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ECONOMIC AND SOCIAL DEVELOPMENT

As of December 31, 2015, the U.S. government has provided more than \$31.8 billion to support governance and economic and social development in Afghanistan. Most of these funds—nearly \$18.6 billion—were appropriated to the U.S. Agency for International Development’s (USAID) Economic Support Fund. Of this amount, \$17.1 billion has been obligated and \$13.7 billion has been disbursed.⁵⁴⁷ The Consolidated Appropriations Act, 2016, provided additional funding for the Economic Support Fund, but the total amount designated for Afghanistan will not be known until the State Department (State) completes the fiscal year (FY) 2016 congressional notification process.

KEY EVENTS

This quarter saw several developments that could affect Afghanistan’s prospects for economic and social development:

- Afghanistan began FY 1395 (December 22, 2015–December 21, 2016) without an approved budget, but parliament approved a \$6.6 billion budget on January 18, 2016.⁵⁴⁸
- Domestic revenues collected in the first 11 months of FY 1394 (December 22, 2014–December 21, 2015) rose 21.1% above the same period in FY 1393, covering 40% of total expenditures. Expenditures increased 1.1% compared to the same period last year.⁵⁴⁹
- On December 17, 2015, World Trade Organization (WTO) trade ministers approved Afghanistan’s terms of accession. Afghanistan has until June 30, 2016, to ratify the deal, which the government hopes will create new economic opportunities.⁵⁵⁰
- The International Monetary Fund (IMF) issued an updated assessment of Afghanistan’s economic development and policies, known as the Article IV consultation report, which included a review of Afghanistan’s performance under the Staff-Monitored Program. It concluded that while progress has been made toward implementing macroeconomic policies and a structural-reform agenda, Afghanistan’s economy is dependent on the government’s commitment to these reforms, improved security conditions, and continued donor support.⁵⁵¹

ECONOMIC PROFILE

Every other South Asian economy grew faster than Afghanistan's in 2014 and 2015, a trend the Asian Development Bank (ADB) expects to continue in 2016.⁵⁵² Agriculture drives Afghanistan's economy and is the main source of gross domestic product (GDP), employment, and subsistence, according to the World Bank.⁵⁵³ The IMF said, "Apart from agriculture, (recent) economic activity has been subdued."⁵⁵⁴ Agricultural output and income, though, fluctuate with the weather and economic growth based on this sector is necessarily volatile.⁵⁵⁵ Meanwhile, construction, trade, and services, all of which previously benefitted from the Coalition's large presence, security spending, and aid flows, now remain depressed.⁵⁵⁶ Generally, the Afghan government said economic conditions were "not conducive to the kind of private sector investment that could drive a diversified and sustainable economy."⁵⁵⁷

"While opium is omitted from official GDP estimates, its earnings boost domestic demand and are a significant source of foreign exchange."

Source: Asian Development Bank, *Outlook 2015*, 3/2015, p. 167.

Afghanistan's real (net of inflation) GDP, excluding opium, slowed significantly in 2014 to a World Bank-estimated \$20 billion—1.3% growth versus 3.7% in 2013. The World Bank projected Afghanistan's real GDP to grow 1.9% in 2015 to \$20.4 billion, with medium-term performance expected to remain sluggish because of the deteriorating security environment. Afghan economic growth prospects, according to the World Bank, depend on the government's progress on reforms, the country's ability to create a sufficient number of jobs to meet the growing demand, and improved security.⁵⁵⁸

Private investment declined in 2014 and remained flat in 2015, according to the World Bank, which is indicative of Afghanistan's risky market conditions and political developments. The number of new firm registrations—a measure of investor confidence—in 2014 dropped 26% across all economic sectors. New firm registration in the first six months of 2015 matched 2014, year-on-year.⁵⁵⁹ The ADB reported that investor and consumer confidence was low in the first half of 2015 as the political and security situation declined and the government struggled to deliver anticipated reforms. Foreign direct investment declined by 30%.⁵⁶⁰

