

ECONOMIC CONTENTS

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ECONOMIC AND SOCIAL DEVELOPMENT

As of December 31, 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 3.17. Of the \$23.2 billion appropriated for these funds, approximately \$20.3 billion had been obligated and \$15.7 billion disbursed. These development funds all decreased for fiscal year (FY) 2014. The largest account—the Economic Support Fund (ESF)—went from a high of about \$3.35 billion in fiscal year (FY) 2010 to \$852 million in FY 2014.

Despite the requirement of Public Law 110-181 that federal agencies provide requested information or assistance to SIGAR, the State Department did not answer any of SIGAR's questions on economic and social-development this quarter, and failed to respond to SIGAR's attempts to follow up.

TABLE 3.17

CUMULATIVE APPROPRIATIONS FOR AFGHANISTAN DEVELOPMENT, AS OF DECEMBER 31, 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

The Afghan government reported in December 2014 that the country is in “a fiscal and confidence crisis” with “severe” economic impacts on revenues and growth.⁴⁶⁷ Economic growth continued to slow this quarter, largely as a result of the prolonged political transition, persistent insurgency, and the drawdown of U.S. and Coalition forces.⁴⁶⁸ This quarter saw several other developments in the Afghan economy:

- Afghanistan's fiscal gap widened. Domestic revenues in Afghan FY 1393 (December 21, 2013–December 20, 2014) were 26% lower than Ministry of Finance (MOF) budget targets, and 7.6% lower than in the same period in FY 1392. Expenditures continued to far outpace revenues, and donor grants are not enough to close the fiscal gap.⁴⁶⁹

- Afghan and international donor-country officials met in London on December 4, 2014, to reaffirm their collective Tokyo Mutual Accountability Framework commitments over the next decade (2015–2024). The Afghan government will continue its reform efforts and donor assistance will be better aligned with Afghan priorities, with an increasing amount provided on-budget.⁴⁷⁰
- Afghanistan began FY 1394 without an approved budget.⁴⁷¹ Acting Minister of Finance Omar Zakhilwal presented an \$8 billion, FY 1394 national budget to the *Meshrano Jirga* (upper house of parliament) in November.⁴⁷² The upper house took no action before sending it to the lower house, where it was promptly rejected.⁴⁷³
- The World Bank released its *Doing Business 2015* report this quarter, ranking Afghanistan 183rd out of 189 countries for an environment conducive to starting and operating a local business. Afghanistan ranked 164th (of 189) in 2014 and 168th (of 185) in 2013.⁴⁷⁴
- Afghanistan’s appellate and supreme courts upheld the convictions of 12 people involved in the 2010 Kabul Bank theft, including the two main architects of the fraud. Longer jail sentences were levied, fines were increased, the assets of an additional 19 individuals and companies were ordered frozen, and 16 more people were identified for investigation. No meaningful cash was recovered this quarter.⁴⁷⁵
- The Defense Department’s Task Force for Business and Stability Operations (TFBSO) and the Commerce Department’s Afghanistan Investment and Reconstruction Task Force authorizations ended and their operations ceased.⁴⁷⁶

“Afghanistan is facing an economic crisis with the transition taking a heavier than expected toll on the economy and the pace of reforms. Private sector confidence has slumped and a fiscal crisis is under way, with the government failing to mobilize adequate revenue to meet its financing priorities.”

ECONOMIC PROFILE

Afghanistan’s real growth in gross domestic product (GDP), 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 political and security uncertainties. This has led to a slump in investor and consumer confidence, which is expected to continue through at least the first half of 2015. With foreign direct investment already in decline, continued insecurity, instability, and systemic corruption will further negatively affect private investment and dampen growth.⁴⁷⁷

All main sectors of the licit economy slowed in 2014, including the services sector, which accounts for about half of GDP; non-poppy agriculture, which typically accounts for about a third of GDP depending on output; and manufacturing and industries, which comprise most of the rest.⁴⁷⁸

Afghanistan’s Fiscal Crisis

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

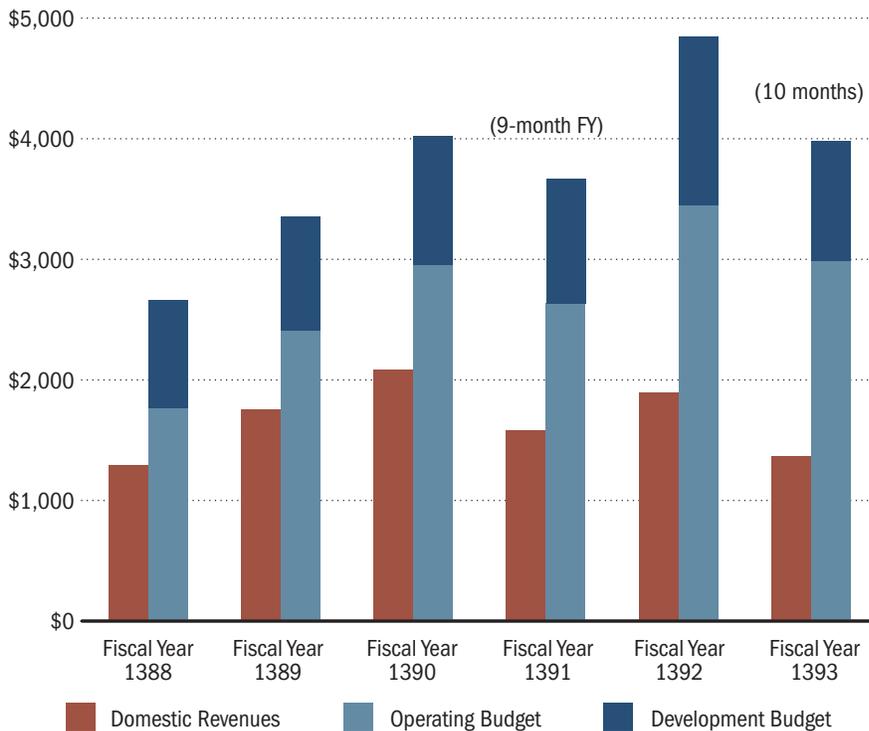
Source: Islamic Republic of Afghanistan, *Realizing Self-Reliance: Commitments to Reforms and Renewed Partnership*, 12/2014.

International Monetary Fund (IMF).⁴⁷⁹ This quarter, revenue collection continued to decline against budget projections. In the first 10 months of FY 1393 (2014), total domestic revenues—tax and non-tax revenues, and customs duties—missed MOF targets by \$450 million (-26%) so far, and decreased by approximately \$112 million from the same period in FY 1392 (-7.6%).⁴⁸⁰

Afghan government expenditures in the first 10 months of FY 1393 (2014) increased 11%, from the same period in FY 1392.⁴⁸¹ Expenditures are expected to continue rising—to 30.5% of GDP in FY 1395 (2016) versus 27.3% in FY 1393 (2014), according to World Bank projections—largely due to increased spending on security, service delivery, building essential infrastructure, and operations and maintenance (O&M). The World Bank

FIGURE 3.29

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



Note: Until recently, Afghan fiscal years ran approximately March 20 to March 20 of Gregorian calendar years. FY 1388 corresponds to March 20, 2009, to March 20, 2010, and so on. Nine-month data for fiscal year 1391 reflect a change in the timing of the Afghan fiscal year. Afghan fiscal years now run December 21 through December 20. FY 1393 represents the first ten 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; MOF, "FY 1393 Monthly Fiscal Bulletin, Month 10," 12/8/2014; Da Afghanistan Bank, "Daily Exchange Rates of Selected Currencies to Afghani," 2/14/2014; Da Afghanistan Bank, "Daily Exchange Rates of Selected Currencies to Afghani," 11/10/2014.

