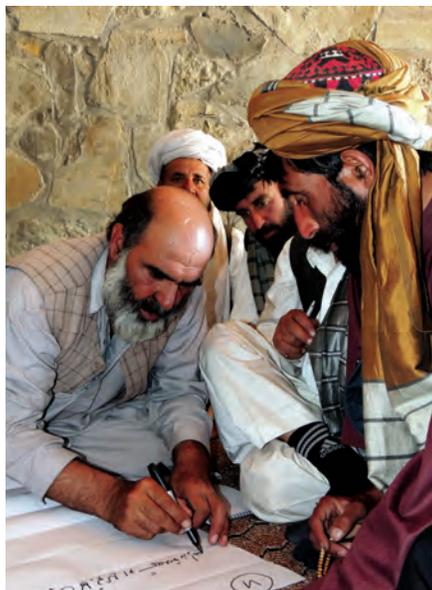
**The total estimated cost and disbursement data includes the totals for both SIKA South awards.

***As of September 15, 2014. These disbursements do not reflect operational expenditures.

Source: USAID, responses to SIGAR data call, 9/29/2014 and 10/9/2014.

of USAID's oversight of stabilization programs. Some 183 verifications or reports were in progress for completion in August and September. MISTI is verifying that individual activities, projects and other initiatives have been or are being implemented as reported for the four SIKA programs, ACAP II, and the Kandahar Food Zone (KFZ), a project aimed at strengthening and diversifying licit livelihoods by addressing the root causes and sources of instability that lead to opium cultivation. MISTI aims to conduct on-site verification of at least 50% of all USAID stabilization projects.⁵⁵⁵

MISTI has faced challenges in project verification due to stabilization-program implementing partners failing to provide sufficient and accurate geospatial coordinates and the lack of standardized project tracking across stabilization programs. MISTI submitted to USAID a list of projects that, according to satellite imagery, were in suspicious locations such as on a mountainside or far from population centers. Since then, MISTI has noted a marked improvement in geospatial coordinate data.⁵⁵⁶ The fact that MISTI had to flag the issue of geospatial data quality raises questions about the amount of quality control the implementing partners exercise. SIGAR has previously written on the accuracy of data contained in the USAID Afghanistan Infrastructure and Security Cartography System (AISCS) and raised concerns with 42 out of 227 sample records that the National Geospatial-Intelligence Agency (NGA) identified as having either incorrect or inconclusive coordinates in AISCS.⁵⁵⁷



SIKA East conducts governance training in Sharana District, Paktika Province. (SIKA East photo)

Stability in Key Areas (SIKA)

The objective of SIKA is to help district- and provincial-level Afghan government officials respond to the local population’s development and governance concerns, thus instilling confidence in the government and bolstering stability.⁵⁵⁸ USAID intended the four SIKA programs to “be seen as an extension of the [Afghan government], not as increased foreign presence,” and stipulated that SIKA “must work within Afghan structures” in order to partner with the Afghan Ministry of Rural Rehabilitation and Development (MRRD).⁵⁵⁹

During the quarter, the MISTI program issued a mid-term performance evaluation of the SIKA North program. According to the evaluation, SIKA North activities and grants addressed sources of instability and appear to be having a measurable long-term stabilizing impact. Results of the three semiannual MISTI surveys from September 2012 to January 2014 indicated relatively positive stability index scores and a relatively positive confidence in local government in all sampled SIKA North districts.⁵⁶⁰ However, the evaluation found that by continuing the use of in-kind grants, SIKA North has not complied with recommendations made in SIGAR Audit 13-16 to ensure clear implementation of community contracting. SIGAR found that in-kind grants do not meet a key requirement of SIKA—having Afghan district entities directly responsible for project implementation.⁵⁶¹

The evaluation found that SIKA North continues to use in-kind grants in violation of the contractually mandated Kandahar Model and despite significant opposition from the MRRD, reduced government and community ownership that negatively impacts stabilization goals. SIKA North continues to use in-kind grants with USAID concurrence due to the implementing partner’s corporate risk aversion and reportedly in order to save money.⁵⁶² According a SIGAR interview with SIKA North staff in April 2013, SIKA North preferred in-kind grants executed by companies and nongovernmental organizations to fixed obligation grants executed by the communities themselves because fixed-obligation grants required more documentation and trust in the community grantee. SIKA North felt this situation put the program at undue risk and because of this decided to focus on in-kind grants.⁵⁶³

The MRRD has opposed in-kind grants and told MISTI they will disengage from SIKA North should in-kind grants continue. The evaluation found that in-kind grants do not effectively involve the government or the community in the execution portion of the grant,⁵⁶⁴ a concern also raised in the SIGAR audit from July 2013.⁵⁶⁵

MISTI also found that certain activities had questionable impacts. In particular, the evaluation noted that capacity-building trainings on finance and grant management provided to communities were ineffective at properly building the community’s capacity to conduct project management. The trainings were too short, did not have enough repetition, and did not cover all the necessary modules. Other “soft” activities, such as poetry-reading

competitions, also had questionable impact. While SIKa North said the events provided for increased district government exposure, the stabilization impact was not entirely clear. MISTI's evaluation team found that many people showed up solely for the free lunch.⁵⁶⁶

MISTI repeated some of its findings from the SIKa West midterm performance evaluation,⁵⁶⁷ namely, that SIKa North lacks a defined theory of change and that current outcome indicators are actually mislabeled output indicators. A theory of change is a specific and measurable description of a social (behavior) change program that forms the basis for planning, decision making, and evaluation of a program's outcomes. MISTI recommended that SIKa North's outcome indicators should focus on progress towards the intermediate results and assistance objective and be linked to the program's theory of change, rather than simply measuring the number of meetings held or percentage increases in activity participation.⁵⁶⁸