Consumer price inflation, for both food and non-food items, dropped to an IMF-estimated average -1.3% in 2015 compared to 1.4% in 2014. This was attributed to weak economic activity, declining global food and fuel prices, and waning domestic demand.⁵⁶¹ The World Bank said this deflationary pressure on Afghanistan's economy was being offset by the inflationary pressure of their currency, the afghani, depreciating against the U.S. dollar. Exchange-rate depreciation would normally cause higher consumer prices for an import-dependent nation like Afghanistan, but this was offset by declining global prices.⁵⁶²

The Afghan government acknowledged that the speed, scale, and depth of its economic crisis and associated human costs is unsustainable. Although it is working with the IMF and other donors on long-term

reforms to the economy, the government reported that the country is suffering from a major economic downturn that has led to “large-scale job loss, deep popular unhappiness, widespread human suffering, and a large upswing in out-migration as disillusioned Afghans leave for Europe and beyond.”⁵⁶³

The government said it miscalculated the economic costs of the Coalition withdrawal. Lower foreign military spending has reduced demand for services, leading to tens of thousands of jobs lost, and negatively impacted domestic demand for products and services. Meanwhile, the strength of the insurgency has caused the government to spend more on the military and less on job-creating investments, reducing its ability to provide jobs for an estimated 700,000 Afghans entering the workforce annually, including 400,000 high school and college graduates.⁵⁶⁴ In response, President Ashraf Ghani announced this quarter a jobs-focused stimulus and stabilization program—Jobs for Peace—that aims to provide short-term, labor-intensive employment in rural and urban areas.⁵⁶⁵ For more information, see pages 121–123 of this report.

Afghanistan’s Fiscal Outlook

Afghanistan’s fiscal vulnerability remains high, according to the World Bank, and will require a large increase in revenues and sustained levels of aid. Its medium-term economic outlook is “unfavorable.”⁵⁶⁶ While domestic revenues have increased, the World Bank said security costs have grown beyond donors’ initial projections.⁵⁶⁷ The 2012 NATO summit in Chicago predicted Afghanistan’s contribution to the Afghanistan National Defense and Security Forces (ANDSF) costs would be at least \$500 million in 2015.⁵⁶⁸ Afghanistan did not meet this commitment.⁵⁶⁹

The Department of Defense (DOD) reported that the Afghan economy cannot grow quickly enough in the next five years to cover a significantly larger share of ANDSF costs. Those costs were estimated at \$5.4 billion in FY 2015, of which the United States paid \$4.1 billion. FY 2016 costs are projected to be \$5 billion.⁵⁷⁰

FY 1394 Revenues and Expenditures Update

Total collected domestic revenues—a figure that excludes donor grants—stood at 106.7 billion afghanis (AFN) (\$1.6 billion) in the first 11 months of FY 1394, about 21.1% above the same period in FY 1393, but below initial targets.⁵⁷¹ The Afghan government is close to meeting the IMF’s revised (lower) 2015 revenue target of AFN 114.2 billion.⁵⁷²

Still, domestic revenues paid for less than half (40%) of Afghanistan’s total budget expenditures of AFN 266.8 billion (\$4.0 billion) in that time; donor contributions make up the difference. Afghan government expenditures in FY 1394 increased by AFN 3.0 billion (by 1.1% or \$45.1 million in current dollars) compared to the same period last year.⁵⁷³

Donor funding commitments made at the 2012 Chicago summit were for ANDSF only, which comprises the Afghan National Army and Afghan National Police. Afghanistan’s other security-related expenditures—the National Directorate of Security and the Presidential Protective Service, for example—are funded through other means.

