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ECONOMIC AND SOCIAL DEVELOPMENT

As of March 31, 2015, the U.S. government has provided nearly \$31.9 billion to support governance and economic and social development in Afghanistan. Most of these funds were appropriated to USAID's Economic Support Fund (ESF). The Consolidated and Further Continuing Appropriations Act, 2015, provided an additional \$900 million for the ESF, bringing the cumulative total to \$18.6 billion. Of this amount, \$16.3 billion has been obligated and \$13.1 billion has been disbursed. The \$900 million appropriated to the ESF in FY 2015 is an increase from the \$852 million provided in FY 2014, but is a substantial reduction from the high of \$3.3 billion appropriated to the fund for FY 2010.⁶⁸⁵

KEY EVENTS

This quarter saw several developments that could affect Afghanistan's economic and social prospects:

- Secretary of State John Kerry and President Ghani announced a “New Development Partnership”—a five-year plan to promote Afghan self-reliance by using up to \$800 million in U.S. aid to incentivize Afghan solutions to specific development challenges and measure Afghan-led reform and development activities.⁶⁸⁶
- The U.S. Treasury signed an economic-cooperation framework agreement to develop technical assistance and capacity-building programs for Afghanistan's Ministry of Finance (MOF) to strengthen Afghanistan's public financial management systems and oversight of its financial sector.⁶⁸⁷ This is the first formal Treasury assistance program in Afghanistan since August 2013.⁶⁸⁸
- Domestic revenues collected in Afghan fiscal year (FY) 1393 (December 22, 2013–December 21, 2014) ended 35% below MOF budget targets, and 9.9% below actual collections in FY 1392.⁶⁸⁹
- Afghanistan's *Wolesi Jirga* (lower house of parliament) approved the FY 1394 national budget (December 22, 2014–December 21, 2015).⁶⁹⁰ It totals \$7.65 billion, a 1.8% increase over FY 1393.⁶⁹¹
- The International Monetary Fund (IMF) reached a nine-month, staff-level agreement with the Afghan government to monitor the implementation of Afghanistan's macroeconomic policies and structural reform agenda.⁶⁹²

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 that year. 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.⁶⁹³

Afghanistan's Fiscal Crisis

In December 2014, the Afghan government reported a fiscal crisis,⁶⁹⁴ two months after reporting a \$537 million FY 1393 budget shortfall.⁶⁹⁵ The MOF reported that in FY 1393, total domestic revenues—tax and non-tax revenues, and customs duties—missed targets by \$602 million (-35%), and fell by approximately \$187 million from the same period in FY 1392 (-9.9%).⁶⁹⁶ Domestic revenues paid for only 33% or \$1.7 billion of Afghanistan's total budget expenditures of \$5.2 billion in FY 1393, with donor contributions making up the difference. Afghan government expenditures in FY 1393 increased 9.2%, compared to FY 1392.⁶⁹⁷

The State Department said the Afghan government carried over some arrears from FY 1393 and could face similar budget shortfalls in FY 1394.⁶⁹⁸ Afghanistan has one of the lowest rates of domestic revenue collection in the world, averaging 9% of GDP from 2006 to 2013, compared to an average of around 21% in low-income countries, according to the IMF.⁶⁹⁹

Expenditures are expected to continue rising—to 30.5% of GDP in FY 1395 (2016) versus 27.3% in FY 1393, according to World Bank projections—largely due to increased spending on security, service delivery, essential infrastructure, and operations and maintenance (O&M).⁷⁰⁰ The fiscal gap is large and growing, as depicted in Figure 3.27. Donor assistance narrows this gap, but does not close it.

Lost Customs Revenue

The MOF recorded \$396.7 million in customs duties collected in FY 1393; \$91.3 million less than in FY 1392 and \$255.3 million less than the budget target of \$622 million.⁷⁰¹ USAID said the scope of customs revenue lost to corruption is unknown, with no reliable estimates.⁷⁰² The State Department said the U.S. government has largely lost the ability to monitor and assess Afghanistan's customs-collections processes due to ongoing reductions in U.S. civilian and military personnel. The U.S. Embassy Kabul also has no direct oversight of Afghan customs training facilities or of training and operations at Afghanistan's National Customs Academy.⁷⁰³

Tolo News reported Afghanistan Customs Department (ACD) data could be off by up to \$1 billion⁷⁰⁴—about 4.8% of the country's GDP.⁷⁰⁵ Illustrating

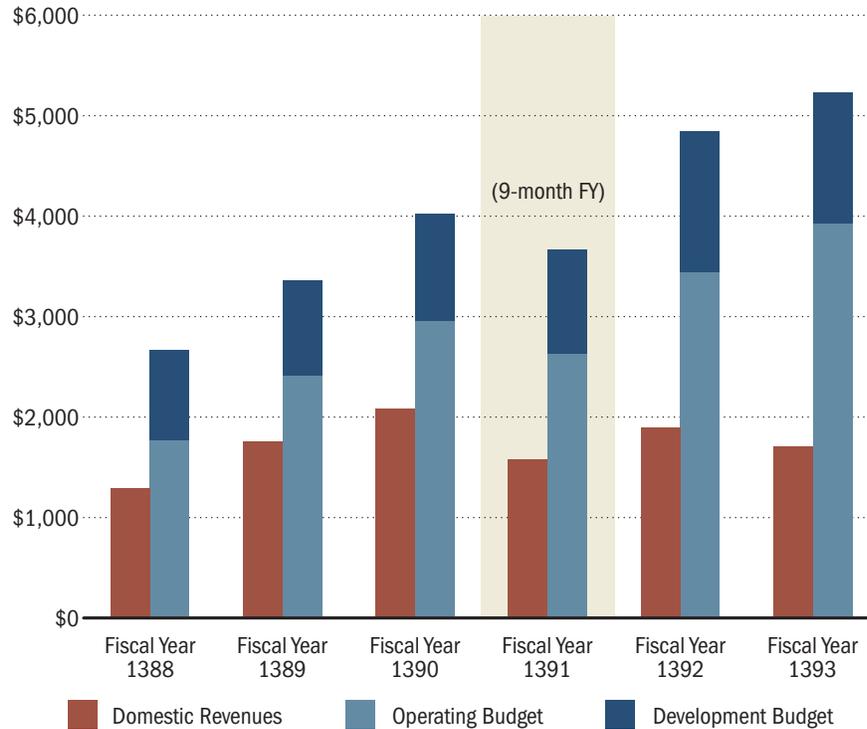
“Corruption is pervasive at the Afghanistan Customs Department (ACD). Although the trading community has a part to play, such corruption could not be successfully perpetrated without collusion (at some level) with ACD officials.”

Source: USAID, *Afghanistan Trade and Revenue Project*, Contract No. AID-OAA-I2-00035, *Annual Report*, Nov. 7, 2013–Nov. 6, 2014, 2/14/2015.

ECONOMIC AND SOCIAL DEVELOPMENT

FIGURE 3.27

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



Conflicting news reports emerged about government revenue collections in the first quarter of FY 1394. In one, MOF officials announced a 4% increase versus the same period in FY 1393. In another, MOF officials said revenue collections missed targets by 7%. As of April 17, 2015, the MOF had not yet released any fiscal bulletins in FY 1394 to confirm either claim.

Source: *Khaama Press*, "Government Financial Income Increased By 4%," 4/1/2015; *ToLo News*, "Ministry of Finance Reports Seven Percent Shortfall in Revenue Collection," 3/24/2015.

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 generally run December 22 through December 21.