Opium production is not calculated in official GDP figures, although it figures prominently in the economy. Farm-gate value of the opium economy is estimated at 3.3% of GDP by the World Bank and 4% by the UN Office on Drugs and Crime (\$853 million). Higher-priced opium exports are calculated at 7-8% of GDP by the World Bank and 15% by the UN.

Source: World Bank, *Islamic State of Afghanistan, Pathways to Inclusive Growth*, Report No: ACS8228, 3/2014, pp. 4, 27. UNODC, *Afghanistan Opium Survey 2014*, 11/2014, pp. 6, 46; UNODC, *Afghanistan Drug Report 2013*, 12/2014, p. 10.

estimated an overall budgetary shortfall of around \$500 million in FY 1393, and reported that Afghanistan is headed for a fiscal crisis.⁴⁸²

In the medium term, the IMF projected Afghanistan’s financing gap, comprising on- and off-budget needs, to average \$7.7 billion (33% of GDP) annually through 2018.⁴⁸³ This will limit Afghanistan’s ability to pay for discretionary services without significant donor support and improved revenue mobilization.⁴⁸⁴ The fiscal gap is large and growing, as depicted in Figure 3.29 on the previous page. Donor assistance narrows this gap, but does not close it.

“Despite significant improvements in recent years, revenue data is still considered unreliable. ... Afghanistan’s fiscal transparency would be enhanced if the supreme audit institution were to audit the budget, including all line ministries.”

Source: State, 2014 Fiscal Transparency Report, 1/14/2015.

Urgent Donor Funds to Fill the FY 1393 (2014) Fiscal Gap

This quarter, the United States provided \$100 million—\$75 million unconditionally—in previously committed funds to the Afghan government in response to a \$537 million request to address Afghanistan’s FY 1393 lingering budget shortfall. Afghanistan said that without it the government might not be able to provide essential services and pay civil-servant salaries.⁴⁸⁵ A U.S. decision to release an additional \$25 million was to be conditioned on the way the first \$75 million was spent,⁴⁸⁶ on passage of a realistic budget, upon formal establishment of an IMF Staff Monitoring Program (see “IMF Assistance Program Ended” in this section for more information), and access for key U.S. Embassy Kabul staff to the Afghanistan Financial Management Information System (AFMIS), the country’s government-wide accounting system.⁴⁸⁷

State did not respond to SIGAR’s official data-call request for information this quarter, but SIGAR has been informed that the additional \$25 million has already been disbursed despite Acting Minister Zakhilwal’s giving only a vague explanation that the \$75 million was spent “addressing urgent needs including payment of civil servant salaries and [ensuring] the continued delivery of key public services like education and health;”⁴⁸⁸ despite the lack of parliamentary approval of the FY 1394 budget; and notwithstanding the absence of an IMF Staff Monitoring Program. However, a State official said the Afghan government had committed in writing to giving embassy staff access to AFMIS, although remote access had yet to be worked out, as of January 12, 2015.⁴⁸⁹

Last quarter, SIGAR reported it believes that U.S. government agencies should press the MOF for complete access to AFMIS. Without it, 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 information on which to base its response.⁴⁹⁰ For example, when asked what the U.S. government determined Afghanistan’s budget gap to actually be and how that figure was determined, USAID said the decision was based on the World Bank and IMF’s publicly reported figures of \$400–600 million.⁴⁹¹

U.S. funds were disbursed through the World Bank-administered Afghanistan Reconstruction Trust Fund (ARTF) recurrent-cost window.⁴⁹² The United Kingdom contributed \$25 million; Australia, \$17.5 million; Canada was preparing \$10 million; and Norway was expected to commit an undisclosed sum. These funds were not, as of yet, enough to bridge Afghanistan's budget shortfall.⁴⁹³

Status of the FY 1394 Budget

Afghanistan began FY 1394 (December 21, 2014–December 20, 2015) without an approved budget.⁴⁹⁴ Acting Finance Minister Zakhilwal presented an \$8 billion FY 1394 national budget to the Meshrano Jirga (upper house of parliament) in November,⁴⁹⁵ which took no action before sending the budget to the lower house, where it was promptly rejected.⁴⁹⁶ The proposed budget—7% larger than FY 1393—estimates domestic revenues at \$2.3 billion (a 25% increase over FY 1393 collections),⁴⁹⁷ receipt of \$5.7 billion in donor grants (70% of the total budget), and a budget deficit of approximately \$73 million (1% of the total budget).⁴⁹⁸ A second budget draft was sent to parliament on January 7, 2015, that revised revenue estimates slightly downward to approximately \$2.2 billion.⁴⁹⁹

These estimates are unlikely to materialize given Afghanistan's record of repeatedly missing budget targets. For more information, see pages 148–150 of this section. The World Bank called the proposed budget's revenue projections “ambitious” and stressed the importance of credible projections, “backed by adequate measures.” Even with expenditure restraints and urgent donor financing, the World Bank expects a residual FY 1393 fiscal gap to leave the government in arrears and with depleted cash reserves for FY 1394, requiring even more fiscal resources.⁵⁰⁰

IMF Assistance Program Ended

The IMF's three-year, \$129 million **Extended Credit Facility (ECF)** loan agreement ended in November 2014.⁵⁰¹ Only two disbursements of \$18.2 million were made: one at the initial ECF approval, the other after the first board review in June 2012. No other board reviews occurred, due to missed performance targets, inadequate policy responses to economic shocks, and delays in structural reform.⁵⁰²

Treasury said IMF staff believes the Afghan government must reestablish its credibility before beginning a formal new program that would allow Afghanistan to borrow money, given its poor compliance with the expired ECF.⁵⁰³ Meanwhile, an IMF team met with government officials this quarter to discuss “macroeconomic policies and a structural reform agenda that could form the basis of a possible nine-month Staff Monitored Program”—an informal agreement for IMF staff to monitor economic program implementation.⁵⁰⁴

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

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

Economic Issues Discussed at London Conference

Afghanistan presented its reform agenda at the December 4, 2014, London donor conference, where Afghan and international donor-country officials met to reaffirm their collective Tokyo Mutual Accountability Framework commitments over the next decade (2015–2024). The international community recommitted to providing \$16 billion through 2015 and sustaining support, through 2017, at or near the levels of the past decade. The Afghan government promised to continue reforms. Donors promised that their assistance will be better aligned with Afghan priorities, with an increasing amount provided on-budget.⁵⁰⁵ The conference was not intended to result in new donor pledges of assistance.⁵⁰⁶ No new pledges were made.

Afghanistan acknowledged that, given its reliance on International Security Assistance Force (ISAF) expenditures, the military drawdown and the extended political transition were the biggest drivers of its economic slowdown. Looking forward, the Afghan government pledged to improve security and political stability (key prerequisites for economic development), address the causes of corruption, restore fiscal sustainability, bolster private investment, and create jobs. The government plans to present its full strategy to stabilize sustained government revenue at the Senior Officials Meeting expected to be held later this year.⁵⁰⁷

World Bank Ranking of Afghanistan's Business Regulatory Environment

The World Bank ranks Afghanistan 183rd overall in its annual *Doing Business 2015* review of business regulations for domestic companies in 189 economies. While Afghanistan ranks high in starting a business, it is nearly last in dealing with construction permits, getting electricity, registering property, trading across borders, and enforcing contracts. It is considered the worst country in protecting minority investors, partly a reflection on a country's corporate-governance rules and the weakness of its legal institutions.⁵⁰⁸

Trade

Trade-related taxes represented 45% of Afghanistan's total tax revenues from 2006 to 2013.⁵⁰⁹ Although Afghanistan routinely sustains a large trade deficit, donor aid helps the country maintain a current account balance of 4.1% of GDP.⁵¹⁰ Without it, the IMF estimates Afghanistan would have a current account deficit of 41% of its GDP.⁵¹¹