Despite the challenges, the evaluation found that SIKa North activities have been presented as government-led activities and major efforts have been made to work through government structures in order to provide service delivery. Afghan government entities are involved in monitoring large infrastructure projects, and the branding and logos at SIKa North-sponsored events are of the Afghan government, not USAID or the implementing partner. The MISTI evaluation team found that few beneficiaries knew there was an international donor behind activities and assumed the Afghan government, or more specifically the MRRD, was funding development. While more-educated beneficiaries understood there was an international donor behind the activities, they still credited the government for connecting people to resources and for service delivery.⁵⁶⁹

Community Cohesion Initiative (CCI)

USAID's CCI programs, split between one program covering the east, south, and southwest, and another covering the north and west, aim to build what USAID calls "resilience" in areas vulnerable to violence and insurgent exploitation. CCI implements initiatives such as local community-development projects that engage community leaders and government officials in their identification and oversight. The CCI also supports peace-advocacy campaigns at sporting events.⁵⁷⁰

Last quarter, MISTI issued a midterm performance evaluation of CCI as implemented in the east, south, and southwest.⁵⁷¹ The evaluation examined 61 projects from eight CCI districts.⁵⁷²

SIGAR asked the USAID Office of Transition Initiatives (OTI) for a response to the evaluation, particularly on the findings that the CCI objective of supporting cohesion was a conceptually difficult objective and that CCI staff had differing interpretations of how projects supported cohesion. According to the evaluation, some CCI staff viewed the defining aspect of cohesion projects as those that originated from the community, while other



In Khanabad District, Kunduz Province, SIKa North held a youth sports event to strengthen the relationship between the district government officials and youth. (SIKa North photo)

CCI staff saw cohesion projects as those that benefited more people, such as schools and roads, or connected people across communities.⁵⁷³ It was not clear from the evaluation how cohesion projects per the second definition differed from a school or road project implemented by another program without a cohesion objective.

OTI insists that although the MISTI evaluation found that the CCI implementing partners were concerned over the “amorphous nature of the concepts of cohesion and resilience when designing programs,” the CCI theory of change clearly articulates the definitions of these concepts and the program architecture speaks to the core program goals of building community resiliency and cohesion.⁵⁷⁴ According to OTI, a key aspect of CCI is the use of project shuras made up of Afghan government and community leaders who monitor and own the projects.⁵⁷⁵ OTI views CCI as standing apart from other programs in its use of project shuras.⁵⁷⁶ However, other large-scale USAID supported programs, including the four SIKKA programs and the National Solidarity Program, integrate community and government project ownership and monitoring as well.⁵⁷⁷

The evaluation also noted that monitoring and evaluation were a challenge for CCI.⁵⁷⁸ Although many of those interviewed testified to the effectiveness of CCI, the evidence they offered in support was not always clear.⁵⁷⁹ According to OTI, assessing and evaluating the CCI program goals of resilience and cohesion requires impact-level analysis. Output-level evaluations are insufficient for making statements about the efficacy of CCI activities in building resilience and cohesion. According to OTI, the MISTI midterm evaluation conducted its fieldwork in January and February of 2014, at a time when CCI was just beginning to complete a sufficient amount of projects to allow for impact-level analysis.⁵⁸⁰

Since the MISTI evaluation, CCI has worked to design and implement several outcome- and impact-level case studies that take geographic or thematic clusters of CCI activities and work to analyze their effects in aggregate. One example, a water-conflict case study, examined 10 CCI projects that rehabilitated water-related infrastructure. The case study sought to understand both the efficacy of CCI projects in mitigating water-resource-related conflict as well as their overall ability to enable leaders to manage resources both within and across communities. According to OTI, the case study found that water projects reduced conflicts within and between communities or bolstered community-based systems that were already reported to be distributing water in an acceptable and fair manner. Villages where focus group participants reported conflict over water observed a decline in conflict after the water infrastructure projects were completed.⁵⁸¹

RECONCILIATION AND REINTEGRATION

The current U.S. Civil-Military Framework states that political reconciliation between the Afghan government and insurgency is “the solution to ending the war in Afghanistan.”⁵⁸² However, the UN Secretary-General noted last quarter little progress in establishing a formal dialogue between the Afghan government and armed opposition groups.⁵⁸³

In late July, then-President Karzai defended his policy of releasing Taliban prisoners following the alleged killing of 15 civilians in Ghor by released insurgents. Karzai’s first vice president, Mohammad Younus Qanuni, was recently quoted saying, “I am against the release of those who kill the people of Afghanistan. We knew that when they were released from prison that they would return to the battlefields and commit more crimes.”⁵⁸⁴

Reconciliation

In August, the deputy chairman of the High Peace Council (HPC) said that all meaningful HPC work stopped in the spring during the April 2014 elections. He also indicated that the Taliban refused to engage with the Karzai government as they assumed that the incoming government would have different policies from the old.⁵⁸⁵

In late September, an HPC member was quoted as saying the HPC has “not been successful in restoring peace or talking with Mullah Omar and other Taliban leaders.” He blamed Pakistan for the failure of the HPC.⁵⁸⁶

Afghanistan Peace and Reintegration Program

The Afghanistan Peace and Reintegration Program (APRP), an Afghan-led program to reintegrate low-level insurgent foot soldiers and their commanders into Afghan civil society, is financed by \$182.3 million in contributions from 12 donor nations. Operational funding for the program is provided by seven donor nations (primarily Japan and Germany). The United States provides funding towards community-recovery efforts administered by the World Bank.⁵⁸⁷

According to the Force Reintegration Cell (FRIC), an International Security Assistance Force element supporting the APRP, the APRP Joint Secretariat and Provincial Joint Secretariat Teams continue to make outreach a priority through local peace meetings and radio and television advertisements.⁵⁸⁸ In August, the UNDP and Nangarhar Provincial Peace Council hosted an APRP-supported peace meeting between two imams from the Jordanian Armed Forces and 400 Afghan religious scholars from neighboring provinces. According to the FRIC, the Jordanian imams, who are members of Jordanian Engagement Teams that have been operating in Afghanistan since 2006, stressed peace building and tolerance, but the participating Afghan religious scholars who denounced the role of the international community in Afghanistan received the lion’s share of audience support and cheers.⁵⁸⁹