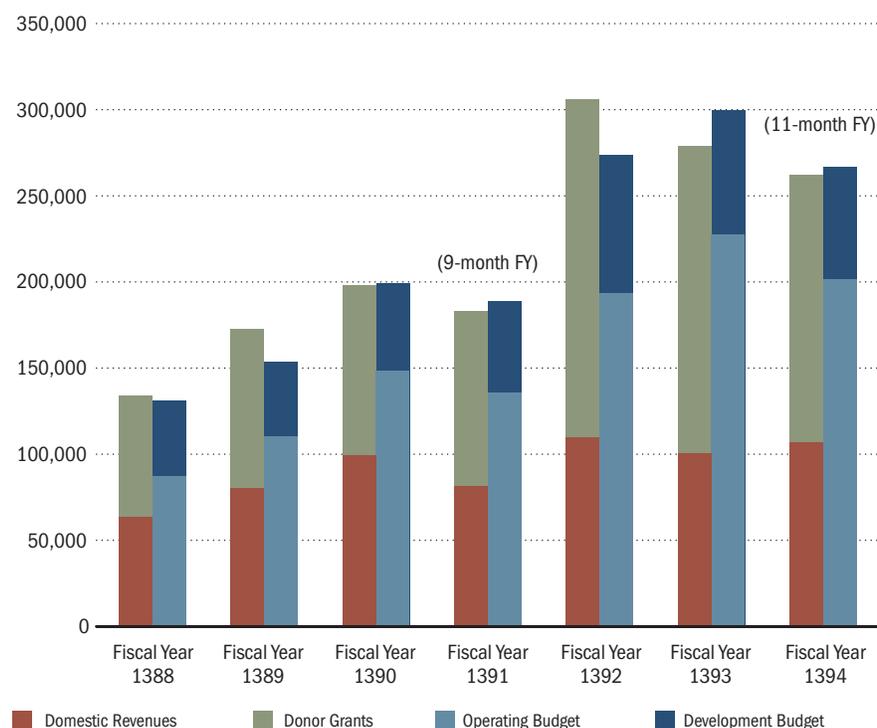
Source: DOD, *Enhancing Security and Stability in Afghanistan*, 12/2015, p. 79.

FY 1394 Budget Gap

Afghanistan's fiscal gap is large. Donor assistance either narrows or closes this gap, as depicted in Figure 3.29. In the first 11 months of FY 1394, Afghanistan had a \$2.4 billion total budget deficit against domestic revenues; donor contributions reduced that deficit to \$72.2 million. The operating budget, which includes recurring costs such as public-sector payroll, would have had a \$1.4 billion deficit if not for donor assistance, which produced a \$205.3 million surplus. Without donor assistance, the development budget would have had a \$963.5 million deficit. After donor funds, the deficit was reduced to \$277.5 million.⁵⁷⁴

FIGURE 3.29

AFGHANISTAN'S DOMESTIC REVENUES AND DONOR GRANTS COMPARED TO OPERATING AND DEVELOPMENT BUDGET EXPENDITURES (AFN 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 generally run December 22 through December 21. Grants represent funds received from donors. Donor grants are often for specific projects or activities, but can sometimes be spent at GIROA's discretion. FY1394 is first 11 months only. FY 1394 operating and development budget revenue and expenditure data are as of 12/3/2015.

Source: MOF, *Aqrab Financial Statements FY 1394, 12/3/2015*; MOF, "Annual Fiscal Report 1393," 3/12/2015; MOF "1394 National Budget," 1/28/2015; MOF, "1393 National Budget," 2/1/2014.

A fiscal gap can widen or shrink, depending on variables including budget-execution rates, donor grants received, qualification for donor incentive funds, revenue collection, and changing expenditures.⁵⁷⁵ As this report was being prepared for press, the Afghan parliament approved a \$6.6 billion national budget for FY 1395 on January 18, 2016.⁵⁷⁶

International Monetary Fund Staff-Monitored Program

On November 3, 2015, the IMF completed the results of its first review of Afghanistan's implementation of macroeconomic policies and structural-reform agenda under the Staff-Monitored Program, which ran April–December 2015. It deemed Afghanistan's performance satisfactory, but the deteriorating security environment and delays in forming a government complicated implementation efforts. Most June 2015 fiscal and monetary quantitative targets were met, as were the September **indicative targets**, except for social and other priority spending targets. Revenue missed its September target by AFN 500 million.⁵⁷⁷

Progress on structural benchmarks through June 2015 was slower than planned. Revenue-generation measures like increased business-receipt taxes, fuel fees collected at customs, and a new telecommunications tax were delayed by several months. However, a new banking law was enacted in August and the structural benchmark for hiring an independent auditor to audit bad-debt recoveries at an unnamed state bank was met in September. The benchmark of issuing a regulation on currency reporting also was met, and was to be strengthened by the end of 2015.⁵⁷⁸