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 12," 1/26/2015; 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," 1/10/2015; World Bank, "ARTF Annual Report: December 22, 2013, to December 21, 2014."

the problem of Afghan government agencies' not having accurate trade data, President Ghani told a U.S. audience in March 2015 that Afghanistan's Central Statistics Organization (CSO) reported imports from Pakistan at \$800 million, while Pakistan told Afghan authorities that the value of their exports to Afghanistan was \$2.5 billion.⁷⁰⁶ USAID's Afghanistan Trade and Revenue (ATAR) project supported the implementation of an agreement between the CSO, ACD, and Export Promotion Agency of Afghanistan to reduce discrepancies in trade statistics.⁷⁰⁷

This quarter, the Herat Chamber of Commerce accused the provincial customs office's mobile monitoring units of corruption and smuggling for allowing the illegal importation of products that forced the shutdown of

SIGAR SPECIAL PROJECT

This quarter, SIGAR wrote to DOD, State, and USAID to share concerns raised by many U.S. Embassy Kabul officials during Special Inspector General Sopko's February 2015 trip to Afghanistan about the Afghan government's inability to meet its budgetary obligations due to projected decreases in revenue. U.S. officials noted that a large portion of the revenue decline could be attributed to concerns that approximately half of the customs duties for Afghan FY 1393 were believed to have been stolen. For more information, see Section 2, page 43.

SIGAR SPECIAL PROJECT

This quarter, SIGAR wrote Ambassador McKinley about the decision to disburse \$100 million in response to Afghanistan's FY 1393 budgetary shortfall. The letter asked, among other things, how the State Department determined the funding amount it provided, the consequences to the Afghan government should its remaining budget shortfall not be fully funded, and whether the U.S. verified with the World Bank how the \$100 million was spent. For more information, see Section 2, page 44.

local factories. *Tolo News* reported that Herat's Attorney General's Office said the investigative documents for five smuggling cases disappeared.⁷⁰⁸ In December 2014, President Ghani dismissed the head of Herat's customs department, and ordered investigations into him and the commercial-goods section of his staff.⁷⁰⁹

Donor Funds Alleviate the FY 1393 Fiscal Gap

Despite a State Department report that found Afghanistan made no significant progress toward meeting the minimum requirements of fiscal transparency in 2014, and that Afghan revenue data are unreliable,⁷¹⁰ last quarter the United States provided the Afghan government \$100 million to partially alleviate its reported \$537 million FY 1393 budget shortfall. Of the \$100 million provided, \$75 million was disbursed for Afghan actions already taken: the signing of the Bilateral Security and Status of Forces Agreements, and President Ghani's decision to reopen the Kabul Bank case.⁷¹¹ The remaining \$25 million was disbursed even though the Afghan government provided only a limited response to Ambassador P. Michael McKinley's request for "appropriate documentation showing how the aforementioned \$75 million in assistance is spent."⁷¹²

State informed SIGAR that two of the conditions on the \$25 million that SIGAR had reported in its January 2015 *Quarterly Report to the United States Congress*—parliamentary passage of a realistic budget and formal establishment of an IMF Staff Monitoring Program—were only preliminary.⁷¹³ State said Afghanistan met two final conditions for the release of the money: (1) access for key U.S. Embassy Kabul staff to the Afghanistan Financial Management Information System (AFMIS), the country's government-wide accounting system, and (2) written confirmation that the Afghan government was taking steps towards awarding a new contract for satellite bandwidth for civil aviation.⁷¹⁴

Fiscal Year 1394 Budget Approved

The Wolesi Jirga, Afghanistan's lower house of parliament, approved the FY 1394 national budget (December 22, 2014–December 21, 2015) on January 28, 2015.⁷¹⁵ The \$7.65 billion budget—a 1.8% increase over FY 1393—includes \$4.97 billion for the operating budget and \$2.68 billion for the development budget. Budget expenditures will focus on security (44% of the total budget), infrastructure (16%), education (13%), agriculture (10%), and health (4.2%).⁷¹⁶

The FY 1394 budget projected domestic revenues to reach approximately \$2.2 billion, about 30% more than collected in FY 1393. To accomplish this, the budget document stated that parliament would need to raise tax rates and customs duties, which will require relevant laws to be amended. Additionally, the budget assumed a 9% GDP growth rate in FY 1394 even though growth in FY 1393 was revised down to 1.9%.⁷¹⁷ Afghanistan has

repeatedly missed budget targets and these estimates may be difficult to realize.⁷¹⁸ The World Bank called the previously proposed budget's revenue projections "ambitious" and stressed the importance of credible projections, "backed by adequate measures."⁷¹⁹ The FY 1394 budget cut the discretionary portion of the development budget by 43% compared to FY 1393. State said Afghan officials have repeatedly assured U.S. officials that no new discretionary development spending will be initiated this fiscal year.⁷²⁰ However, even with expenditure restraints and urgent donor financing, the World Bank expected the residual FY 1393 fiscal gap to leave the government in arrears and with depleted cash reserves for FY 1394, requiring even more fiscal help.⁷²¹

Donor grants are expected to finance approximately \$5.3 billion of Afghanistan's \$7.65 billion FY 1394 national budget. Of the donor grants, approximately \$2.8 billion will go toward the operating budget and \$2.5 billion will go toward the development budget.

Source: MOF, *National Budget Document, 1394 Fiscal Year*, 1/28/2015.

International Monetary Fund Staff Monitored Program Approved

On March 20, 2015, the IMF announced it had reached terms on a nine-month Staff Monitored Program (SMP) agreement with the Afghan government. This informal agreement, whose details were still under negotiation at the time of the announcement, allows for IMF staff to monitor the implementation of Afghanistan's macroeconomic policies and structural reform agenda in 2015.⁷²² Treasury said an SMP reflects the IMF's limited confidence in the government's willingness and/or ability to meet its commitments to a formal program.⁷²³ Ambassador McKinley wrote the MOF in December 2014, indicating that an approved SMP would help maintain the U.S. government's ability to disburse future funding.⁷²⁴

The SMP will focus on fiscal policy such as revenue mobilization and repayment of arrears; monetary policy such as preserving low inflation and an exchange rate policy to protect international reserves and competitiveness; financial-sector reform such as dealing with weak banks, enacting a new banking law, and strengthening banking supervision; and better economic governance such as strengthening anticorruption and Anti-Money Laundering/Combating the Financing of Terrorism (AML/CFT) laws.⁷²⁵

Treasury said the ultimate purpose of an SMP is to qualify for a formal IMF program with access to potential financing. SMPs do not entail financial assistance or endorsement by the IMF Executive Board, but provide an opportunity for the IMF staff to work with a country's authorities to see if they are willing and able to keep their commitments to carry out an IMF-prescribed program and establish a positive track record. Treasury views the ability of Afghanistan's economic policies and management capability to pass the IMF's quality test as much more important than any financing it will receive from the IMF. Successful completion of an SMP gives the IMF staff confidence that the national authorities will meet their obligations under a more formal program.⁷²⁶

Given Afghanistan's poor record with the IMF's more formal three-year, \$129 million Extended Credit Facility loan agreement that expired in November 2014, Treasury said the IMF staff believes the Afghan

government must reestablish its credibility before beginning a new formal program.⁷²⁷ Treasury added that the U.S. government and other donors intend to work with the national-unity government, hoping to improve Afghanistan's capability as a strategic partner.⁷²⁸

Trade

During President Ghani and Chief Executive Officer Abdullah's visit to Washington, DC, in March 2015, the Office of the United States Trade Representative and the Afghan government announced their intention to hold a Trade and Investment Framework Agreement council meeting this year to improve cooperation and enhance opportunities for trade and investment.⁷²⁹ The United States imported \$63 million worth of Afghan goods in 2014, while exporting approximately \$782 million in goods to Afghanistan.⁷³⁰

During this visit, President Ghani said his goal was for Afghanistan to become a transit and trade hub for regional economic integration.⁷³¹ In line with this vision, Afghanistan continued its efforts to enhance regional economic and commercial cooperation this quarter. Afghan and Tajik officials met March 10–11, 2015, to review a draft trilateral transit trade agreement with Pakistan; a trilateral working group met in Dushanbe on April 9 to help finalize the details.⁷³² Additionally, Afghanistan was offered duty-free export access to India's market under the South Asia Free Trade Area.⁷³³ Also this quarter, Afghanistan will reportedly join the Transport Corridor Europe Caucasus Asia as part of its efforts to broaden its trade and economic development. Afghanistan was invited to join in 2005, but delayed its ratification for 10 years.⁷³⁴ Finally, a new trilateral transit agreement that will open up Iran's Chabahar port for Afghan and Indian trade is reportedly in the final stages of review.⁷³⁵