Afghan government agencies do not have accurate trade data. By one estimate, its data could be off by up to \$1 billion—about 4.8% of the country's GDP.⁵¹² Customs officials in Nangarhar Province and the Spin Boldak District of Kandahar Province reportedly do not know the exact trade figures in their purview,⁵¹³ which could be an indication of corruption. USAID is working with Afghanistan's Customs Department and the Central Statistics Office to

reduce statistical discrepancies by transferring information between the two through an automated data collection and reporting system.⁵¹⁴

The fifth Afghanistan-Pakistan Transit Trade Coordination Authority meeting took place January 1–2, 2015, in Islamabad, to discuss enhanced trade and commercial ties, building upon the Afghanistan-Pakistan Transit Trade Agreement (APTTA).⁵¹⁵ Pakistan presented a draft bilateral preferential-trade agreement, and Afghanistan announced it was establishing two economic zones exclusively for Pakistan.⁵¹⁶ APTTA is important because Pakistan is Afghanistan's largest trading partner and provides Afghanistan access to three Pakistani ports, as well as border access to China and India.⁵¹⁷ APTTA implementation has been contentious since the agreement was signed in 2011. Both countries complain of transit and clearance delays at the border.⁵¹⁸

Afterward, Tajikistani officials joined their Afghan and Pakistani counterparts on January 3, 2015, to discuss enhancing regional economic and commercial cooperation through a trilateral transit trade agreement. A draft agreement will be presented at their next meeting, scheduled for March 2015.⁵¹⁹

Exports

During 2011–2014, Afghanistan exported \$3.1–3.3 billion worth of goods and services annually, not including narcotics, according to IMF estimates.⁵²⁰ The World Bank said Afghanistan exports only a small number of products and has few trade partners,⁵²¹ making it highly dependent on a few commodities for earnings, and consequently more vulnerable to unstable prices and trade shocks.⁵²²

Afghanistan consumes more than it produces and has very few tradable exports, but USAID believes Afghan accession to the World Trade Organization (WTO) may increase Afghanistan's competitive advantage for its main source of exports—agricultural goods, carpets, and marble. USAID said, however, that production-scale limitations and an inability to certify products for international safety and quality constitute competitive disadvantages for Afghanistan's emerging value chains.⁵²³

Imports

The IMF estimates over \$8 billion worth of Afghan imports are paid for by official donor grants. Treasury has projected Afghanistan's real import capacity, without a significant foreign presence driving demand, at less than \$2 billion annually, excluding narcotics revenues. Treasury said that without high levels of external assistance, import levels will decline, but the extent will depend on the demands of the foreign presence, Afghanistan's import needs once foreign-driven demand declines, and the required level of external assistance necessary to sustain healthy economic activity and growth. Reduced imports will not necessarily affect the economy adversely.⁵²⁴

Lost Revenue Collection Opportunities

The MOF recorded \$316 million in customs duties in the first 10 months of FY 1393 compared to \$398 million for the same period in FY 1392.⁵²⁵ USAID said some Afghan customs activities have been curtailed this past year due to funding constraints. For example, X-ray scanners are not functioning and need repair, efforts to standardize the automated customs data system are incomplete, and the Afghanistan National Customs Academy, which trains customs officers, operates only in the morning.⁵²⁶

USAID said the scope of customs revenue lost to corruption is unknown with no reliable estimates. However, some of the likely causes of lost customs revenue are insufficient customs facilities at border crossings, corruption, and failure to value cargo using best practices. USAID also told SIGAR new automated systems are just now in the process of being extended throughout Afghanistan's customs agency. USAID believes high-level government officials can reduce the problem of leakages if they insist on developing, installing, and using the modern automated customs systems as part of a complete reform program.⁵²⁷

Afghanistan Trade and Revenue Project

Project Title	Start Date	End Date	Total Estimated Cost (\$)	Cumulative Disbursement, as of 12/31/2014
Afghanistan Trade and Revenue	11/7/2013	11/6/2017	\$77,754,267	\$16,078,832

Source: USAID, response to SIGAR data call, 1/12/2015.

USAID's top priority for economic growth this quarter is its Afghanistan Trade and Revenue (ATAR) project, a trade-facilitation program designed to (1) improve trade liberalization policies, including support for Afghanistan's accession to the WTO; (2) improve and streamline the government's ability to generate revenue through the modernization of Afghanistan's customs institutions and practices; and (3) facilitate bilateral and multilateral regional trade agreements. This quarter, the UK's Department for International Development, which already was helping Afghanistan introduce a Value-Added Tax (VAT), took the lead from ATAR in this effort.⁵²⁸

World Trade Organization Membership Timeline Revised

Afghanistan's Ministry of Commerce and Industry (MOCI) revised its schedule for acceding to the WTO until mid-2015. It may be pushed back further, given the delays in approving senior government leadership positions. The MOCI was waiting for the Ghani administration to conclude its review of the current accession process and status before getting new directives. Until then, the MOCI is working on legislation and working with the United States Trade Representative on outstanding issues so that they can be addressed quickly.⁵²⁹



With preparatory support from EPAA and ATAR, seven Afghan traders participated in the Central Asian Trade Forum in Kazakhstan. (USAID photo)

The WTO called Afghanistan’s accession application package “stable,” but was waiting for the government to reengage before final consideration. The package may need revisions since the last working-party meeting was in March 2014. The next meeting, and likely the final one, was postponed indefinitely at the behest of the government.⁵³⁰ Afghanistan’s accession has been postponed several times. It was initially on track for accession in 2013.⁵³¹ When that didn’t happen, it was supposed to achieve membership by the end of 2014 under the Tokyo Mutual Accountability Framework.⁵³²

BANKING AND FINANCE

The World Bank and IMF reported that Afghanistan’s banking and financial sector has not recovered from the 2010 Kabul Bank scandal. The sector suffers from inadequate regulation and oversight, limited institutional capacity, undercapitalization, and a lack of consumer confidence.⁵³³ 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**.⁵³⁴ The World Bank reported 2.65 million depositors in the Afghan banking system, but only 100,000 borrowers in a population estimated at 30 million. And though Kabul has roughly 10% of Afghanistan’s population, 80% of all loans are made there.⁵³⁵

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

Hawala: informal system that arranges for the transfer and receipt of funds or equivalent value, and settles 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.

banking governance and operations.”⁵³⁶ Seven of Afghanistan’s 12 banks are considered weak and cumulatively hold 51% of the banking sector’s assets.⁵³⁷

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, all of which “continue to pose serious threats to the security and development of Afghanistan.” 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 weak political will to combat corruption.⁵³⁸ Treasury warned that if Afghanistan fails to 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.⁵³⁹

Financial Action Task Force

At its most recent plenary session in October 2014, the intergovernmental Financial Action Task Force (FATF) chose to keep Afghanistan on its Improving Anti-Money Laundering/Combating the Financing of Terrorism (AML/CFT) Global Compliance document, also known as the “gray list.” FATF did not publicly explain its decision.⁵⁴⁰

Although Treasury helps review and monitor Afghanistan as a participating member of FATF, the department told SIGAR it does not conduct assessments or provide reports to FATF. Nor did it respond to requests for its opinion on whether Afghanistan warranted being downgraded or blacklisted based on its technical merits, and whether Treasury’s previous concerns about Afghanistan’s AML/CFT laws have been resolved. Instead, Treasury said that FATF was satisfied that Afghanistan published its AML/CFT laws and had determined that the CFT regulations largely establish the necessary procedures and legal framework to freeze terrorist assets.⁵⁴¹

Afghanistan had faced a blacklist designation for almost a year, having made insufficient progress on its AML/CFT administration, or passing legislation so close to FATF’s June 2014 plenary session that there was no time to properly evaluate progress.⁵⁴² Afghanistan was downgraded in February 2014 to the “dark-gray” list of jurisdictions making insufficient progress and has maintained a gray designation since. A blacklisting would negatively affect Afghanistan’s relations with the donor community and could lead to further loss of its correspondent banking accounts.⁵⁴³

Court Rulings in the Kabul Bank Case

On November 11, 2014, Afghanistan’s appellate court upheld the convictions of ex-chairman Sher Khan Farnood and ex-CEO Khalilullah Ferozi, as well as 10 lower-level employees, of crimes related to the 2010 Kabul Bank crisis.