The IMF also said earlier bank reforms are not progressing as quickly as anticipated. All weak Afghan banks were subject to enforcement actions in 2015, notably two vulnerable publicly unidentified banks. One of these banks increased its capital and reduced foreign-exchange exposure. The other prepared a five-year operating strategy that is under review, hired chief operating and credit officers, but not a chief executive officer. Its capital targets appear to have been met as of June.⁵⁷⁹

Overall, the IMF concluded that while progress has been made, Afghanistan's economy is dependent on the government's commitment to reforms, improved security conditions, and continued donor support. IMF staff recommended the government step up efforts to mobilize revenue, prioritize spending, improve budget management, instill confidence in its currency, and "vigorously" implement their new banking, anti-money laundering, and combating the financing of terrorism laws and regulations. Staff said the Afghan authorities are aware of the challenges and are committed to reform.⁵⁸⁰

Trade

Afghanistan's trade balance—negative \$8.1 billion (39.6% of GDP) in 2014 and an estimated negative \$8.4 billion (39.2% of GDP) in 2015—is

Indicative targets: quantitative indicators used to help assess progress in meeting objectives of an IMF program, including predictive economic trends where data are uncertain.

Source: IMF, "Factsheet, IMF Conditionality," 4/13/2015.

"The principal connection between the Afghan economy and the rest of the world are donor inflows. These inflows finance most imports and dwarf (licit) exports..."

Source: IMF, *Staff Report for the 2015 Article IV Consultation and the First Review Under the Staff-Monitored Program*, 11/3/2015, p. 13.

unsustainable, and shows an urgent need for an environment that promotes domestic and foreign investment.⁵⁸¹ The Afghan government pledged to simplify the visa process and work to identify ways to “expedite, rather than impede exports.” The government aims to increase the number of border crossings, develop dry ports to advance trade and transit agreements, and increase customs cooperation.⁵⁸²

The IMF noted that like other data from Afghanistan, balance of payments data, which include the current account, suffer from weaknesses in coverage and consistency, but are broadly adequate for surveillance.

Source: IMF, *Staff Report for the 2015 Article IV Consultation and the First Review Under the Staff-Monitored Program*, 11/3/2015, p. 24.

Export and Import Data

Although Afghanistan routinely sustains a large trade deficit, donor aid helped the country maintain an IMF-projected positive current-account balance of 4.5% of GDP—about \$872 million—in 2015. Without it, the IMF estimates Afghanistan would have a current-account deficit equivalent to 38.9% of its GDP—about \$7.9 billion. This estimate is \$416 million (or 32.3%) lower than Afghanistan’s 2014 current account.⁵⁸³

During 2013–2014, Afghanistan exported around \$3.2 billion—\$4 billion worth of goods and services annually, but is projected to export \$2.6 billion in 2015, not including illicit narcotics, according to the IMF.⁵⁸⁴ Unsurprisingly, IMF staff said that Afghanistan needs to increase and diversify its exports, which will stimulate innovation and good management.⁵⁸⁵ During 2013–2014, Afghanistan imported between \$11.3 billion—\$10.8 billion worth of goods and services annually. The IMF estimated Afghanistan’s 2015 imports at more than \$10.6 billion of goods and services, with about \$8.8 billion paid for by official donor grants.⁵⁸⁶

Afghanistan Trade and Revenue Project

USAID’s four-year, \$77.8 million Afghanistan Trade and Revenue (ATAR) project is a trade-facilitation program designed to (1) improve trade-liberalization policies, including support for Afghanistan’s accession to the World Trade Organization; (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.⁵⁸⁷

To achieve sustainable economic growth, job creation, enhanced delivery of government services, and fiscal sustainability, it assumes that the Afghan government will carry out its commitments to reform, and a stable security environment will allow the private sector to take advantage of an improved business climate.⁵⁸⁸