Export and Import Data

Trade-related taxes represented 45% of Afghanistan's total tax revenues from 2006 to 2013.⁷³⁶ Although Afghanistan routinely sustains a large trade deficit, donor aid helps the country maintain a current account balance of 4.1% of GDP.⁷³⁷ Without it, the IMF estimates Afghanistan would have a current account deficit equivalent to 41% of its GDP.⁷³⁸

During 2011–2014, Afghanistan exported \$3 billion–3.3 billion worth of goods and services annually, not including illicit narcotics, according to IMF estimates.⁷³⁹ The World Bank said Afghanistan exports only a small number of products and has few trade partners,⁷⁴⁰ making it highly dependent on a few commodities for earnings, and consequently more vulnerable to unstable prices and trade shocks.⁷⁴¹

The IMF projected Afghanistan's 2014 imports at more than \$11 billion of goods and services, with more than \$8 billion 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 illicit 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.⁷⁴²

Afghanistan Trade and Revenue Project

Project Title	Start Date	End Date	Total Estimated Cost (\$)	Cumulative Disbursement, as of 3/31/2015
Afghanistan Trade and Revenue	11/7/2013	11/6/2017	\$77,754,267	\$21,775,243

Source: USAID, response to SIGAR data call, 4/9/2015.

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 World Trade Organization (WTO); (2) improve and streamline the government's ability to generate revenue by modernizing Afghanistan's customs institutions and practices; and (3) facilitate bilateral and multilateral regional trade agreements.⁷⁴³

This quarter, ATAR collected preliminary 2014 import, export, and revenue data from the Afghan Customs Department (ACD); the data showed imports rose 2–3%, but revenue collected by the ACD decreased 8.3%. The ACD recorded re-exports of foreign goods in their domestic export valuations, which must be removed and recalculated. ATAR also helped traders secure \$3.6 million in deals at an international carpet exposition in Germany, while also helping traders secure a potential \$12 million in marble, onyx, and lapis lazuli deals at an event in India.⁷⁴⁴ ATAR also sponsored a trademark-awareness workshop for Afghan traders and Ministry of Commerce and Industries staff. It aimed to help create a more cooperative environment between the government and traders in order to discuss and solve trade-related problems.⁷⁴⁵

BANKING AND FINANCE

Less than 10% of the Afghan population uses banks; approximately 90% of financial transactions go through the informal *hawala* system. The State Department reported that there is no clear division between the hawala and formal banking systems—hawaladars keep bank accounts and use wire-transfer services, while banks use hawalas to transmit funds to remote areas in Afghanistan. To date, no Afghan money-service business or hawaladar has ever submitted a suspicious-transaction report to the government, as required under Afghan law, according to Afghanistan's financial intelligence unit.⁷⁴⁶

United States Treasury Assistance Agreement Signed

On March 23, 2015, U.S. Treasury Secretary Jack Lew agreed to develop technical assistance and capacity-building programs for Afghanistan's MOF. Treasury's Office of Technical Assistance will aim to strengthen Afghanistan's public financial management systems (budgets, cash, revenue, pensions, liability and risk, national and sub-national relations), enhance oversight of its financial sector (banking, auditing, capacity, regulations). Treasury will also provide technical assistance to Afghanistan's Financial Intelligence Unit to build core function capacity and raise awareness of its AML/CFT responsibilities.⁷⁴⁷ It intends to do so through intermittent missions to Afghanistan, remote support, and training in a third country.⁷⁴⁸

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.⁷⁴⁹ 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.⁷⁵⁰

SIGAR SPECIAL PROJECT

In 2012, SIGAR issued a Special Project report about U.S. efforts to track and safeguard U.S. cash in Afghanistan, including the implementation of bulk currency counters at Kabul International Airport, and other measures designed to monitor to outflows of currency. SIGAR found that cash counters at the Kabul airport were not being used for their intended purpose and VIPs continue to bypass key controls. For more information, see SIGAR-SP-13-1, *Anti-Corruption Measures: Persistent Problems Exist In Monitoring Bulk Cash Flows At Kabul International Airport*.

Anti-Money Laundering/Countering the Financing of Terrorism Legislative Deficiencies

Afghanistan's central bank reported approximately \$3.7 million in cash left Afghanistan through Kabul International Airport in 2014 and approximately \$83,200 left through the airport in Mazar-e-Sharif. While it is illegal to take more than \$20,000 out of the country, Afghan law does not require citizens to report outbound currency. State reported that cargo is often exempted from any screening or inspection due to corruption at the official border crossings and customs depots; most border areas are under-policed or not policed at all. Moreover, Kabul International Airport lacks stringent inspection controls for all passengers and includes a VIP lane that does not require these passengers to undergo any inspections or controls.⁷⁵¹

Even though Afghanistan has taken steps to improve its AML/CFT regime, its laws are still not in line with international standards, lacking clarity and effectiveness, according to a State Department report. State said that while the government has frozen bank accounts owned by some hawala networks, no bank accounts have been seized, and there is no legal mechanism for asset sharing. The report recommended that Afghanistan continue to work to criminalize money laundering and terrorism financing;

implement a framework for identifying, tracing, confiscating and freezing terrorist and money laundering-related assets; train and resource legal authorities to better understand and carry out their oversight and investigative duties; enhance the financial intelligence unit, Financial Transactions and Reports Analysis Center of Afghanistan; and strengthen controls for cross-border cash transactions.⁷⁵²

The U.S. Department of Justice (DOJ) has three training courses that focus on Afghanistan's AML/CFT laws, and on international asset tracking. The courses were first offered to Afghan representatives in November 2014 and then offered to a broader audience within the attorney general's office in February 2015. In March 2015, the acting attorney general requested that this training be provided to Afghan prosecutors, who the DOJ said appear to have limited knowledge of these laws.⁷⁵³

Financial Action Task Force

The Asia/Pacific Group on Money Laundering (APG), of which Afghanistan is a member, met with Afghan central bank officials in Sydney, Australia, January 12–14, 2015, to discuss Afghanistan's implementation of its Financial Action Task Force (FATF) action plan to: adequately criminalize money laundering and implement procedures for the confiscation of money laundering-related assets; establish and implement an adequate legal framework for identifying, tracing, and freezing terrorist assets; implement an adequate AML/CFT oversight program for all financial sectors; and establish and implement effective controls for cross-border cash transactions. APG is an associate member of FATF. The meeting focused on financial sanctions, supervision of its financial institutions, operation of its financial intelligence unit, and prosecutions of money laundering and terrorist financing. The APG commended Afghanistan's progress.⁷⁵⁴

Separately, Afghanistan also met with some members of FATF on January 14 to discuss its progress. The outcome of the Sydney meetings helped determine the Afghanistan report that FATF considered at its February 2015 plenary.⁷⁵⁵ FATF chose to keep Afghanistan on its Improving AML/CFT Global Compliance document, also known as the "gray list." This means that while Afghanistan has strategic AML/CFT deficiencies, its government has developed an action plan, written a high-level political commitment to address those deficiencies, and is making progress. This is the third consecutive plenary in which Afghanistan has maintained this status since being downgraded to the "dark-gray" list in February 2014.⁷⁵⁶

Treasury said Afghanistan has managed to avoid FATF's "blacklist" by addressing some of the FATF's technical requirements in its action plan. For example, Afghanistan enacted AML and CFT laws, which the FATF determined are largely adequate, even though questions remain on the extraterritorial scope of the law's money-laundering offense. (The FATF requirement for criminalization of money laundering requires

Afghanistan has been subject to FATF's public listing (evaluations) and monitoring process since June 2012.

Source: Treasury, response to SIGAR data call, 3/27/2015.