TABLE 3.18

KABUL BANK APPELLATE COURT DECISIONS, AS OF NOVEMBER 10, 2014		
Name (Known as)	Offense(s)/Sentence	Restitution Ordered (\$)
Sherkhan (Farnood)	Money laundering, 5 years jail; embezzlement, 10 years jail	\$571,640,946.00
Khalilullah (Ferozi)	Money laundering, 5 years jail; embezzlement, 10 years jail	333,807,873.36
Mohammad Tareq (Miran)	Failure to report a crime, 1 year jail	
Kamal (Kror)	Failure to report a crime, 1 year jail	
Mahbob Shah (Frotan)	Failure to report a crime, 1 year jail	
Zafarullah (Faqiri)	Neglect to inform, 6 months jail; abuse of authority, amnesty	
Sher Aqa (Halim)	Neglect to inform, 6 months jail; abuse of authority, amnesty	
Besmellah	Neglect to inform, 6 months jail; abuse of authority, amnesty	
Mohammad Aref (Salek)	Neglect to inform, 6 months jail; abuse of authority, amnesty	
Mohammad Qasim (Rahim)	None; amnesty	
Mustafa (Masoudi)	Neglect to inform; abuse of authority, amnesty	415
Aminullah (Khair Andesh)	Neglect to inform; time served	

Note: Farnood and Ferozi's restitution orders include interest and fines.

Source: DOJ, response to SIGAR data call, 1/5/2015; DAB, Daily Exchange Rates of Selected Currencies to Afghani, 11/10/2014.

Farnood and Ferozi were sentenced to additional prison terms and issued new restitution orders, while the others received lesser fines and punishments, as shown in Table 3.18. Documentation demonstrates that the court also ordered the assets of 19 individuals and companies frozen pending loan repayment and listed an additional 16 individuals for investigation.⁵⁴⁴

The court's judgment may contain technical deficiencies—it reportedly cites the wrong law—that may render it unenforceable overseas, even though it comports with Afghan law. How aggressively the Attorney General's Office will pursue the judgment remains to be seen. The Attorney General's Office has no meaningful capacity to draft mutual legal-assistance letters on its own, but the U.S. Department of Justice (DOJ) said it will help upon formal request. Technical or legal assistance will not change Afghan senior leadership's lack of political will to actively recover stolen assets from overseas bank accounts, as evidenced by the minimal cash recoveries this quarter.⁵⁴⁵ The cumulative amount reportedly stands at \$178 million versus \$175.2 million in April 2014.⁵⁴⁶ Potential defendants remain free and unindicted, and the Kabul Bank Receiver—who attempts to recover and tender bad loans and assets—was replaced this quarter.⁵⁴⁷

New Kabul Bank Privatization

After years of stalled privatization efforts as well as an order by President Ghani calling for Kabul Bank's privatization, MOF officials are considering consolidating three state-run banks—New Kabul Bank, Pashtani Bank, and

Before its near-collapse in 2010, the Kabul Bank had been Afghanistan's largest private bank, distributing most civil servants' 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.

Milli Bank—into a single entity.⁵⁴⁸ The central bank governor warned that \$100 million in government funds will be required for the integrated bank to operate effectively. All three banks have operating losses. New Kabul Bank has accumulated losses between \$46.8 million and \$50 million, and reportedly owes another \$60 million, an obligation that would pass to any potential buyer.⁵⁴⁹

U.S. ECONOMIC-SUPPORT STRATEGIES

The U.S.-Afghanistan Strategic Partnership Agreement and the Civil-Military Strategic Framework are the most recent guiding documents for U.S. civilian development assistance in Afghanistan. The United States also uses the annual Mission Resource Request and operational plans to provide a basic framework and prioritization for assistance efforts. U.S. Embassy Kabul is developing an integrated country strategy which will help to guide foreign-assistance priorities.⁵⁵⁰ The U.S. government's coordinated plan consists of: the New Silk Road Initiative, USAID's Almaty Consensus, and the USAID/Afghanistan Country Development Cooperation Strategy.⁵⁵¹

USAID and other assistance implementers may also choose to develop their own strategies, according to State.⁵⁵² For instance, DOD said its Commander's Emergency Response Program (CERP) and Afghanistan Infrastructure Fund (AIF) projects are largely determined by ground conditions as assessed by commanders in theater.⁵⁵³ U.S. economic strategies are coordinated at an interagency level through the National Security Council.⁵⁵⁴

U.S. efforts to minimize adverse impacts of the drawdown on Afghanistan's financial stability, government revenue, and economic growth, as well as a strategic focus on sustainable solutions,⁵⁵⁵ have not significantly helped Afghanistan stave off a fiscal crisis or wean its economy off the military presence or donor assistance.⁵⁵⁶

USAID Development Assistance

Most assistance from the Economic Support Fund (ESF) goes toward USAID's development programs. Figure 3.30 shows USAID assistance by sector.

Task Force for Business and Stability Operations, and Afghanistan Investment and Reconstruction Task Force Authorizations End

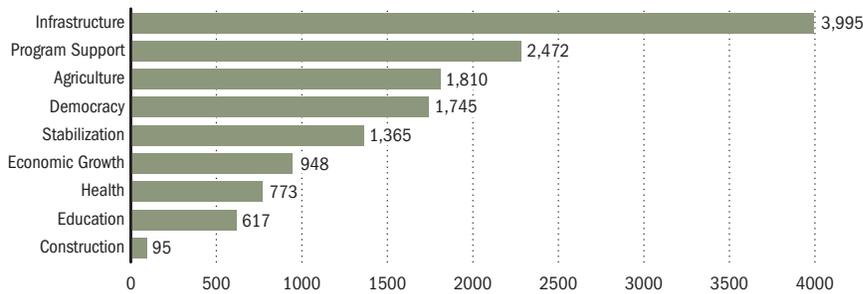
DOD's Task Force for Business and Stability Operations (TFBSO) was established as a means to promote stability by accelerating economic growth. It sought to identify and develop strategic opportunities and enable the expansion of Afghanistan's private sector that would set the conditions for long-term economic growth. TFBSO ended its programmatic operations on December 31, 2014. None of its programs were transferred to other

SIGAR SPECIAL PROJECT

SIGAR is conducting an in-depth review of TFBSO activities. Inquiry and alert letters have already been issued, and interviews conducted. See Section 2, page 45 for more information.

FIGURE 3.30

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



Note: Numbers rounded. Infrastructure programs include power and roads. 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, 1/12/2015.

U.S. agencies, although similar U.S. support programs may exist.⁵⁵⁷ TFBSO appropriations totaled \$815 million, as of December 31, 2014.