On December 3, 2015, Afghanistan’s Customs Department and central bank expanded a program to allow customs duties in Balkh Province to be paid electronically from any commercial bank, rather than at central bank offices within customs houses. This follows a successful pilot program at Kabul International Airport and at Kabul’s inland customs office completed last quarter. The State Department said electronic payments expedite the release of goods at the border, reduce the need to carry cash, and reduce opportunities for graft.⁵⁸⁹

ATAR's 2015 midterm evaluation found it was able to improve the government's capacity to draft WTO-related legislation when it worked directly with staff, but not when it worked remotely and handed legislation to the government without proper explanation or Afghan input. The government also showed little capacity to implement or comply with WTO-related legislation.⁵⁹⁰ However, USAID said the evaluation took place in the early stages of ATAR's capacity-building efforts; these efforts are ongoing with better results expected over the next two years.⁵⁹¹

World Trade Organization Accession

On December 17, 2015, WTO trade ministers approved terms for Afghanistan's accession to the organization. Afghanistan has until June 30, 2016, to ratify the deal, and would become a full member 30 days after notification. Should that occur, Afghanistan would become the ninth least-developed country to become a member since the organization was established in 1995. Afghanistan applied for membership in 2004.⁵⁹²

Afghanistan's First Deputy Chief Executive described the accession requirements as an engine for achieving sound structural reforms, and a way for the country to embrace market-economy principles, an open and transparent economy, rule of law, good governance, non-discrimination, and market instruments.⁵⁹³ The WTO director-general said approval for Afghanistan's accession was an endorsement of its efforts in this regard.⁵⁹⁴

BANKING AND FINANCE

The World Bank said access to finance remains low and is a major constraint to economic growth. Only 5.7% of Afghan firms are reported to have a bank loan, and only 2% use banks to finance investments. More generally, less than 10% of the Afghan population uses banks,⁵⁹⁵ preferring to hold cash. The ADB said this reflects continued distrust of banks and weak banking-sector performance since the massive Kabul Bank failure.⁵⁹⁶

The IMF reported that lax governance and regulatory enforcement in early 2014 caused the financial positions of some Afghan banks to deteriorate, two of which were characterized as in "hazardous condition." Recognizing the necessity of banking-sector profitability, Afghan authorities, with donor and IMF assistance, began to address banking vulnerabilities in 2015. The IMF said important, albeit delayed, progress was made, including passing a new banking law to strengthen bank governance, amending the anti-money laundering law, improving revenue and customs department capacities, and renewing preparations to sell New Kabul Bank. Additionally, the IMF said supervisory and regulatory enforcement is getting stronger, the restructuring of weak banks continues, and the newly established Bad Debt Commission is helping recover nonperforming loans (participation for public banks is required, but voluntary for private banks).⁵⁹⁷

“Our country’s accession to the WTO will serve as a catalyst for domestic reforms and transformation to an effective and functioning market economy that attracts investment, creates jobs and improves the welfare of the people of Afghanistan.”

—President Ashraf Ghani

Source: WTO, “Afghanistan WTO Accession Package Ready for Formal Adoption in Nairobi,” 11/11/2015.

APFM is the United States' principal off-budget effort to help strengthen the Afghan government's ability to generate domestic revenue, manage its budget, and become more fiscally sustainable. It aims to build the government's capacity for forecasting revenue; increase payment compliance, collection, and transfers to the treasury; and strengthen budget planning, execution, monitoring, reporting, and coordination.

Source: USAID, response to SIGAR data calls, 9/23/2015 and 10/8/2015; USAID, Contract Number AID-306-TO-15-00065, 7/27/2015.

U.S. Treasury Assistance

The U.S. Treasury's Office of Technical Assistance (OTA) continued implementing its March 23, 2015, agreement to develop technical assistance and capacity-building programs for Afghanistan's Ministry of Finance (MOF).⁵⁹⁸

Budget and Treasury Management

This quarter, OTA conducted its third mission to Kabul, December 1–14, to discuss cooperation and capacity building for budget and treasury management with MOF officials, U.S. embassy in Kabul staff, and donor partners.⁵⁹⁹ OTA clarified key MOF needs, including support for the macro-fiscal policy directorate, guidance on linking national planning programs to the national and provincial budgeting process, and development of baseline budgets and forward estimates. OTA expects new budget processes to help the MOF make more informed decisions about unavoidable budget reductions in the future.⁶⁰⁰