The U.S. Treasury and the FATF

Treasury leads the U.S. delegation to the FATF and participates closely in all of the working group discussions. Specifically, within the FATF, the International Cooperation Review Group (ICRG)—co-chaired by the United States and Italy—is tasked with leading the process to identify and monitor countries with AML/CFT deficiencies. Afghanistan was one of over 20 countries the ICRG reviewed at the most recent FATF plenary in February 2015. Before each ICRG meeting, Treasury reviews the information provided by the monitored countries, including laws or regulations, other legal instruments, and supporting materials, and then discusses with other agencies in the U.S. delegation what action(s) should be taken at the FATF on the identified countries of concern.

Source: Treasury, response to SIGAR data call, 3/27/2015.

that predicate offense should extend to conduct that occurs abroad.) Afghanistan also issued regulations on the process and legal framework for freezing terrorist assets, but still needs to finalize a procedural document to adequately demonstrate implementation of United Nations (UN) Security Council Resolutions 1267 and 1373 calling for an asset freeze on designated individuals.⁷⁵⁷

Other issues Treasury raised that require redress include the requirement in Afghanistan's draft banking law that prospective bank owners be deemed "fit and proper." The law contains an ambiguous provision for anyone "convicted by an authorized court of an offense for which he was sentenced to imprisonment *unless such sentence was motivated by his religious or political views or activities*" (emphasis added). Afghanistan also needs to put in a regulatory framework to implement a cross-border system to detect transportation of currency related to money laundering and terrorist financing. Afghanistan's financial-intelligence unit has been working with Afghanistan's customs department to further develop the reporting mechanism. Treasury added that Afghanistan will remain under FATF review (on the gray list) until those remaining actions are adequately addressed and the FATF conducts an onsite review to evaluate that implementation of its reforms have begun.⁷⁵⁸

Kabul Bank Theft Accountability

In one his first official actions upon being sworn into office in October 2014, President Ghani directed Afghan government officials to immediately reopen the Kabul Bank case, recover stolen funds, and hold accountable those involved in the theft of \$982.6 million.⁷⁵⁹ However, this quarter, a "pardon committee" that was established as a byproduct of a decree by former President Karzai attempted to reduce the prison sentences of ex-Kabul Bank chairman Sher Khan Farnood and ex-CEO Khalilullah Ferozi.⁷⁶⁰ In a meeting with DOJ this quarter, Afghanistan's acting attorney general indicated that he had stopped the pardon as soon as he learned of it and that the pardon was no longer in effect. The attorney general told DOJ that neither offender would receive reduced prison sentences, that he fired the head of the pardon committee, and that an investigation had been initiated into members of the pardon committee to determine whether they acted under a legitimate misunderstanding of the presidential order or had been paid off. The investigation remains open and no charges have yet been filed.⁷⁶¹

On March 3, 2015, the attorney general's office announced the arrest of Sofi Nesar Ahmad, the former deputy head of Afghanistan's central bank and owner of 1.7% of Kabul Bank's stock. Sofi, who had fled Afghanistan after being convicted and sentenced to a year in jail for his role in the theft of funds and near-collapse of Kabul Bank, appeared at the attorney general's office this quarter to discuss the proceedings against him. Beyond this individual case, the attorney general told DOJ that all known debtor accounts

and assets identified by the Kabul Bank Receivership—which attempts to recover and tender bad loans and other assets—had been frozen or seized.⁷⁶² For additional information on anticorruption activities and Kabul Bank, see page 151 in the Governance section of this report.

Cash and Asset Recoveries

In February 2015, the Kabul Bank Receivership informed DOJ that they collected an additional \$40 million, but did not specify where the money came from or over what time period it was collected. Total recoveries—cash paid back, forgiven debts, and assets recovered or seized—reportedly stand at \$227.9 million, as of December 2014.⁷⁶³ This is \$52.7 million more than the \$175.2 million the Independent Joint Anti-Corruption Monitoring and Evaluation Committee reported, as of April 2014.⁷⁶⁴ President Ghani was reportedly told in a March 31, 2015, meeting with Kabul Bank investigators that since the court’s November 2014 verdict, six debtors agreed to repay their debts, totaling \$72 million. DOJ said it cannot confirm these figures without an independent audit, and the Receivership declined to be more specific.⁷⁶⁵

The Receivership said it needs additional political support to identify more properties and assets, and international assistance in seizing or freezing those assets. The Receivership said its primary challenge in recovering cash and assets is inadequate pressure the borrowers feel to pay back their debts. According to DOJ, this is likely due to so many of them having significant political ties or allies, as well as unfilled Cabinet positions with officials serving in a “acting” capacity who lack influence, will, or authority to exert the necessary pressure. The Receivership believes that once the palace-brokered repayment agreements and settlement terms are finalized, borrowers will begin to repay their loans.⁷⁶⁶

Central Bank Branch Theft

The Spin Boldak branch of Afghanistan’s central bank in Kandahar was robbed this quarter. A manager and two employees allegedly stole between \$872,000 and \$1.4 million before fleeing to Pakistan, according to news reports; central bank officials have not confirmed that information.⁷⁶⁷ *Tolo News* reported that five bank branch officials who allegedly assisted the theft were arrested.⁷⁶⁸

U.S. ECONOMIC-SUPPORT STRATEGIES

On March 23, 2015, Secretary of State John Kerry and President Ghani announced an \$800 million “New Development Partnership,” (NDP) a plan to promote Afghan self-reliance over five years to incentivize Afghan solutions to specific development challenges and measure Afghan-led reform and development activities. It aims to “strengthen Afghan institutions,

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.

sustainability, and fiscal transparency, and give the new unity government more opportunity to lead its own development trajectory.⁷⁶⁹ This money will come from previously budgeted or requested funds.⁷⁷⁰

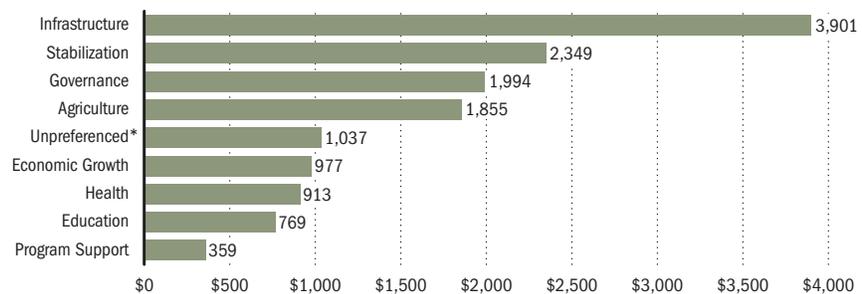
The State Department said this partnership will use U.S. aid to significantly expand and enhance the strategic effects of the existing U.S. bilateral incentive program under the Tokyo Mutual Accountability Framework, which has focused on short-term policy actions. Incentives must still be negotiated with the Afghan government. USAID will oversee NDP funding, which will be disbursed through the ARTF “only after agreed reforms or development results have been accomplished, as measured by clear and objective indicators of achievement.”⁷⁷¹

USAID Development Assistance

Most assistance from the Economic Support Fund (ESF) goes toward USAID’s development programs. Figure 3.28 shows USAID assistance by sector.

FIGURE 3.28

USAID DEVELOPMENT ASSISTANCE, CUMULATIVE DISBURSEMENTS, AS OF MARCH 31, 2015
(\$ MILLIONS)



Note: Numbers rounded. Agriculture programs include Alternative Development. Infrastructure programs include Power and Roads. *Unpreferred funds are U.S. contributions to the ARTF that can be used for any ARTF-supported initiatives.

Source: SIGAR analysis of USAID response to SIGAR data call, 4/9/2015; SIGAR analysis of World Bank, “ARTF, Administrator’s Report on Financial Status, as of March 20, 2015,” accessed 4/16/2015.