The U.S. Department of Commerce’s Afghanistan Investment and Reconstruction Task Force also ceased operations on December 31, 2014.⁵⁵⁸ It aimed to develop Afghanistan’s private sector by improving market conditions conducive to trade and investment, and it offered technical assistance and training to the government and Afghan companies, using FY 2012 USAID funds. Since 2012, it had hosted business matchmaking conferences, helped develop a carpet-export organization, and established Afghan business hubs.⁵⁵⁹

DEVELOPMENT OF NATURAL RESOURCES

The World Bank believes development of Afghanistan’s natural resources can underpin future economic growth in the face of declining external aid, although mining has so far contributed only a small share of the country’s GDP.⁵⁶⁰ But it is uncertain when sector-generated revenues may be realized because of a lack of infrastructure financing as well as weak Afghan progress on regulatory and legislative frameworks.⁵⁶¹ Although the Afghan budget projected annual mining revenues of \$13.2 million, in the first half of FY 1393 (2014), Afghanistan received just \$3.9 million in royalties and fees.⁵⁶²

Impediments to Investment

Afghanistan’s lack of security overshadows all other constraints on investment, according to the World Bank.⁵⁶³ USAID said mining regions are

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.

remote and often located in insecure areas that may be littered with mines and unexploded ordnance. Corruption, an uneducated workforce, lack of labor safety practices, and crude extraction methods are also inhibiting factors.⁵⁶⁴ A detailed discussion of other investment obstacles can be found on pages 175–177 in SIGAR’s October 2014 *Quarterly Report to the United States Congress*.

One issue was partially addressed this quarter. Both houses of parliament passed legislation amending the part of the new minerals law that restricted the right to transfer licenses from one company to another—a standard practice in the mining community. It was waiting to be signed into law, as of January 12, 2015.⁵⁶⁵

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.⁵⁶⁶ This quarter, government officials said 86 security posts have been set up around the mine, which reportedly comes under frequent attack.⁵⁶⁷ There is also no reported change in contract negotiations for the Hajigak iron ore concessions (awarded in November 2011) this quarter.⁵⁶⁸ The World Bank reported hopes are also fading for Aynak and Hajigak-related energy investments.⁵⁶⁹

Status of TFBSO-assisted Tenders

Since 2010, TFBSO provided legal and financial assistance, process expertise, transparency consultancy services, and other support to the MOMP for several hydrocarbon and mineral tenders.⁵⁷⁰ This helped the MOMP evaluate and award bids, and negotiate contracts. Most contracts remained unsigned this quarter for reasons outside the ministry’s control, as shown in Table 3.19.



MIDAS geologist looking at mineral sample in Salang Valley. (USAID photo)

Mining Investment and Development for Afghan Sustainability

This quarter, USAID’s Mining Investment and Development for Afghan Sustainability (MIDAS) program brought parliamentarians and ministry officials to the United States to introduce them to modern mining technology, and to environmental-protection and worker-safety standards. MIDAS advisors helped ministry officials propose regulations in line with the new mineral law, review bids, and respond to contract comments.⁵⁷¹

MIDAS advisors also worked with the Afghan Geological Survey on a multi-month mission to search Salang Valley for tantalum, an element used to make composite material used in electronic capacitors, nuclear reactors, and aircraft and missile parts. The geological survey team produced a topographical map of the area, began predrilling exploration work, and dug trenches to prepare for MIDAS drilling in 2015. Two women—a geologist and an engineer—participated in this field work, the first female participation in over 30 years.⁵⁷²

ECONOMIC AND SOCIAL DEVELOPMENT

TABLE 3.19

TFBSO-ASSISTED TENDERS				
Tender	Type	Date	Description	Status
Angot Oil Field (Kashkari Block of Amu Darya Basin)	Hydrocarbon	December 2010–June 2011	Initial proof of concept to garner attention of international oil and gas investors.	Oil produced, six-month contract expired, allowing next tender to include field.
Amu Darya Oil	Hydrocarbon	Announced March 2011; Contract signed December 2011	Three blocks of basin estimated to contain 87 million barrels of crude oil. Awarded to China National Petroleum Corporation Watan Energy Afghanistan.	Contract is ongoing. Total production: 314,000 barrels; total government revenue: \$5.99 as of 11/2014. Additional 53,000 barrels and \$0.5 million revenue expected in 12/2014.
Afghan-Tajik Phase I	Hydrocarbon	Announced March 2012; Contracts signed October 2013	Six blocks of the Afghan-Tajik Basin tendered. Two received bids; each now under Exploration Production Sharing Contract (EPSC).	Contracts are ongoing and on schedule.
Afghan-Tajik Phase II	Hydrocarbon	Announced January 2014; Awarded March 2014	Remaining four blocks of the Afghan-Tajik Basin tendered. Three received bids; two blocks redrawn into one.	Two EPSCs were initiated by MOMP and preferred bidder; sent to cabinet for approval.
Totimaidan Block of the Amu Darya Basin	Hydrocarbon	Announced January 2014; Awarded September 2014	1 block in Amu Darya Basin.	Negotiations concluded with preferred bidder 10/27/2014. Interministerial Commission (IMC) approved negotiating terms 11/5/2014. Awaiting IMC review and approval of EPSC, then submission to cabinet.
Shaida	Mineral	Awarded in November 2012	Copper	Contract initiated by MOMP and preferred bidder. Awaiting Cabinet approval, but may need another review by MOMP for compliance with new minerals law.
Badakhshan	Mineral	Awarded in November 2012	Gold	Contract initiated by MOMP and preferred bidder. Awaiting Cabinet approval, but may need another review by MOMP for compliance with new minerals law.
Balkhab	Mineral	Awarded in November 2012	Copper	Contract initiated by MOMP and preferred bidder. Awaiting Cabinet approval, but may need another review by MOMP for compliance with new minerals law.
Zarkashan	Mineral	Awarded in December 2012	Gold	Contract initiated by MOMP and preferred bidder. Awaiting Cabinet approval, but may need another review by MOMP for compliance with new minerals law.
Jabul Seraj	Mineral	Awarded in February 2014	Cement	Contract negotiations are ongoing.

Note: 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: TFBSO, response to SIGAR data calls, 7/1/2014, 9/29/2014, and 12/29/2014; MOMP, “Preferred Bidder for Zarkashan Project,” 12/16/2012; MOMP, “10 Reasons to Invest In Afghanistan’s Mining Sector,” accessed 4/2/2014; GIROA, “Contract on Amu Darya Oil Enjoys Highest Degree of Transparency and Fairness: U.S. and UK Ambassadors in Meeting with President Karzai,” 6/23/2012; MOMP, “Request for Expressions of Interest for Pre-Qualification for Participating in the First Afghan Hydrocarbon Bidding Round, 2009” MOMP, “Afghan-Tajik Basin Phase II Tender, Independent Process and Transparency Review, 15 January–31 October 2014, Public Disclosure Report,” 11/15/2014.

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.⁵⁷³

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.⁵⁷⁴ The country imports

10,000 tons of oil products a day from Turkmenistan, Uzbekistan, Russia, Pakistan, and Iran.⁵⁷⁵

“During this period, it has become increasingly clear that members of the MOMP-APA staff do not have the critical thinking skills, financial discernment, or will to administer complex contracts from either technical or a business/managerial perspective.”