A member of the Jordanian Engagement Team talks with an Afghan religious scholar at a peace conference in Jalalabad City, Nangarhar Province, August 18, 2014. (U.S. Army photo)

GOVERNANCE

The FRIC also reports 53 small grant projects and 1,246 Afghan government projects are under way in 32 provinces and 130 districts.⁵⁹⁰

In its January 2014 *Quarterly Report to the United States Congress*, SIGAR reported on the challenges associated with the NSP Community Recovery Intensification and Prioritization (CRIP) mechanism of the APRP (pages 130–131). In particular, U.S. Embassy Kabul was concerned that CRIP projects did not have a clear connection to reintegration goals, and had raised this concern with the MRRD.⁵⁹¹

This quarter, U.S. Embassy Kabul disapproved the draft MRRD APRP annual implementation plan on the grounds that the plan sought to formalize the ongoing failure of NSP to identify projects funded through the APRP. According to State, MRRD claimed it was unable to clearly identify APRP projects because (1) it would be “too difficult” from an accounting perspective and (2) could create security problems for NSP implementing partners on the ground. The MRRD remains concerned about publicizing APRP programming at the village level due to possible targeting of its implementing partners because of the political nature of the peace process. This was unacceptable to the United States and Australia, two major APRP donors. The MOF has withheld funding to the MRRD as a result, pending resolution of this issue.⁵⁹²

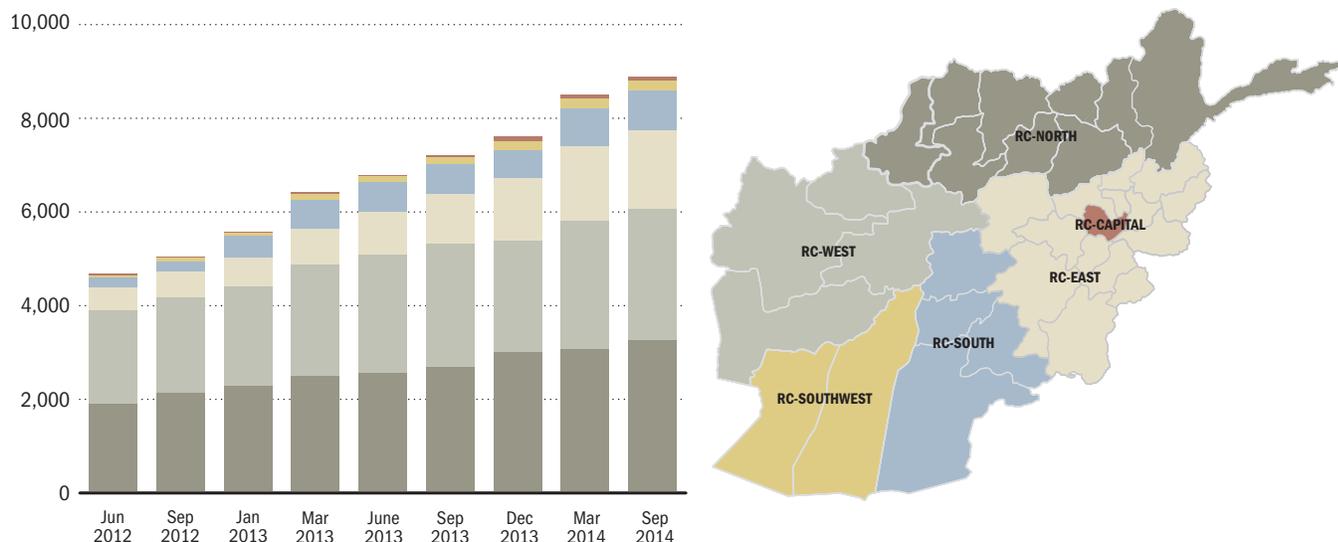
In a follow-on meeting in July with the Joint Secretariat (JS) and MRRD, the MRRD NSP Executive Director and APRP Deputy CEO committed to address donor concerns. First, NSP will provide a list of CRIP projects for which FY 2014 APRP funding will be provided. These projects will be reviewed and visited by the JS development team. This information, along with an assessment of the impact of this programming on reintegration, will be shared with donors. Second, NSP will undertake APRP-funded outreach, beginning at the provincial and district levels. This will include improving communications with provincial governors and Provincial Peace Councils (PPCs), who are generally unaware of NSP APRP programming. NSP Regional Communications Officers will also engage with the public, promoting the APRP. Once PPCs are made aware of which projects are APRP-funded, they will also publicize this information. Third, the NSP section of the draft MRRD annual implementation plan for the APRP will be revised to reflect these changes.⁵⁹³

According to State, since MRRD has now agreed to address U.S. concerns, State does not recommend attempting to recover the funds donated to APRP. USAID advised State there is no way to recover funds donated to the Afghanistan Reconstruction Trust Fund (ARTF) (of which the APRP donation forms a part) and that the grant documentation signed by USAID makes it clear that the World Bank has no obligation to reimburse or compensate any donor.⁵⁹⁴

As of September, 2,387 new reintegrees joined APRP, increasing the total to 8,890 reintegrees, as shown in Figure 3.31.⁵⁹⁵ According to State

FIGURE 3.31

REINTEGREES BY REGIONAL COMMAND, CUMULATIVE



Note: DOD provided updated numbers as of September 2014.