Development Of Natural Resources

The newly appointed Minister of Mines and Petroleum, Dr. Daud Saba, announced this quarter that the majority of mining contracts would be reassessed due to a lack of transparency in the award process.⁷⁷² It is unclear how this may affect already negotiated, but still-unsigned contracts, which could cause further investor uncertainty. For a list of contracts awaiting final Cabinet approval, see page 161 in the January 2015 *Quarterly Report to the United States Congress*.

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.⁷⁷³ But it is uncertain when revenues generated from this sector may be realized because of a lack of infrastructure financing as well as weak Afghan progress on regulatory and legislative frameworks.⁷⁷⁴ Although the Afghan budget projected annual mining revenues of \$13 million, in FY 1393 (2014), actual receipts were only about \$7 million in royalties and fees.⁷⁷⁵ The FY 1394 budget forecasts government expectations of \$35 million in mining revenues, although there have been no developments to suggest revenues are likely to increase this year over last.⁷⁷⁶

Impediments to Investment

Afghanistan's lack of security overshadows all other constraints on investment, according to the World Bank.⁷⁷⁷ USAID said mining regions are remote and often located in insecure areas that may be littered with land mines and unexploded ordnance. Corruption, an uneducated workforce, lack of labor safety practices, and crude extraction methods are also inhibiting factors.⁷⁷⁸ USAID cited other issues that create investor uncertainty: regulations to support implementation of the new mining law passed in November 2014 are still being developed; amendments to the law remain unsigned by President Ghani, as do several mineral tenders; and a combination of corporate income taxes, export and import duties, production royalties, and other charges that constitute an uncompetitive levy of about 80% on mineral production.⁷⁷⁹

Illegal Mining

The use of violence by the Taliban and other insurgent groups to generate revenue by illegally extracting or obtaining Afghanistan's natural resources denies the Afghan people their share of revenue from those stolen resources. The UN reported in February 2015 that "Taliban penetration of the natural resources sector is deep and extortion in that sector is fairly pervasive." In one case, a government-licensed mining operation ceased operations after being threatened with violence simultaneously by the Taliban, the Haqqani Network, and Hizb-I-Islami (led by Golbuddin Hekmatyar) unless the company paid them and not the government. The Taliban are involved in illegal mining in three ways: extraction (they control at least 35 active onyx marble operations), extortion (threatening or committing violence if not paid off), and as service providers (security, transport, and smuggling).⁷⁸⁰

Mining Investment and Development for Afghan Sustainability

This quarter, USAID's five-year, \$50 million Mining Investment and Development for Afghan Sustainability (MIDAS) program continued its technical assistance to the Ministry of Mines and Petroleum (MOMP) in tender

SIGAR AUDIT

In an audit published this quarter, SIGAR examined the extent to which the Task Force for Business and Stability Operations (TFBSO) and USAID programs met their goals and addressed challenges to develop Afghanistan's extractives industry. The audit found the U.S. government did not have a unified strategy to develop the extractives industry, and the U.S. Embassy Kabul did little to coordinate interagency activities. It also found deficient capacity at the MOMP to manage the contracting process without external support, and a lack of planning to sustain TFBSO extractive initiatives. It also determined that USAID's MIDAS program identifies areas in need of assistance, articulates a strategy for mineral sector development, and lays out a clear set of criteria for selecting potential areas of investment by USAID. The results found in this audit will be the focus of a subsequent report. For more information, see Section 2, page 25.



Google Earth training at the Afghan Geological Survey. (USAID MIDAS photo)

processes, contract negotiations, and contract management. MIDAS is also guiding the MOMP and parliament on adopting investor and environmentally-friendly laws and regulations, in line with international best practices.⁷⁸¹

MIDAS has been also assisting MOMP and Afghan Geological Survey staff with mineral exploration and drilling, and enhancing their abilities to produce technical reports and 3-dimensional ore deposit models, as well as to deliver tender-ready mineral projects to the MOMP. MIDAS moved \$10 million this quarter from on-budget funding to an off-budget contract for core sample drilling services on three, high-value mineral sites—tantalum in Salang Valley, molybdenum in Saighan, and granite in Bamiyan.⁷⁸² This quarter, MIDAS advisors also completed the English translation of the new minerals law, while supporting MOMP efforts to draft technical and financial regulations to implement the new law, including: minerals ownership, tenders, licenses, royalties, fees, and penalties.⁷⁸³

USAID is waiting for a permanent MOMP procurement director, certification that the procurement directorate is capable of performing high-dollar-value contracting activities, and an updated third-party assessment of the MOMP's internal controls and financial management issues. The most recent audit that USAID is relying on is from 2011. Until the new assessment is complete (scheduled for May 2015), USAID will identify additional conditions precedent before it administers on-budget funding.⁷⁸⁴ MIDAS and USAID's other extractives assistance programs are listed in Table 3.26.

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.⁷⁸⁵ 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.⁷⁸⁶ The country imports 10,000 tons of oil products a day from Turkmenistan, Uzbekistan, Russia, Pakistan, and Iran.⁷⁸⁷

Sheberghan Programs

Sheberghan holds the potential for cheap natural gas-generated power that could be competitive with imported power from Uzbekistan, according to the World Bank.⁷⁸⁸ 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.⁷⁸⁹

Last quarter, SIGAR reported the drilling contractor for SGDP, Turkish Petroleum Corporation, informed the MOMP it is behind schedule and

TABLE 3.26

USAID EXTRACTIVES ASSISTANCE PROGRAMS				
Project Title	Start Date	End Date	Total Estimated Cost (\$)	Cumulative Disbursements, as of 3/31/2015 (\$)
Sheberghan Gas Generation Activity	12/21/2011	7/31/2016	\$30,440,958	\$19,400,618
Sheberghan Gas Development Project	5/15/2012	4/30/2015	90,000,000	0
Mining Investment and Development for Afghan Sustainability	3/31/2013	3/20/2016	50,096,175	15,818,556

Source: USAID, response to SIGAR data call, 4/9/2015.

will not begin drilling until May 2015—taking almost twice as long as the contract stipulated.⁷⁹⁰ This quarter, USAID said it agreed to an August 2015 completion date with no more extensions to be granted. No disbursements have been made yet for this on-budget portion of the program because the contractor is still mobilizing and shipping equipment into the country. The off-budget capacity-building portion continued, but faced challenges this quarter. A new MOMP minister was hiring new staff, including a new gas sector development committee, which USAID hopes will be more effective than the previous one.⁷⁹¹

AGRICULTURE

Agriculture continues to be the main source of employment and subsistence for the Afghan population, accounting for 31% of GDP, according to the World Bank, and employing about 59% of the labor force.⁷⁹² Between FY 2002 and FY 2013, USAID obligated approximately \$1.25 billion to improve agricultural production and increase access to markets, and \$1.38 billion to develop income alternatives to growing poppy.⁷⁹³ Pages 118–125 of this quarterly report discuss USAID’s alternative-development programs.

USAID reported that it is extending the Commercial Horticulture and Agricultural Marketing Program (CHAMP) and 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).⁷⁹⁴ A list of all active USAID agriculture programs are found in Table 3.27 on the next page.