Source: USAID, *Sheberghan Gas Generation Activity Monthly Report, November 1–November 30, 2014, 12/7/2014.*

Sheberghan Programs

Sheberghan holds the potential for cheap natural gas and could be competitive with imported power from Uzbekistan, according to the World Bank.⁵⁷⁶ USAID has active programs in the area; TFBSO’s programs ended this quarter.⁵⁷⁷

TFBSO spent \$5 million helping Afghanistan develop a compressed natural gas (CNG) industry by completing and transitioning a CNG station to a private operator, Qashqari Oil and Gas Services, in May 2014. The MOCI issued Qashqari a CNG license in November 2014.⁵⁷⁸

USAID is supporting the Sheberghan project to help Afghanistan identify and manage gas resources to be used for power generation through two mechanisms: (1) the \$90 million, on-budget Sheberghan Gas Development Project (SGDP) to rehabilitate and drill wells in the Amu Darya Basin, and fund a gas-gathering system and gas-processing plant; and (2) the \$35 million, off-budget Sheberghan Gas Generation Activity (SGGA) for capacity building and technical assistance to the MOMP.⁵⁷⁹

This quarter, the drilling contractor, Turkish Petroleum Corporation, informed the MOMP it is behind schedule and would not begin drilling until May 2015—taking almost twice as long as the contract stipulated. No disbursements will be made until drilling begins. SGGA prepared a contract-termination option paper for the Afghanistan Petroleum Authority with a recommendation to terminate, but the Afghan authorities opted to continue with the Turkish contractor.⁵⁸⁰

Pipeline Rehabilitation Project

TFBSO helped 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, and constructed gas processing and compression facilities in Sheberghan. TFBSO said the rehabilitation is 95% complete and the remaining section can be completed by Afghan Gas without its support. The compressor facility is complete, increasing gas supplies by 125% with more available upon demand. An amine plant was successfully precommissioned this quarter. The plant will chemically “sweeten” Afghan natural gas, which is high in hydrogen sulfide and carbon dioxide content. The plant can be fully commissioned when demand increases and an O&M company is brought in to assist. TFBSO disbursed \$33.7 million for these efforts, as of October 9, 2014.⁵⁸¹

SIGAR AUDIT ALERT LETTER

This quarter, SIGAR issued an alert letter to DOD regarding the safety of a natural gas pipeline in northern Afghanistan, which TFBSO helped repair. For more information, see Section 2, page 19.

AGRICULTURE

Agriculture continues to be the main source of employment and subsistence for the Afghan population, accounting for 31% of GDP, according to the

ECONOMIC AND SOCIAL DEVELOPMENT

TABLE 3.20

ACTIVE USAID AGRICULTURE PROGRAMS				
Project Title	Start Date	End Date	Total Estimated Cost (\$)	Cumulative Disbursement, as of 12/31/2014
Incentive Driving Economic Alternatives-North, East, and West (IDEA-NEW)	3/2/2009	2/28/2015	\$159,878,589	\$148,292,490
Improving Livelihoods and Governance Through Natural Resource Management	4/10/2010	12/31/2014	14,000,000	13,295,807
Agriculture Credit Enhancement (ACE)	7/15/2010	2/25/2015	75,175,296	70,801,590
Agriculture Development Fund (ADF)	7/18/2010	12/31/2014	74,407,662	54,000,000
Strengthening Afghanistan Agricultural Faculties (SAAF)	3/25/2011	12/31/2016	7,824,209	6,023,503
Famine Early Warning System Network (FEWSNET) Phase III	12/29/2011	12/28/2016	78,011,630	2,420,553
Regional Agriculture Development Program (RADP)-South	10/7/2013	10/6/2018	125,075,172	16,663,146
Regional Agriculture Development Program (RADP)-North	5/21/2014	5/20/2019	78,429,714	2,208,551
Capacity Building and Change Management Program II	7/10/2014	7/9/2017	19,999,989	1,926,142
Regional Agriculture Development Program (RADP)-West	8/10/2014	8/9/2019	69,973,376	1,031,829
Afghanistan Agriculture Extension Project II (AAEP-II)	10/1/2014	9/30/2017	19,814,702	311,697
Digital Integration to Amplify Agriculture Extension in Afghanistan (DIAAEA)	11/30/2014	11/29/2015	391,000	0

Source: USAID, response to SIGAR data call, 1/12/2015.

World Bank, and provides employment to about 59% of the labor force.⁵⁸² Between FY 2002 and FY 2013, USAID obligated approximately \$1.25 billion for improve agricultural production and increase access to markets, and \$1.38 billion for alternative development to poppy cultivation.⁵⁸³ A discussion of USAID's alternative-development programs is found on pages 111–115 of this quarterly report.

This quarter, USAID reported that it is extending the Agricultural Credit Enhancement (ACE), as well as taking over two U.S. Department of Agriculture efforts—the Afghan Agricultural Extension Program (AAEP) and the Capacity Building and Change Management Program (CBCMP), which aim to build capacity at the Ministry of Agriculture, Irrigation, and Livestock (MAIL).⁵⁸⁴ USAID's active agriculture programs are listed in Table 3.20.

Agricultural Credit Enhancement

ACE supports Afghanistan's Agriculture Development Fund (ADF), which provides credit 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 the technical-assistance component that manages all ADF lending activities and helps build MAIL capacity.⁵⁸⁵

USAID's most recent ACE quarterly report (July–September 2014) said ADF issued \$7.6 million in new loans during that period. Total approved loans are \$101 million, with \$56 million disbursed, and \$31 million repaid. The gap between approvals and disbursements is due to clients requiring multiple smaller disbursements, rather than receiving one lump sum,

bureaucratic delays in registering mortgages, and supply price changes that affect how much money is needed. The overall number of borrowers is substantially below the program's target. ACE initially assumed ADF would operate through a network of banks, but that did not happen. Additionally, the loan vetting process took an average of 11 months in 2014. ADF's portfolio risk is 3.58%, an acceptable rate even in Western financial sectors.⁵⁸⁶

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 energy 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.⁵⁸⁷ 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,⁵⁸⁸ but urban dwellers comprise an estimated 37% of the Afghan population.⁵⁸⁹

From 2002 through 2014, USAID alone obligated approximately \$2.8 billion to build generators, substations, and transmission lines, and provide technical assistance in the sector.⁵⁹⁰ In addition, DOD has provided approximately \$292 million for electricity projects through CERP and roughly \$1.1 billion through the Afghanistan Infrastructure Fund (AIF), which is jointly managed by DOD and State.⁵⁹¹

Afghanistan's two primary power systems are the **Northeast Power System (NEPS)** and the **Southeast Power System (SEPS)**. As shown in Table 3.21, 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, which has capacity-building components to help Afghanistan sustain these investments.⁵⁹²

Kandahar-Helmand Power Project

The Kandahar-Helmand Power Project (KHPP) is intended to increase power supply and reliability in Kandahar and Helmand provinces.⁵⁹³ All components of this project are being closed out, except for a USAID technical support services contract with Black and Veatch to assist Da Afghanistan Breshna Sherkat (DABS), Afghanistan's national utility, with its

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.

Installation and commissioning of Kajaki's third turbine was descoped from KHPP in 2013 and transferred on-budget for DABS to execute. Kajaki Phase 2 began on December 25, 2014, when DABS signed a turbine installation contract with 77 Construction USA Corp.

Source: USAID, response to SIGAR data call, 1/12/2015.