Source: State, response to SIGAR data call, 10/4/2013, 7/1/2013, 4/2/2013, 1/2/2013, 10/2/2012, 7/5/2012, 3/30/2012; DOD, response to SIGAR data call, 6/30/2014, 3/31/2014, 12/31/2013, and 9/29/2014.

and the FRIC, the APRP has a robust vetting process to confirm that individuals who want to join the program are actually insurgents. Afghan civil government and ANSF officials at the provincial and national levels are responsible for processing reintegrees. The international role is limited to being able to access the Reintegration Tracking and Monitoring Database.⁵⁹⁶

According to State, U.S. Forces Afghanistan (USFOR-A) declined to approve the extension of the Afghanistan Reintegration Program (ARP)-funded training of JS personnel as requested by both FRIC and U.S. Embassy Kabul. The elimination of the contracting officer's representative (COR) within the FRIC means it is no longer possible for projects to be funded for reintegration under the congressionally mandated ARP. The FRIC and U.S. Embassy Kabul both requested that USFOR-A assume the role of COR, but the request was declined. According to State, no additional ARP projects may be implemented and the funds authorized by Congress to support reintegration efforts in Afghanistan will remain unallocated.⁵⁹⁷

RULE OF LAW AND ANTICORRUPTION

On October 5, the attorney general's office (AGO) reversed an August 21 expulsion order that forced *New York Times* reporter Matthew Rosenberg

to leave Afghanistan. The reporter had written an article on talks among powerful Afghans of forming an interim governing committee if the two presidential candidates could not agree on forming a national-unity government. The AGO had described Rosenberg as a spy and said he had endangered national security. The AGO did not specify which laws were violated or provide details of the allegations. Both presidential candidates had pledged to reverse the expulsion order.⁵⁹⁸

One of the last major acts of Hamid Karzai as president of Afghanistan was ordering the execution of five men convicted in a high-profile rape case. The five men were among seven convicted of raping and robbing four women who were stopped on August 23 by assailants in police uniforms as they returned from a wedding party just outside of Kabul. The convictions were based on confessions, which all five men testified were obtained through torture by Afghan police. The United Nations High Commissioner for Human Rights and Human Rights Watch both expressed concern with the way the case was handled.⁵⁹⁹ The five men, along with a kidnapper, were executed on October 8.⁶⁰⁰

The Justice Sector Support Program (JSSP) reported that the Criminal Law Reform Working Group (CLRWG), a Ministry of Justice (MOJ) technical advisory group, adopted draft penal-code provisions on crimes against the state and authorized the death penalty for disclosure of state secrets to an enemy during a state of war. The provision prohibits criticism during a state of war that “destabilizes” the army or police. The CLRWG also approved a defense that will be available to an accused if he or she acted with “good will” for the purpose of reforming illegal activities.⁶⁰¹

According to JSSP, Afghanistan is currently in a state of war with the Taliban per the draft penal code’s definition. The MOJ and the CLRWG chairman proposed provisions that would imprison contractors who fail to deliver on their commitments during a state of war. JSSP and UN Assistance Mission in Afghanistan (UNAMA) representatives objected; however, the CLRWG adopted the provisions which state “if a person, during a state of war, for the purpose of harming the government, interrupts the performance of all or part of his obligations to the state concerning the import or delivery of the requirements of armed forces or food commodities or other commodities used for protection of the population,” the person shall be sentenced to imprisonment of 5 to 16 years. If the action weakens the nation’s “defensive power” or operations of the armed forces, the sentence will be 16 to 20 years. According to JSSP, if these provisions are ultimately enacted into law, contractors will hesitate or decline to engage with the Afghan government and military due to possible criminal liability for breach of contract.⁶⁰²

Project Summary

The United States has provided assistance to the formal and informal justice sectors through several mechanisms. These include the USAID Rule

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TABLE 3.22

RULE OF LAW AND ANTICORRUPTION PROGRAMS					
Project Title	Agency	Start Date	End Date	Total Estimated Cost (\$)	Cumulative Disbursements as of 9/30/2013 (\$)
Justice System Support Program II (JSSP II)	State	5/31/2010	12/31/2014	\$301,971,225	\$169,947,752
Corrections System Support Program (CSSP)	State	5/1/2010	12/31/2014	198,586,208	196,544,324
Rule of Law Stabilization - Formal Component	USAID	7/16/2012	7/14/2014	22,581,128	19,068,556
Justice Training Transition Program (JTTP)	State	1/2/2013	7/1/2015	20,000,000	20,000,000
Rule of Law Stabilization - Informal Component	USAID	7/16/2014	3/13/2014	15,651,679	15,080,799

Source: USAID, response to SIGAR data call, 9/30/2014. SIGAR analysis of State responses to data call, 5/27/14, 6/3/14, 6/5/14, 7/16/2014, and 10/20/2014.

of Law Stabilization Formal and Informal Components (RLS-F and RLS-I), the State Department JSSP, and the State Department Justice Training Transition Program (JTTP). These and other rule-of-law and anticorruption programs are shown in Table 3.22.

The RLS-F program, designed to increase public confidence in Afghanistan's justice sector and support the improved performance and accountability of governance, concluded during the quarter. According to the program's final report, RLS-F successfully partnered with the Supreme Court, the MOJ, and the Ministry of Higher Education to achieve sustainable reforms in the formal justice sector in Afghanistan.⁶⁰³

RLS-F noted, however, that there is a lack of willingness among Afghan counterpart institutions to support and adopt reforms. According to RLS-F, leadership at Afghan counterpart institutions continues to demonstrate a lack of commitment to justice-sector reforms by delaying approval of tools and technologies recommended by RLS-F. This, RLS-F argues, indicates reluctance by Afghan government counterparts to embrace new processes and procedures that increase the efficiency, transparency, accountability, and fairness in the justice sector. In addition, counterpart institutions have failed in some instances to demonstrate a willingness to assume responsibility for training initiatives without technical and financial support from donors.⁶⁰⁴