USAID said its Office of Acquisition and Assistance (OAA) revised its contracting officer’s representative (COR) designation letters, emphasizing the need for CORs to play a central role in the multi-tier monitoring approach, ensuring that U.S. government personnel verify activities at all times, and helping ensure oversight effectiveness. OAA also started issuing letters to activity managers this quarter to strengthen U.S. government

TABLE 3.27

USAID ACTIVE AGRICULTURE PROGRAMS				
Project Title	Start Date	End Date	Total Estimated Cost (\$)	Cumulative Disbursements, as of 3/31/2015 (\$)
Afghanistan Agriculture Extension Project II (AAEP-II)	10/1/2014	9/30/2017	\$19,814,702	\$1,147,103
Agriculture Credit Enhancement (ACE)*	7/15/2010	2/25/2015	75,175,296	72,346,632
Capacity Building and Change Management Program II	7/10/2014	7/9/2017	19,999,989	3,961,994
Digital Integration to Amplify Agriculture Extension in Afghanistan (DIAAEA)	11/30/2014	11/29/2015	391,000	0
Famine Early Warning System Network (FEWSNET) Phase III	12/29/2011	12/28/2016	78,011,630	2,420,553
Incentives Driving Economic Alternatives-North, East, and West (IDEA-NEW)	3/2/2009	9/30/2015	159,878,589	150,702,887
Strengthening Afghan Agricultural Faculties (SAAF)	3/25/2011	12/31/2016	7,824,209	6,236,596
Regional Agricultural Development Program (RADP)-South	10/7/2013	10/6/2018	125,075,172	22,279,151
Regional Agricultural Development Program (RADP)-North	5/21/2014	5/20/2019	78,429,714	4,177,911
Regional Agricultural Development Program (RADP)-West	8/10/2014	8/9/2019	69,973,376	3,532,601
[Project Name Not Specified]	9/12/2013	9/30/2018	4,950,692	0
[Project Name Not Specified]	10/1/2013	9/30/2018	26,606,514	0
[Project Name Not Specified]	12/16/2014	12/31/2016	5,000,000	5,000,000

Note: *ACE expired 2/25/2015.

Source: USAID, response to SIGAR data call, 4/9/2015.

oversight efforts. In addition, USAID uses third-party monitoring whereby the CORs and agreement officer's representatives of projects can sign up for services such as field-based monitoring, evaluation, management information and reporting, and web content development, among others.⁷⁹⁵

Agricultural Credit Enhancement

The 55-month, \$75 million ACE that expired in February 2015 supported Afghanistan's Agriculture Development Fund (ADF), which provided credit across the agricultural value chain through banks, farm stores, leasing companies, and food processors. Much of this credit was then extended to farmers. ACE was the technical-assistance component that manages all ADF lending activities and helps build MAIL capacity.⁷⁹⁶

More than 234 loans valued at \$106 million were extended to over 31,000 farm households and agribusinesses in 33 of Afghanistan's 34 provinces with about \$60 million disbursed. ACE reportedly met 16 of its 19 performance targets and transferred to MAIL, a fully operational financial institution with a growing portfolio, but it also faced an unwillingness of Afghan banking institutions to act as intermediaries for ADF funds, delays in USAID vetting, and the unavailability of functional Development Credit Authority facilities. ADF's four-year portfolio cumulative default rate was 4.5%.⁷⁹⁷

Capacity Building and Change Management Program II

USAID's three-year, \$20 million CBCMP-II, which began in July 2014, works to build managerial and institutional capacity at the MAIL's central, provincial, and district offices. The program aims to create more efficient, better-run government support to Afghanistan's agricultural sector, especially from the district offices, which work directly with local farmers and herders. CBCMP will focus on the finance and accounting, monitoring and evaluation, and procurement and contracts directorates at central MAIL. CBCMP will also help the district offices prioritize, plan, budget, and secure resources to give farmers access to modern agricultural technology, and help provide useful agricultural and financial reporting to the central government and MAIL. USAID will also help MAIL shift its capacity-building efforts to the World Bank-funded Capacity Building for Results (CBR) Program.⁷⁹⁸ As of March 12, 2015, CBCMP-II has recruited 66 of 81 Change Management Specialists and has received used information technology equipment from USAID programs that are closing out.⁷⁹⁹

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.

Power Supply

Afghanistan has one of the lowest rates of electrification in the world, with only 25% of Afghans connected to the power grid—about the same proportion as those who live in cities.⁸⁰⁰ Afghanistan imports approximately 73% of its total electricity. 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.⁸⁰¹

New U.S.-Afghan Joint Regional Energy Working Group

On March 23, 2015, Secretary of State John Kerry announced establishment of a U.S.-Afghan Joint Regional Energy Working Group charged with exploring ways to support Afghanistan's integration into regional energy markets. State, USAID, Treasury, and other relevant U.S. agencies will participate in this effort. President Ghani envisions this initiative will help turn Afghanistan into a hub where energy generated from Central Asia, and also increasingly from Afghanistan, will flow into South Asia.⁸⁰²

USAID hosted a U.S. government-Internal [interagency] Regional Energy Symposium, March 31–April 1, 2015, in Dubai. The symposium's two

Current regional energy initiatives involving Afghanistan include the Turkmenistan-Uzbekistan-Tajikistan-Afghanistan-Pakistan transmission line that will enable power to be dispatched from Turkmenistan to Pakistan; the CASA-1000 transmission line project that will move electricity between Kyrgyzstan and Tajikistan, and from Tajikistan to Afghanistan and Pakistan; and the Turkmenistan-Afghanistan-Pakistan-India (TAPI) natural gas pipeline, which will transport natural gas from Turkmenistan to these other countries.

Source: ADB, 44463-013: Turkmenistan-Afghanistan-Pakistan-India Natural Gas Pipeline Phase 3, accessed 4/8/2015; CASA-1000, <http://www.casa-1000.org/MainPages/CASAAbout.php>; USAID, response to SIGAR vetting, 4/12/2015.

objectives were to: (1) improve the understanding of the current Silk Road regional energy situation, the U.S. government's current energy investments across the region, U.S. diplomatic efforts, and other key initiatives; and (2) gain consensus on where the U.S. government should invest declining funds for the most effective results and whether a strategic shift is needed.⁸⁰³

From 2002 through 2014, USAID alone obligated more than \$2.7 billion to build generators, substations, and transmission lines, and provide technical assistance in the sector.⁸⁰⁴ In addition, the Department of Defense (DOD) has provided approximately \$292 million for electricity projects through the Commander's Emergency Response Program and roughly \$1.1 billion through the Afghanistan Infrastructure Fund (AIF), which is jointly managed by DOD and State.⁸⁰⁵ For more information about the status of AIF programs, see pages 165–166 in the January 2015 *Quarterly Report to the United States Congress*.

Afghanistan's two primary power systems 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: (1) the Power Transmission Expansion and Connectivity (PTEC) project to construct a transmission line connecting Kabul with Kandahar and build the capacity of Afghanistan's national electric utility, Da Afghanistan Breshna Sherkat (DABS), to sustain energy infrastructure investments; (2) the Sheberghan Gas Development Project (SGDP) to attract private investment to develop gas resources in Sheberghan and build power plants; and (3) the Kandahar-Helmand Power Project (KHPP), which includes installing a third turbine at Kajaki Dam and improving the transmission system connecting Kajaki with Kandahar.⁸⁰⁶ All of USAID's active power infrastructure projects are listed in Table 3.28.

Kandahar-Helmand Power Project

The KHPP is intended to increase power supply and reliability in Kandahar and Helmand Provinces.⁸⁰⁷ All components of this project are closed out, except for a USAID technical-support services contract with Black and Veatch to assist DABS with its efforts to increase long-term sustainable hydropower from Kajaki Dam by installing a third turbine in the powerhouse.⁸⁰⁸

This quarter USAID said that the December 31, 2015, turbine-installation completion date must be extended. Transportation of equipment and materials during ongoing military operations has not met the contract schedule; DABS's staffing levels are inadequate to meet management demands for the installation phase; and GFA Consulting Ltd., the construction management consultant to DABS, has shown weak project management. Yet DABS extended GFA's contract by 15 months until February 29, 2016, and increased the contract's budget by \$21 million to \$36 million. Payments to contractors have not been timely, and DABS faces challenges developing

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.

the capacity to manage large-scale technical contracts. USAID affirmed the need for its continued support for capacity building.⁸⁰⁹

DOD has disbursed \$136 million for diesel fuel since FY 2011 to run generators in Kandahar City through the Kandahar Bridging Solution while turbine-installation work at Kajaki Dam is under way. Fuel subsidies (\$20 million obligated in FY 2014 funds alone) are scheduled to expire in September 2015.⁸¹⁰ USAID said DABS is considering raising tariff rates to pay for diesel after DOD subsidies end, and relayed that to the Kandahar governor and community last year, but has faced difficulties convincing them.⁸¹¹

Power Transmission Expansion and Connectivity Program

The U.S.-funded 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.⁸¹² PTEC's commercialization and capacity-building components aim to reduce technical and commercial losses.⁸¹³ Construction has started on the transmission line and substations between Arghandi and Ghazni, the first segment of the NEPS-SEPS connector. To date, \$17 million have been disbursed through DABS/MOF to PTEC contractors for this effort.⁸¹⁴

In support of the second segment, Ghazni to Kandahar, \$179.5 million was transferred from AIF to USAID.⁸¹⁵ In addition, \$300 million was deobligated from the Asian Development Bank (ADB)-administered Afghanistan Infrastructure Trust Fund and returned to PTEC because USAID felt ADB was not giving the project the priority to which it originally agreed.⁸¹⁶ Instead, USAID provided a direct-assistance award to DABS, which could shorten construction time for the NEPS-SEPS transmission line by one year. USAID completed the design work for this segment of the transmission line

SIGAR AUDIT

An ongoing SIGAR audit focuses on State Department progress in completing FY 2011 Afghanistan Infrastructure Fund projects, the impact on other infrastructure priorities and counterinsurgency objectives, and sustainment challenges.