TABLE 3.21

ACTIVE USAID ENERGY INFRASTRUCTURE PROJECTS, AS OF DECEMBER 31, 2014				
Project Title	Start Date	End Date	Total Estimated Cost (\$)	Cumulative Disbursement (\$)
Kandahar Helmand Power Project (off budget)	12/9/2010	11/30/2015	\$226,600,000	\$222,800,000
Sheberghan Gas Generation Activity (off budget)	12/21/2011	3/31/2015	30,440,958	16,697,785
Sheberghan Gas Development Project (on budget)	5/15/2012	4/30/2015	90,000,000	30,000,000
Power Transmission Expansion Connectivity (on budget)	1/1/2013	12/31/2016	340,000,000	11,400,000
Power Transmission Expansion Connectivity (Funds transfer to Afghanistan Infrastructure Trust Fund)	3/7/2013	3/6/2018	105,670,184	N/A
Kandahar Helmand Power Project (on budget)	12/9/2013	2/28/2016	36,000,000	12,500,000
Power Transmission Expansion Connectivity (off budget)	2/1/2014	1/31/2015	1,700,000	443,845

Source: USAID, response to SIGAR data call, 12/28/2014.

efforts to increase long-term sustainable hydropower from Kajaki Dam.⁵⁹⁴ Turbine parts have been sitting uninstalled at Kajaki since 2008 due to security threats.⁵⁹⁵ The deputy governor of Helmand Province reportedly said the government has no control over the district of Kajaki.⁵⁹⁶

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, including funding the transmission line between Kabul and Kandahar to connect NEPS with SEPS.⁵⁹⁷ PTEC's commercialization and capacity-building components aim to reduce technical and commercial losses.⁵⁹⁸ Construction has not yet started on PTEC projects with the exception of preliminary work (contractor mobilization, survey and design, and materials and equipment procurement) on the Arghandi-Ghazni transmission line and substations—the first segment of the NEPS-SEPS connector—which began this quarter.⁵⁹⁹

DOD's Afghanistan Infrastructure Fund Programs

This quarter, DOD continued implementing several priority energy-sector projects to complete its portion of the NEPS and SEPS using FY 2011–FY 2014 AIF money (FY 2015 AIF funds were not requested, nor appropriated), as shown in Table 3.22 on the following page.⁶⁰⁰ Both the Ministry of Energy and Water, and Afghanistan's national utility, DABS, will be responsible for sustaining these projects, including operations and maintenance costs once they are completed and turned over to the government. DOD has notified Congress that increased revenue from an expanded customer base and improved collection capabilities will help DABS provide long-term sustainment.⁶⁰¹ However, SIGAR has raised questions about DABS's

SIGAR AUDIT

A SIGAR audit initiated this quarter focuses on State Department progress in completing FY 2011 Afghanistan Infrastructure Fund projects, the impact it has had on other infrastructure priorities, as well as on planned counterinsurgency objectives, and sustainment challenges. For more information, see Section 2, page 28.

TABLE 3.22

ACTIVE AFGHANISTAN INFRASTRUCTURE FUND PROJECTS, AS OF DECEMBER 31, 2014						
AIF Fiscal Year	AIF Project	Description	Notified Amount (\$ MILLIONS)	Obligated (\$ MILLIONS)	Disbursed (\$ MILLIONS)	Status
FY11	NEPS - SEPS Connector, Arghandi to Ghazni	Supply, install, test and commission transmission line	\$56.7	\$56.7	\$0.0	Transferred to USAID; On schedule
	NEPS - SEPS Connector, Arghandi to Ghazni	Supply, install, test and commission substation	48.0	48.0	0.0	Transferred to USAID; On schedule
	NEPS - Arghandi to Gardez Phase I	Install transmission lines and construct power substations	93.7	51.9	7.6	In Design; Ahead of Schedule (Actual 5% vs. Scheduled 1%)
FY12	SEPS - Kandahar City to Durai Junction Phase 2	Install or repair transmission lines and to repair or construct substations	40.0	29.6	2.5	Design/Mobilization/Demining; On schedule
	NEPS - Arghandi to Gardez Phase 2	Install transmission lines and construct power substations	69.2	67.2	9.5	In Design; On schedule (14% complete)
	NEPS - Charikar to Panjshir Phase 1	Install transmission lines and construct power substations	38.0	37.8	4.3	In Design; On schedule (14% complete)
FY13	NEPS - Charikar to Panjshir Phase 2	Install transmission lines and construct power substations	33.0	25.3	2.9	In Design; On schedule (14% complete)
	SEPS Completion - Phase 1	Construction of substations and rehabilitations of transmission lines in Helmand Province	75.0	70.6	3.3	Design/Mobilization/Demining; On schedule
	NEPS - SEPS Connector, Ghazni to Kandahar	Design and installation of transmission lines and towers; construction of substations. Final Phase of NEPS-SEPS connector.	179.5	0.0	0.0	Transferred to USAID; Request for Proposal preparation
FY14	Kandahar Bridging Solution	Provides fuel for diesel generators in Kandahar City	20.0	8.0	0.0	In Progress
	SEPS Completion - Phase 2	Rehabilitation and construction of transmission lines and substations in Helmand and Kandahar Provinces.	49.0	0.0	0.0	Transferring to USAID; Design; Request for Proposal preparation
	NEPS - Gardez to Khowst	Design and install transmission and distribution lines; construction of substations. DOD's final contribution to NEPS.	130.0	0.0	0.0	Pre-Award

Note: All AIF projects are to be sustained by Afghanistan's Ministry of Energy and Water, and Da Afghanistan Breshna Sherkat (DABS), Afghanistan's national utility. Obligations and disbursements are as of 11/30/2014. All other information is as of 12/31/2014.

Source: DOD, response to SIGAR data call 9/30/2013, 10/7/2014 and 1/2/2015; USAID, response to SIGAR data call, 1/20/2015.

capacity and said Afghanistan lacks the resources necessary to pay for O&M.⁶⁰² The World Bank said DABS's technical and commercial losses remain significant.⁶⁰³

TRANSPORTATION

Afghanistan's lack of transportation infrastructure hinders internal commerce, foreign trade, and economic growth. The World Bank said developing the transportation sector is imperative for economic development.⁶⁰⁴ Afghanistan's transportation infrastructure shortcomings

constrain the service and agriculture sectors, currently the leading contributors to GDP.⁶⁰⁵ They also hold back the mining industry, whose future revenues the Afghan government and international donor community are counting on to offset declining aid.⁶⁰⁶ This quarter, the United States continued its efforts to assist Afghanistan in developing ministry capacity, and sustaining operations and maintenance.⁶⁰⁷

Roads

While the United States has provided \$2.36 billion cumulatively for road construction and O&M, and will spend about \$5 million this year 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.⁶⁰⁸ Afghanistan does not currently have sufficient funding and technical capacity to maintain its roads and highways; where it did have funds, activities have been implemented, albeit inefficiently, according to USAID.⁶⁰⁹ Moreover, the lack of a functioning roads authority has significantly affected road infrastructure across Afghanistan.⁶¹⁰ USAID's active road construction and O&M programs are listed in Table 3.23.

USAID, through its Road Sector Sustainability Project (RSSP), continues to help the Ministry of Public Works strengthen its technical capacity to establish a Road Fund, Road Authority, and Transportation Institute so the ministry can better fund and maintain their roadway infrastructure. RSSP's emergency operations and maintenance activity awarded a contract to four Afghan firms this quarter, with the initial meeting taking place in December 2014.⁶¹¹ For a description of all four RSSP activities, see pages 192–193 in SIGAR's October 2014 *Quarterly Report to the United States Congress*.

TABLE 3.23

ACTIVE USAID ROAD CONSTRUCTION, OPERATIONS AND MAINTENANCE PROGRAMS, AS OF DECEMBER 29, 2014				
Project Title	Start Date	End Date	Total Estimated Cost (\$)	Cumulative Disbursement (\$)
Road Sector Sustainability Project	8/1/2014	8/1/2019	\$103,000,000	\$700,000
Gardez to Khowst Road, Phase IV	6/26/2014	12/25/2015	31,963,736	6,561,385
Salang Corridor Maintenance	3/24/2013	3/30/2016	1,780,100	645,804

Source: USAID, response to SIGAR data call, 12/28/2014; USAID, response to SIGAR vetting, 1/12/2015.

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

According to the most complete data available from the MOE's EMIS, Afghanistan had a total of 13,858 general education (government) schools in 1392 (2013), with 7.98 million students enrolled. Of the enrolled students, 6.26 million were categorized as present, while 1.36 million students were considered absent. EMIS neither tracks open and closed schools at any given time, nor teachers and student attendance. Figures are not independently verified.