RLS-F employed a cost-sharing process to encourage counterpart investment in the program. RLS-F noted that in the past, Afghan counterparts lacked the ability and/or willingness to assume meaningful responsibility (financial or otherwise) for implementing USAID-supported programs. To address this challenge, RLS-Formal shifted some of the burden of program support to the counterparts. Cost-sharing policies were put into place with the Supreme Court, the Afghan Women Judges Association, and the universities which operate under the Ministry of Higher Education. These policies specified the type of support required from counterparts as a condition to receiving specified assistance from RLS-F. For example, RLS-F provided an honorarium to instructors at the Judicial Stage program, the mandatory induction training program for judges. RLS-F required the Supreme Court to

pay all of the salaries for the Judicial Stage staff. According to RLS-F, in the past donors provided salary supplements to the Judicial Stage staff, including the director, as well as instructor honorariums.⁶⁰⁵

USAID recently concluded a \$1 million grant with Integrity Watch Afghanistan (IAW) in which volunteer community monitors oversaw infrastructure projects.⁶⁰⁶ According to IAW, 158 projects in the provinces of Badakhshan, Balkh, Herat, Nangarhar, Parwan, and Panjshir were completed under the supervision of community-based monitors and 438 community representatives received trainings in community-based monitoring procedures. In some cases, donors failed to provide IAW with project documents, thereby undercutting IAW-sponsored community oversight initiatives.⁶⁰⁷

USAID's Afghan Civil Engagement Program (ACEP) recently provided several small sub-grants to Afghan civil society organizations to monitor Afghan government activities, conduct research, and report on government reform commitments.⁶⁰⁸

USAID is currently designing a stand-alone anticorruption program for Afghanistan. According to USAID, the program will strive to increase transparency and accountability within Afghan government institutions, while also increasing civil society and private sector capabilities to monitor, research, and advocate for anticorruption-related matters.⁶⁰⁹

Last quarter, USAID issued a performance evaluation of the third and final phase of RLS-I that ran from July 2012 to March 2014. The review focused on three RLS-I objectives: to strengthen and improve traditional dispute-resolution mechanisms, strengthen linkages between formal and informal justice sectors, and facilitate cooperation to address longstanding, intractable disputes.⁶¹⁰ The evaluation found that few cases were referred from the informal justice sector to the formal justice sector, while case referrals from the formal to informal sector were common throughout target provinces.

Traditional decision makers had a generally low opinion of formal justice institutions, while formal-justice actors had respect for informal institutions. Respondents including traditional dispute-resolution practitioners and formal justice-sector actors generally preferred the informal over the formal justice system.⁶¹¹ The evaluation concluded that the relationship between the formal and informal systems is largely one-way, with the formal system referring cases to the informal system, but the latter not reciprocating.⁶¹² According to USAID, this finding is consistent with common knowledge that the formal justice sector does not have the geographic reach necessary for adequate access to justice for all citizens.⁶¹³

The State Department's JSSP objectives include developing a case-management system (CMS) to track cases throughout Afghanistan's justice system and building the capacity and administrative skills of ministry officials.⁶¹⁴

SIGAR AUDIT

SIGAR has an ongoing audit of U.S. government efforts to assist and improve the rule of law in Afghanistan. SIGAR plans to (1) identify U.S. government programs or initiatives to develop rule of law in Afghanistan; (2) assess the progress that these programs or initiatives have made; (3) identify challenges, if any, that the U.S. government has encountered in achieving its rule of law objectives and the extent to which it has addressed these challenges.

JSSP provided technical support to the AGO, MOJ, Ministry of Women's Affairs (MOWA), and the Supreme Court. Overall, JSSP reports increasing capacity in human resources, budgeting, and procurement but notes in several instances the continuing need for JSSP assistance. For example, JSSP advisors noted that the AGO's Elimination of Violence Against Women (EVAW) Unit was not using computers donated two years ago because they were nonfunctional. JSSP advisors refurbished the computers and installed updated software. According to JSSP, the EVAW Unit is now using the computers with JSSP continuing to provide support.⁶¹⁵ JSSP also helped the MOJ Human Resources Directorate prepare proposals for funding through the World Bank's Capacity Building for Results (CBR) program. CBR aims to provide training capacity and transition away from external donor training programs, such as JSSP.⁶¹⁶

The State Department's JTTP provides regional training to justice-sector officials, including police, prosecutors, judges, and defense attorneys, on a wide range of criminal justice topics, including anticorruption. JTTP also provides mentoring on specific cases and legal issues to justice-sector officials, including prosecutors and judges. In the last quarter, JTTP delivered 50 training courses for 1,091 participants in 19 provinces.⁶¹⁷

The Supreme Court and the Formal Justice Sector

On September 22, then-President-Elect Ghani pledged to appoint a woman to the Supreme Court.⁶¹⁸

During his inauguration speech, Ghani made reference to corruption in the judicial branch and requested the Supreme Court to review all its employees for corruption. The Supreme Court issued a statement rejecting Ghani's claims and argued that he is misinformed regarding corruption in the judiciary.⁶¹⁹ The newly appointed special representative to the president in the national-unity government, Ahmad Zia Massoud, reiterated Ghani's concerns and called for "substantial reforms in all aspects, especially in the judiciary and legal organs."⁶²⁰

Afghan Correctional System

According to State, the inmate population of Afghanistan's prisons managed by the General Directorate of Prisons and Detention Centers (GDPDC) has continued to increase at a rate of 16.4% annually over the past five years. As of August 20, the GDPDC incarcerated 26,816 individuals.⁶²¹ As of July 20, the Ministry of Justice's Juvenile Rehabilitation Directorate (JRD) incarcerated 909 juveniles.⁶²² These incarceration totals do not include detainees held by any other Afghan governmental organization, as State's Bureau of International Narcotics and Law Enforcement Affairs (INL) does not have access to data for other organizations.⁶²³

Overcrowding is a persistent, substantial, and widespread problem within GDPDC facilities, although reduced by new prison beds added

through State-funded prison construction and by significant reductions in prison population due to presidential amnesty decrees. As of August 20, 2014, the total male provincial-prison population was at 266% of capacity, as defined by International Committee of the Red Cross's (ICRC) minimum 3.4 square meters per inmate. The total female provincial-prison population was at 121% of the ICRC-recommended capacity. Information on the capacity of GDPDC-operated district detention centers and the JRD's juvenile rehabilitation centers is not available. However, anecdotal reporting by INL advisors visiting facilities indicates that overcrowding is a substantial problem in many provinces.⁶²⁴

SIGAR INSPECTION

SIGAR issued an inspection report of the Pol-i-Charkhi prison renovations funded by INL. SIGAR found that although INL paid approximately 92% of the contract's value to the contractor, only about 50% of the required work was completed. For more information, see Section 2, page 36.