SIGAR SPECIAL PROJECT

This quarter SIGAR issued a letter of inquiry to State, DOD, USFOR-A, and USAID about the status of the U.S. government's efforts to develop a reliable and sustainable source of electric power for Kandahar City after September 2015. For more information, see Section 2, page 45.

TABLE 3.28

USAID ACTIVE POWER INFRASTRUCTURE PROJECTS				
Project Title	Start Date	End Date	Total Estimated Cost (\$)	Cumulative Disbursements, as of 3/31/2015 (\$)
Kandahar-Helmand Power Project	12/9/2010	11/30/2015	\$226,669,100	\$224,010,474
Power Transmission Expansion and Connectivity	1/1/2013	12/31/2016	670,000,000	28,049,353
Contributions to the Afghanistan Infrastructure Trust Fund	3/7/2013	3/6/2018	285,170,184	105,000,000
Kajaki Dam Unit 2	4/22/2013	12/31/2015	75,000,000	18,424,853
Public Awareness Campaign to Increase Afghans' Knowledge of Energy Development Programs	2/1/2014	1/31/2016	1,789,224	929,863
Utility Executive Exchange	9/30/2007	9/30/2017	698,555	698,555
Afghan Engineering Support Program	11/9/2009	11/8/2015	72,000,000	62,706,294
PEER Grants	7/25/2011	7/24/2016	133,492,138	5,440,647

Note: The Sheberghan Gas Generation Activity (SGGA), Sheberghan Gas Development Project (SGDP), and Mining Investment and Development for Afghan Sustainability (MIDAS) programs, which are categorized under the power sector in USAID's funding pipeline report, are listed in the extractives sector programs subsection on pages 170–173.

Source: USAID, response to SIGAR data call, 4/9/2015.

and five substations, including preparation of bid documents, and assisted on the tender announced February 9, 2015.⁸¹⁷

Whether a resulting PTEC contract will be approved by Afghanistan's National Procurement Commission (NPC) is uncertain, USAID cautioned. The NPC, established by Presidential Decree #60 on February 20, 2015, replaced the Special Procurement Commission, through which all previous on-budget contracts went for Afghan government approval. As a result, USAID said program delays are possible.⁸¹⁸ For additional information about the NPC, see page 136 in the Governance section of this report.

To help bridge the gap between Kandahar's electricity generation capacity and demand until the NEPS-SEPS transmission line is completed, USAID said PTEC is funding a reverse auction whereby independent power producers will compete to construct and sell power to DABS from a solar power plant. This plant, expected to be operational by mid-2016, may be large enough to produce 10 megawatt output.⁸¹⁹

TRANSPORTATION

Afghanistan's lack of transportation infrastructure hinders internal commerce, foreign trade, and economic growth. The World Bank said building the transportation sector is imperative for national economic development.⁸²⁰ Afghanistan's transportation infrastructure shortcomings constrain the service and agriculture sectors, currently the leading contributors to GDP.⁸²¹ They also hold back the mining industry, whose future revenues the Afghan government and international donor community are counting on to offset declining aid.⁸²² This quarter, the United States continued its efforts to assist Afghanistan in developing the capacity of the Ministry of Transportation, and sustaining operations and maintenance.⁸²³

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,⁸²⁴ the World Bank has said 85% of Afghan roads are in poor shape and a majority cannot be used by motor vehicles.⁸²⁵ Afghanistan does not currently have sufficient funding and technical capacity to maintain its roads and highways, according to USAID.⁸²⁶ USAID's active road construction and O&M programs are listed in Table 3.29.

Road Sector Sustainability Project

USAID's Road Sector Sustainability Project (RSSP) helps the Ministry of Public Works strengthen its capacity to better fund and maintain Afghanistan's roadway infrastructure. It has four main activities:⁸²⁷

- **Activity 1:** Emergency O&M, which costs \$5 million over 12 months. So far, \$8,000 was spent on clearing mudslides.

ECONOMIC AND SOCIAL DEVELOPMENT

TABLE 3.29

USAID ACTIVE ROAD CONSTRUCTION, OPERATIONS AND MAINTENANCE PROGRAMS				
Project Title	Start Date	End Date	Total Estimated Cost (\$)	Cumulative Disbursements, as of 3/31/2015 (\$)
Technical Assistance to the Ministry of Public Works	8/3/2014	8/2/2017	\$21,366,222	\$2,339,998
Gardez to Khowst Road, Phase IV	6/26/2014	12/31/2016	31,963,736	14,554,611
Salang Tunnel Maintenance	4/1/2013	3/30/2016	3,533,950	1,469,001
Engineering, Quality Assurance, and Logistical Support (EQUALS)	4/18/2011	4/17/2016	126,307,645	102,069,140
Support for USAID's Construction of Health and Education Facilities Program	1/19/2008	7/31/2015	57,160,749	56,355,660

Note: Technical Assistance to the Ministry of Public Works is part of USAID's Road Sector Sustainability Project.

Source: USAID, response to SIGAR data calls, 3/26/2015 and 4/9/2015.

- **Activity 2:** Technical assistance to the Ministry of Public Works for creation of a road authority and road fund, which costs \$21.4 million for phase I; \$14 million for phase II. A three-year contract for phase I began in August 2014. Afghan agencies created in phase I will need parliamentary approval before phase II (buildings, equipment, training) begins.
- **Activity 3:** Capacity building for the Ministry of Public Works, which will cost \$38 million. The statement of work is being developed based on a needs assessment that is under way. Parliamentary approval for Activity 2, phase I is needed before Activity 3 begins.
- **Activity 4:** Transitional Incentives Funds for Road O&M, which will cost \$33 million. USAID funding will go on-budget through the Asian Development Bank (ADB)-administered Afghanistan Infrastructure Trust Fund (AITF) once the ADB develops an O&M incentive window.