Source: MOE, Education Management Information System (EMIS) Generated Report, Summary of Schools and Student By Ownership and Program Year (1392), accessed 1/15/2015; MOE, Education Management Information System (EMIS) Generated Report, Summary of Students Attendance Year 1391, accessed 1/15/2015; USAID, response to SIGAR data call, 9/30/2013; MOE, *Education Joint Sector Review 2012*, 9/2013.

adult literacy, employment skills, and youth development.⁶¹² A full list of USAID's active education programs can be found in Table 3.24.

USAID's priority education programs funded through the ESF this quarter include:⁶¹³

- Basic Education, Learning and Training (BELT)
- BELT Community Based Education (CBE)
- American University of Afghanistan (AUAF)
- Afghanistan University Support and Workforce Development Program (USWDP)
- Education Quality Improvement Project (EQUIP)

USAID said monitoring systems are in place to measure performance, including a Performance Monitoring Plan with indicators and targets for each project. For example, BELT-CBE metrics, and monitoring and evaluation plans are being developed before the program's implementation. AUAF

TABLE 3.24

ACTIVE USAID EDUCATION PROGRAMS				
Project Title	Start Date	End Date	Total Estimated Cost (\$)	Cumulative Disbursement, as of 12/31/2014 (\$)
Afghan Tuition Scholarship Program	8/21/2011	7/31/2017	\$7,384,665	\$6,235,469
Basic Education, Literacy, and Technical-Vocational Education (BELT) Textbooks	11/16/2011	12/31/2014	26,996,813	24,436,268
Global Partnership for Education	10/11/2012	3/31/2015	2,500,000	909,973
Afghanistan Technical Vocational Institute	6/15/2013	6/14/2015	1,000,000	700,000
American University of Afghanistan, Professional Development Institute	8/1/2013	7/31/2018	40,000,000	10,717,446
BELT-Community Based Education (CBE)	10/29/2013	10/28/2017	56,000,000	0
Afghanistan University Support and Workforce Development Program	1/1/2014	12/31/2018	91,927,769	8,295,625
Assessment of Learning Outcomes and Social Effects in Community-Based Education	1/1/2014	12/31/2017	2,799,228	414,494
Strengthening Education in Afghanistan (SEA II)	5/19/2014	5/18/2019	29,835,920	1,442,857
Increasing Access to Basic Education and Gender Equality	9/17/2014	9/16/2019	54,027,000	54,027,000

Source: USAID, response to SIGAR data call, 1/12/2015.

tracks underserved-community outreach; for example, the spring 2014 student body was 31% female.⁶¹⁴

USAID reported that 34 million grade 1–6 textbooks have been printed with U.S. government assistance, benefitting 5.6 million primary school students through its ongoing BELT textbook distribution, which began in November 2011. Additionally, 84,331 teachers were trained through EQUIP, which USAID estimates benefitted 2.6 million primary students based on an approximation of 35 students per class.⁶¹⁵

University Support and Workforce Development Program

The University Support and Workforce Development Program (USWDP) aims to improve the Ministry of Higher Education’s (MOHE) management capacity as well as that of 10 universities. It is helping MOHE ensure quality education and employment opportunities for students. The program’s performance report released this quarter (covering July–September 2014) said that a employment-sector assessment was conducted that will provide direction for bachelor degree programs while connecting them to the job market.⁶¹⁶

The quarterly report also listed several acute challenges for the program: election-related security issues that heightened movement restrictions; dysfunctional MOHE management and operations; and ministerial infighting and bureaucratic obstruction.⁶¹⁷

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.⁶¹⁸ 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.⁶¹⁹

USAID Funding

From FY 2002 through FY 2013, U.S. on- and off-budget assistance to Afghanistan’s health sector totaled \$1.2 billion. From FY 2014 through FY 2018, USAID assistance will total \$383 million.⁶²⁰ 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.⁶²¹

There are 641 health facilities in 13 provinces,⁶²² supported by USAID funding, as of December 31, 2014, as shown in Table 3.25.⁶²³

SIGAR AUDIT

A SIGAR audit initiated this quarter focuses on U.S. efforts to improve access to and the quality of Afghanistan’s primary and secondary education systems. For more information, see Section 2, page 29.

TABLE 3.25

USAID-FUNDED HEALTH FACILITIES, AS OF DECEMBER 31, 2014

Health Facility Type	Number of Active Health Facilities
Basic Health Center	278
Comprehensive Health Center	177
District Hospital	27
Provincial Hospital	5
Sub Health Center	144
Prison Health Center	10

Source: USAID response to SIGAR vetting, 1/12/2015.

USAID Health Programs

USAID's active health programs have a total estimated cost of \$383.6 million, and are listed in Table 3.26.

TABLE 3.26

ACTIVE USAID HEALTH PROGRAMS				
Project Title	Start Date	End Date	Total Estimated Cost (\$)	Cumulative Disbursement, as of 12/31/2014 (\$)
Polio-Eradication Activities	9/30/1996	9/30/2022	\$10,830,615	\$9,265,102
[Name Not Supplied]	9/29/2006	9/29/2015	35,000,000	3,750,000
Partnership Contracts for Health (PCH)	7/20/2008	12/31/2015	259,663,247	194,326,384
Partnership for Supply Chain Management	6/1/2009	9/26/2015	894,402	394,402
Tuberculosis Field Support	9/29/2010	9/28/2015	5,600,000	4,600,000
Deliver	9/30/2010	9/29/2015	13,535,571	11,491,940
Strengthening Pharmaceutical System	8/28/2011	8/27/2015	24,499,936	17,146,374
Health Policy Project (HPP)	9/25/2011	1/31/2015	28,000,000	22,597,226
Improving Nutrition Through Multi-Sectoral Approaches	11/7/2014	12/31/2017	5,610,012	0

Source: USAID, response to SIGAR data call, 1/12/2015; USAID, response to SIGAR vetting, 1/20/2015.

Partnership Contracts for Health Services

The Partnership Contracts for Health (PCH) Services was extended to December 31, 2015.⁶²⁴ The host-country contract PCH program supports the MOPH's efforts to provide the Basic Package of Health Services (BPHS) in 13 provinces and the Essential Package of Hospital Services (EPHS) in five provinces. PCH supports health care at over 6,000 health posts and more than 600 facilities, including hospitals and health centers. It also supports tertiary health-care services at five provincial hospitals and one national hospital. In addition, PCH supports the Community Midwifery Education program, which aims to reduce maternal and child mortality.⁶²⁵

USAID said security remained an obstacle for health-service delivery this quarter. Several health facilities were closed. All PCH provinces have insecure districts that are hard to reach, so PCH monitors its programs in these areas by phone, report reviews, and engaging community leaders to supervise health facilities. In addition, third-party monitoring activities were completed in six provinces, and the MOPH, under PCH, completed an eight-month no-cost extension of all current host-country contracts with NGO implementing partners, covering 18 contracts. This portion of PCH will expire in June 2015.⁶²⁶

Leadership, Management, and Governance Project

The LMG project works with the MOPH and the MOE at the central and provincial levels to build governance capacity, improve accountability, and help manage on-budget assistance within Afghanistan's health and education systems.⁶²⁷

This quarter, USAID said LMG revised the national community-based health strategy, evaluated contract proposals, conducted multiple training workshops for health staff, and held its third national health-research coordination meeting, at which terms of reference were developed, research priorities were discussed, and a research monitoring system was being established.⁶²⁸

LMG is facing funding uncertainties with a slow and complex transition to on-budget assistance, causing frustration and concern within the MOPH and its partners about the sustainability of LMG projects. Additionally, USAID is reporting decreased accountability within the MOPH due to the continuing delay in political leadership appointments.⁶²⁹