According to State, INL has significantly scaled down plans for new prison construction in order to focus on the Afghan government's ability to sustain the infrastructure investments INL has already made. However, INL is committed to completing major renovations at Pol-i-Charkhi prison and to constructing a waste-water treatment system there. INL will also continue to support the Afghan government in the near term with small-scale infrastructure projects where critically needed to address major issues such as overcrowding.⁶²⁵

The Criminal Procedure Code (CPC) passed in February 2014⁶²⁶ gives convicts the option to request alternatives to incarceration from the MOJ. According to JSSP, the MOJ anticipates a large number of requests, but is concerned that no mechanism is in place to supervise performance of community-service organizations involved in alternatives to incarceration. The MOJ intends to deny requests for alternatives to incarceration until regulation is enacted to supervise these community-service organizations. JSSP and the MOJ will consult with other government institutions to explore the possibility of convening a working group to draft regulation as quickly as possible to protect convicts' rights and relieve prison overcrowding.⁶²⁷

There were reports of prisoners in Ghazni, Herat, and Jawzjan Provinces participating in hunger strikes. The prisoners in Ghazni were protesting corruption in judicial offices and the slow progress in their cases, while the prisoners in Jawzjan protested their continued incarceration following a presidential order releasing 90 out of 800 prisoners at the facility. In Herat, prisoners were reportedly protesting against being excluded from presidential decrees that reduced sentences.⁶²⁸

Anticorruption

Afghan anticorruption efforts showed no significant progress for the majority of the quarter until the inauguration of President Ghani. On October 1, President Ghani issued a decree ordering the Supreme Court to pursue the Kabul Bank case and the AGO to assist the courts and prosecute all those criminal associates and individuals who were involved in the Kabul Bank crisis. The AGO was ordered to begin indictments within 15 days of the order.⁶²⁹ It was unclear what effect the Ghani decree would have, as both

the Supreme Court and AGO are independent in their performance per Articles 116 and 134 of the Afghan constitution.⁶³⁰ For more information on the Kabul Bank case, please see page 172 in this report.

According to the Department of Justice (DOJ), by all accounts the Afghan central government is riddled with problems of patronage, nepotism, bribery, embezzlement and misappropriation or other diversions of public and private property, influence peddling, abuse of office, illicit enrichment, laundering of criminal proceeds, concealment of crimes constituting corruption, and obstruction of justice. There is virtually no part of the central government, or the governments in the districts and provinces, that is not affected and weakened by public corruption.⁶³¹

To cite one example, the former mayor of Khowst was arrested eight months after he was sentenced to seven years in jail for corruption that cost the municipality approximately \$226,165. The mayor was reportedly able to remain free despite the conviction due to his personal connections with government authorities.⁶³²

Afghan Attorney General's Office

According to State, there were no significant changes in the technical capacity or effectiveness of the AGO. The AGO declined offers from DOJ to train AGO prosecutors in the Anticorruption Unit (ACU) in novel investigative methods.⁶³³ According to DOJ, the primary challenge to Afghan government anticorruption efforts is the unwillingness of the AGO to pursue complex corruption cases.⁶³⁴

At a meeting to discuss reforms of the AGO, President Ghani was quoted saying that Afghanistan “should have an AGO the people trust in” and said that reforming the AGO is a matter of Afghanistan’s survival.⁶³⁵ The AGO also lost its power to monitor government entities and the private sector following a cabinet decision in mid-October that such powers conflicted with the law.⁶³⁶

According to State, ACU of the AGO is able to prosecute lower-level corruption cases, but faces obstacles prosecuting higher-level corruption. The ACU has been unreceptive to State and DOJ engagement, and suffers from low morale. The ACU has little technical capacity and has demonstrated little interest in developing the techniques to effectively pursue more sophisticated corruption cases. However, it is capable of prosecuting simple cases of graft. The U.S. Embassy Kabul’s Office of the Justice Attaché has refocused their assistance on the Internal Control and Monitoring Unit and Financial Dispute Resolution Committee where there is greater receptivity.⁶³⁷

The Major Crimes Task Force (MCTF) is the investigatory arm for the AGO internal-control and monitoring unit.⁶³⁸ According to State, the MCTF continues to be an increasingly capable investigatory force, but is stymied by the AGO’s refusal to pursue corruption cases. Following the presidential elections, State plans to assess whether the new government has sufficient

political will for an effective MCTF. State will examine Afghanistan's anti-corruption initiatives to determine whether Afghanistan enacts financial regulation legislation; whether it brings corruption charges against higher-status/rank defendants; whether MCTF's resource needs have changed; and how the MOI, AGO, and other Afghan agencies incorporate, or ignore, MCTF's role in their anticorruption efforts.⁶³⁹

According to State, three programs have provided assistance to the AGO: the National Justice Sector Strategy (NJSS), Supporting Access to Justice in Afghanistan (SAJA), and JSSP. NJSS, which ran from January 2011 to September 2014, included a specialized component to establish six provincial EAW units within the AGO for training, mentoring, and public information activities. INL spent approximately \$2.7 million on this initiative.⁶⁴⁰ SAJA, which is expected to run from September 2014 to March 2017, expands support to 11 newly established EAW units, bringing the total number of units supported to 19. SAJA will integrate the legal trainings and related standard operating procedures into the AGO structure by the end of the program. INL plans to spend approximately \$6 million on this component over the program's life. JSSP aims to improve the transparency and functionality of the AGO. JSSP assists the AGO on their internal strategic planning processes, budgeting processes, procurement processes, and ethics through mentoring, training, and material support.⁶⁴¹

Independent Joint Anti-Corruption Monitoring and Evaluation Committee (MEC)

According to State, the Independent Joint Anti-Corruption Monitoring and Evaluation Committee (MEC) continues to demonstrate competent administrative and technical capacity. State notes, however, that the MEC lacks the authority to do more than illuminate poor or corrupt practices.⁶⁴²

During the quarter, the MEC issued reports on Da Afghanistan Breshna Sherkat (DABS) and Kabul Bank. These two reports are covered in the Economic and Social Development Section, pages 167 and 173 respectively.