Gardez-Khowst Road Rehabilitation Phase IV

The four-phase, \$233 million, 63-mile asphalt-paved highway project gives Khowst and Paktiya Provinces access to major trading routes to Pakistan, to Kabul, and to the Ring Road connecting Kabul, Kandahar, and Herat.⁸²⁸ It includes bridges, causeways, drainage structures, excavation, “river training” structures to control flow and sedimentation, and asphalt pavement. Three of the four phases are complete with 55 miles of road paved so far. The remaining road and bridge construction will commence soon (another bridge in Phase IV is already under way).⁸²⁹

ECONOMIC GROWTH

As of March 31, 2015, USAID disbursed approximately \$977 million for economic growth programs in Afghanistan.⁸³⁰

Afghanistan Workforce Development Program

USAID's four-year, \$62.6 million, Afghanistan Workforce Development Program (AWDP) aims to offer access for 25,000 Afghan men (75% target) and women (25% target) to labor-market-driven vocational education and training, business-development support, business-management training programs, financial credit, and job-placement services. AWDP is trying to mitigate high unemployment and the scarcity of technically skilled Afghan labor and trained Afghan business managers. The goal of the program is to facilitate job creation, develop a skilled and semi-skilled workforce, increase self-employment, and promote economic recovery in Afghanistan.⁸³¹

The AWDP is also supporting efforts to build the capacity of technical/vocational educators and trainers. AWDP seeks to improve the quality of these training programs through public-private partnerships, and make them more accessible. As of December 31, 2014, USAID reported more than 11,000 Afghans were trained and 6,700 were either placed in jobs or promoted in mid-career/semi-professional jobs. It is unknown if the program's targets of almost 21,000 trained and 17,500 placed or promoted was reached by its April 2015 deadline. Afghanistan's slowdown in economic activity will hurt the program. However, so far the program has exceeded its target of having women be 25% of those being trained, placed (31%) and promoted (34%).⁸³² The AWDP disbursed approximately \$18.3 million, as of March 31, 2015.⁸³³

SIGAR AUDIT

An ongoing SIGAR audit focuses on the U.S. efforts to improve access to and the quality of Afghanistan's primary and secondary education systems.

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.⁸³⁴ As of March 31, 2015, USAID disbursed more than \$768 million for education programs in Afghanistan.⁸³⁵

According to the most complete data available from the Ministry of Education's (MOE) Education Information System (EMIS), Afghanistan had a total of 14,226 general education (government) schools in 1393 (2014), with 8.35 million students enrolled.⁸³⁶ Of the 8.12 million students enrolled in 1392—the most complete data available that breaks out the types of attendance—6.6 million were categorized as present, while 1.55 million students were considered absent.⁸³⁷ EMIS neither tracks open and closed schools at any given time, nor teacher and student attendance. Figures are not independently verified.⁸³⁸

USAID's priority education programs funded through the ESF this quarter remain:⁸³⁹

- **Basic Education, Literacy and Technical-Vocational Education and Training (BELT):** aims to improve access to basic education in

TABLE 3.30

USAID ACTIVE EDUCATION PROGRAMS				
Project Title	Start Date	End Date	Total Estimated Cost (\$)	Cumulative Disbursements, as of 3/31/2015 (\$)
Global Partnership for Education	10/11/2012	3/31/2015	\$3,108,580	\$1,009,674
American University of Afghanistan, Professional Development Institute	8/1/2013	7/31/2018	40,000,000	12,075,066
Afghanistan Technical Vocational Institute	6/15/2013	6/14/2015	1,000,000	700,000
Strengthening Education in Afghanistan	5/19/2014	5/18/2019	29,835,920	2,076,818
Afghan Tuition Scholarship Program	8/21/2011	7/31/2017	7,384,665	6,398,771
Assessment of Learning Outcomes and Social Effects in Community-Based Education	1/1/2014	12/31/2017	7,262,016	699,801
Afghanistan University Support and Workforce Development Program	1/1/2014	12/31/2018	91,927,769	11,224,116
Increasing Access to Basic Education and Gender Equality	9/17/2014	9/16/2019	54,027,000	54,027,000
BELT-Community Based Education	10/29/2013	10/28/2017	56,000,000	0

Source: USAID, response to SIGAR data call, 4/9/2015.

communities that are typically beyond the government's reach. This quarter USAID issued a request for proposals for a national reading assessment of 2nd and 4th grade students.

- **BELT Community Based Education (CBE):** provides access to basic education in 10 provinces.
- **American University of Afghanistan (AUAF):** USAID signed an agreement to fund eight undergraduate and five graduate students.
- **Afghanistan University Support and Workforce Development Program (USWDP):** helps create and tailor higher education curricula based on market needs.
- **Education Quality Improvement Project (EQUIP):** focuses on teacher training. More than 84,000 teachers have been trained with U.S. government assistance.

A full list of USAID's active education programs can be found in Table 3.30.

University Support and Workforce Development Program

The five-year, \$92 million USWDP aims to improve the management capacity of the Ministry of Higher Education (MOHE) and of 10 universities to increase the number of professionally qualified Afghan men and women in the private and public sectors. The program also links universities and employers, helps tailor curricula to meet market demand, and strives to create a new or substantially enhanced degree at each university.⁸⁴⁰

So far, an information-technology associate degree program was launched at Kabul Polytechnic University with a class of 38 students, eight of whom are women. At Kabul University, 28 students (including eight

women) are enrolled in the second cohort of the master’s program in public policy and administration, while bachelor’s and master’s programs in business administration were launched. USAID warned that establishing new degree programs is challenging given the substantial policy work required by MOHE and university leadership.⁸⁴¹

SIGAR AUDIT

A SIGAR audit initiated this quarter on USAID’s efforts to support and improve Afghanistan’s healthcare services and focuses on the extent to which USAID assessed the overall impact of its efforts and the extent to which USAID collects, verifies, and reconciles healthcare data to determine its accuracy. For more information, see Section 2, page 28.

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.⁸⁴² 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.⁸⁴³

In 2015, Afghanistan’s Central Statistics Organization and MOPH, in partnership with USAID, will conduct the country’s first Demographic and Health Survey to help the Afghan government develop modern health and social programs. USAID said it will use the “gold standard” in survey research, providing rigorous data in all 34 provinces of the country on issues such as marriage rates, fertility levels and preferences, family planning, maternal and child nutrition, mortality, health, as well as social indicators. The results will be compiled according to international standards and be easily comparable to results collected in other countries.⁸⁴⁴

USAID Funding

From FY 2002 through FY 2013, U.S. on- and off-budget assistance disbursed to Afghanistan’s health sector totaled more than \$913 million.⁸⁴⁵ From FY 2014 through FY 2018, USAID assistance will total \$383 million.⁸⁴⁶ 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.⁸⁴⁷ USAID’s active health programs are listed in Table 3.31.

Partnership Contracts for Health Services

The host-country Partnership Contracts for Health (PCH) Services program supports the MOPH’s efforts to provide the Basic Package of Health Services—maternal and newborn health, child health and immunizations, public nutrition, communicable disease prevention, mental health, disability services, and supply of essential drugs—in 13 provinces and the Essential Package of Hospital Services in five provinces.⁸⁴⁸ PCH supports health care at over 6,000 health posts that provide limited curative care 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.⁸⁴⁹

USAID said its health-sector priorities are to document through its monitoring system how PCH supports health-service delivery, share lessons learned with the MOPH and World Bank, and ensure PCH's smooth transition to the World Bank-administered System Enhancement for Health Action in Transition. PCH is scheduled to expire in December 2015.⁸⁵⁰

TABLE 3.31

USAID ACTIVE HEALTH PROGRAMS				
Project Title	Start Date	End Date	Total Estimated Cost (\$)	Cumulative Disbursements, as of 3/31/2015 (\$)
Strengthening Pharmaceutical Systems	8/28/2011	8/27/2015	\$24,499,936	\$19,320,374
Polio-Eradication Activities	9/30/1996	9/30/2022	10,830,615	9,265,102
Tuberculosis Care	9/29/2010	9/28/2015	5,600,000	4,600,000
Health Policy Project	9/25/2011	6/30/2015	29,732,652	26,475,988
Partnership for Supply Chain Management	6/1/2009	9/26/2015	894,402	394,402
Partnership Contracts for Health	7/20/2008	12/31/2015	259,663,247	210,034,769
Improving Nutrition Through Multi-Sectoral Approaches	11/7/2014	12/31/2017	5,610,012	5,408,826
Disease Early Warning System	9/1/2008	6/30/2017	8,500,000	8,500,000
Family Planning, Maternal, Neonatal, and Child Health Project	1/7/2015	1/6/2020	60,000,000	84,213
Deliver	9/30/2010	9/29/2015	13,535,571	11,720,015
Demographic and Health Surveys	9/9/2013	9/8/2018	5,453,731	293,586
Leadership Management and Governance Field Support	9/25/2012	6/30/2015	37,853,384	32,007,979

Source: USAID, response to SIGAR data call, 4/9/2015.