High Office of Oversight and Anticorruption

State and USAID have reported previously that the High Office of Oversight and Anticorruption (HOO) is dysfunctional, ineffective, and politicized.⁶⁴³ Neither State nor DOJ engaged with the HOO during this quarter.⁶⁴⁴

Security Services

According to DOD, the MOD and MOI both lack the will to pursue transparency and oversight with the result that accountability is nonexistent within both institutions.⁶⁴⁵

The Combined Joint Interagency Task Force-Afghanistan (CJIATF-A), the lead ISAF element for counter- and anticorruption efforts, is scheduled to terminate on October 31, 2014. Portions of CJIATF-A may transfer

to U.S. Embassy Kabul or be transferred out of Afghanistan in order to remain under the maximum number of U.S. military personnel allowed in Afghanistan.⁶⁴⁶

Ministry of Defense

According to DOD, the MOD has made little progress in the last quarter with respect to effective transparency and accountability policies and processes. Whilst transparency, accountability, and oversight processes exist, they are not enforced due to the substantial level of corruption within the senior leadership of the MOD.⁶⁴⁷

The MOD Inspector General (IG) is relatively well resourced, with appropriately trained personnel. However, the MOD IG is primarily focused upon protecting members of his political network and obstructs investigations into allegations of criminal behavior by its senior members.⁶⁴⁸

The General Staff (GS) IG organization is appropriately staffed, and some improvements to the structure and training of the GS IG are being planned in order to improve future effectiveness. The GS IG is considered to be relatively effective at discovering and reporting corruption issues, but MOD leadership obstructs any meaningful attempt by the GS IG to combat corruption. According to DOD, GS IG has conducted many special corruption investigations in various Kabul-based units and follows an annual inspection plan for inspections of the Afghan National Army (ANA) Corps. But when the investigations discover criminal evidence and are turned over to MOD Legal for prosecution as a criminal case, MOD leadership obstructs the prosecution.⁶⁴⁹

Although each of the six ANA corps has members assigned to the Transparency and Accountability Committees (TACs), all TAC members are members of corps staff (chaired by the deputy corps commander), and never report any information critical of the corps commander. Because of this lack of independence of the TACs, the GS IG assesses the concept of the TACs to be currently ineffective.⁶⁵⁰

Ministry of Interior

According to DOD, MOI anticorruption initiatives are insufficient to address corruption within the MOI. The minister of interior has indicated his support for anticorruption work, but it is generally thought that limited progress will be made as long as the current MOI IG remains in place. The crucial stumbling block remains the lack of enforcement and proportional punishment issued to violators, both large and small, a lack of moral will in the senior leadership, and a governmental system rife with cronyism and patronage alliances developed over many years.⁶⁵¹

HUMAN RIGHTS

Refugees and Internal Displacement

According to State, there have been no large increases or decreases in refugee movements and no new developments affecting Afghan refugees in Pakistan or Iran during this quarter. The UN High Commission for Refugees (UNHCR) recorded 2,728 Afghan refugees returning in July and August compared to 6,881 returning in the previous quarter. In the first eight months of 2014, returns totaled 11,949 individuals, which is 61% lower than the 30,666 returns during the same period in 2013.⁶⁵²

As of August 31, UNHCR recorded a total of 721,771 registered conflict-affected Internally Displaced Persons (IDPs), compared to 672,736 as of June 12. According to State, the actual number of internally displaced could be much higher and is difficult to verify. UNHCR reported the top 10 provinces of destination for IDPs were Faryab, Helmand, Kandahar, Farah, Nangarhar, Kunar, Parwan, Kapisa, Wardak, and Badghis. The provinces of origin were the same as those of destination. Most of displaced left insecure rural areas and small towns to seek the relative safety and government services in larger towns and cities of the same province.⁶⁵³

In February, the Afghan government launched a national policy on internal displacement. It set forth the roles and responsibilities of various Afghan government ministries and agencies and their development and humanitarian partners. According to State, implementing this policy will require developing substantial capacity that does not currently exist within the Afghan government, along with changes in land-tenure laws and regulations.⁶⁵⁴

According to State, the Ministry of Refugees and Repatriation (MORR) will be seriously challenged to show the necessary leadership and management qualities required to implement the new policy as the lead ministry. MORR has been a weak ministry since its inception and has never demonstrated the level of leadership required for effective and consistent action on refugee returnee issues even though it was created to serve as lead coordinator on refugee issues for cabinet-level agencies. The effectiveness of provincial-level MORR authorities has varied over the years, but some may be stronger performers as the IDP strategy moves to implementation at local levels.⁶⁵⁵

The Afghanistan National Disaster Management Authority's current ability to implement new IDP policy and respond to emergencies is mixed, with reports of improving performance in a number of locations, according to State. Similarly, the capacity of local and municipal authorities to implement the new IDP policy and respond to emergencies varies greatly. International organizations, bilateral donors, and NGOs worked hard to build the capacity of local government authorities. There are reports that subprovincial local governments in Nangarhar and Sar-e Pul Provinces

are becoming more proactive in addressing local needs, but even with increased skills and training, the provincial branches of several key ministries often lack cash and have problems paying salaries.⁶⁵⁶

Afghanistan Independent Human Rights Commission

According to State, the Afghanistan Independent Human Rights Commission (AIHRC) continues to make significant progress in increasing awareness about human-rights issues, documenting the current human-rights situation, speaking out about abuses, and monitoring the election process.⁶⁵⁷

This quarter, the AIHRC issued a report on causes and negative consequences of *bacha bazi*, a practice in which young boys are used as sex slaves. According to AIHRC, *bacha bazi* is not clearly defined in Afghan law; however, the practice violates international conventions, is a form of human trafficking, and therefore is a criminal and human-rights violation. The AIHRC attributes the spread of *bacha bazi* to the absence of rule of law, corruption, ambiguity and gaps in the law, limited access to justice, poverty, insecurity, and the existence of armed groups. The AIHRC recommended that the Afghan government modify the penal code to clearly declare *bacha bazi* illegal.⁶⁵⁸ According to State, contacts at the AIHRC have indicated that public reaction to the report has been largely positive and that religious leaders have begun to paint the practice as anti-Islamic.⁶⁵⁹

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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

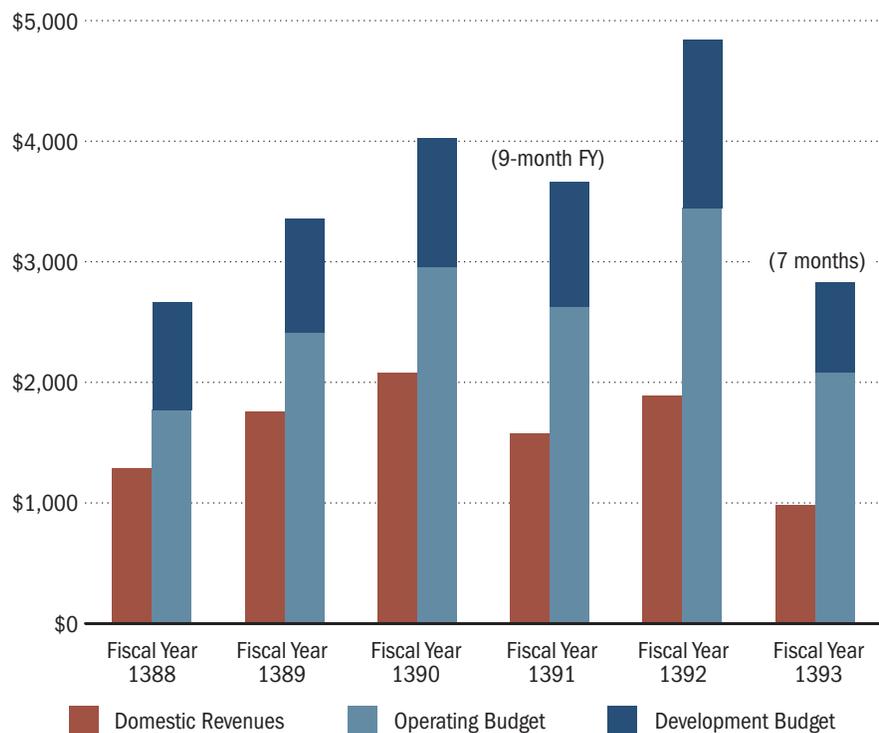
The World Bank estimated a budgetary shortfall of around \$500 million in FY 1393 (December 21, 2013–December 20, 2014), and reported that Afghanistan is headed for a fiscal crisis. Government cash balances are low and it is behind in operations and maintenance as well as discretionary development spending.⁶⁷³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

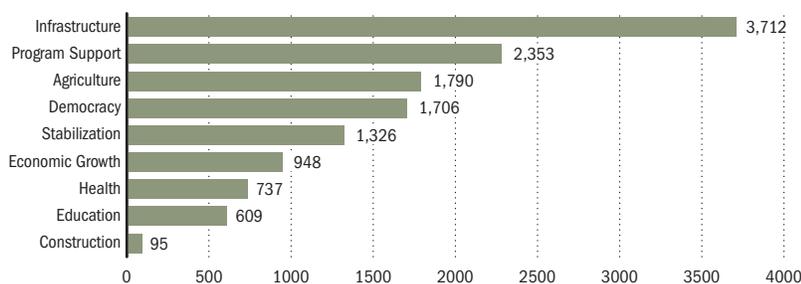
The U.S.-Afghanistan Strategic Partnership Agreement and the Civil-Military Strategic Framework are the most recent guiding documents for U.S. assistance in Afghanistan. Additionally, the annual Mission Resource Request and operational plans provide a basic framework and prioritization for U.S. assistance 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 Shaida (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

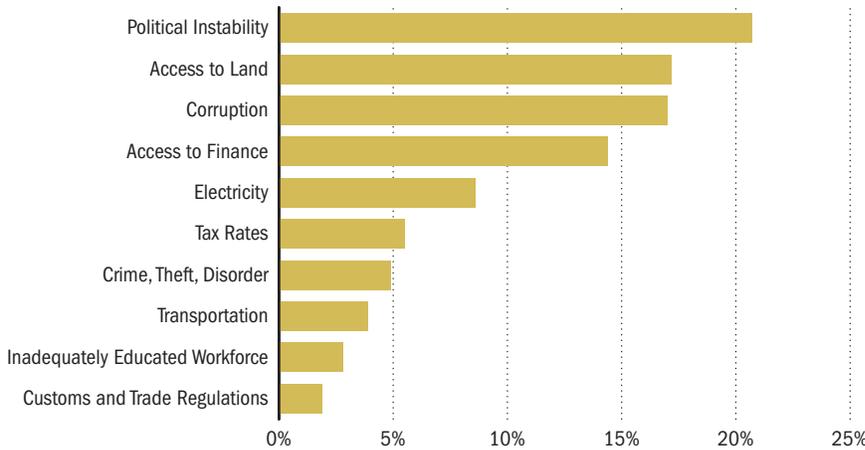
PRIVATE-SECTOR DEVELOPMENT

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-comingled 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.