The MOF also provided feedback to OTA's proposal to strengthen Afghanistan's policy development, budget formulation and results monitoring process. OTA will incorporate some key concepts of the national planning system already developed by the Afghan government.⁶⁰¹ Additionally, OTA met with USAID about their Afghanistan Public Financial Management (APFM) project, which will include budget and revenue technical assistance, and about their joint development of a five-year fiscal performance management improvement plan for the MOF that will be linked to New Development Partnership and Afghanistan Reconstruction Trust Fund incentive milestones.⁶⁰²

Banking and Financial Services

OTA embarked on an initial assessment mission in September 2015 to strengthen Afghan bank supervision and problem-bank resolutions. OTA is seeking funding from USAID to support a banking-supervision assistance program for Afghanistan's central bank. Meanwhile, OTA is reviewing the central bank's five-year supervision action plan, and is discussing assistance plans with other donors, including the World Bank, USAID, and the United Kingdom's Department for International Development (DFID), to better understand how the potential work of OTA advisors would relate to other efforts.⁶⁰³

Challenges

OTA said security-imposed travel restrictions are a major constraint in establishing a more sustained presence in Afghanistan. A revised threat assessment by the U.S. Embassy in Kabul in November limits the types of missions it will allow and the length of stay for visiting officials to three to four days. The embassy also said it lacks housing for U.S. personnel.⁶⁰⁴

OTA also said additional funding is needed for more robust engagement with Afghan authorities in FY 2016. USAID is finalizing an interagency agreement that would provide \$2 million for OTA budget, banking, and

tax assistance activities. The State Department's Bureau of International Narcotics and Law Enforcement is preparing an agreement to provide \$178,000 for OTA assistance to help Afghan authorities combat economic crimes.⁶⁰⁵

Financial Action Task Force

At its most recent plenary session in Paris, France on October 21–23, 2015, the **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.” This means that while Afghanistan has strategic AML/CFT deficiencies, its government has developed an action plan, made a high-level political commitment to address those deficiencies, and is making progress.⁶⁰⁶

In October, FATF reported on Afghanistan's progress since the June 2015 plenary, issuing a “fit and proper” regulation for the financial sector, and a regulatory framework to implement a cross-border system to detect the transportation of cash and bearer negotiable instruments.⁶⁰⁷ Treasury had previously said that Afghanistan's draft banking law, which required prospective bank owners to be deemed “fit and proper” contained a problematic loophole 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).⁶⁰⁸

FATF determined that certain strategic deficiencies remain and urged Afghanistan to further implement its legal framework for identifying, tracing, and freezing terrorist assets; implement an adequate AML/CFT oversight program for all financial sectors; and further establish and implement effective controls for cross-border cash transactions.⁶⁰⁹ Treasury explained that Afghanistan's efforts to resolve deficiencies in its cross-border declaration system at airports are greatly hampered by general capacity limitations and resource challenges that are exacerbated at porous land borders in often fractious areas. Treasury remains concerned about these deficiencies and Afghanistan's implementation of the legal framework for freezing terrorist assets.⁶¹⁰ This is the fifth consecutive FATF review in which Afghanistan has maintained this status since being downgraded to the “gray” list in February 2014.⁶¹¹

Kabul Bank Theft Accountability

Under the Tokyo Mutual Accountability Framework, the basis for donor support to Afghanistan until September 2015, the Afghan government was required to take all possible steps to recover more assets stolen from Kabul Bank. However, the current basis for support, the Self-Reliance through Mutual Accountability Framework (SMAF), does not. Instead, SMAF includes a general “zero-tolerance” for corruption policy and calls for transparent and accountable governance.⁶¹²

Financial Action Task Force (FATF): an intergovernmental policy-making body that sets standards and promotes effective implementation of legal, regulatory, and operational measures for combating money laundering, terrorist financing, and other related threats to the integrity of the international financial system. Its 36 members include the United States, United Kingdom, Switzerland, and the European Union; observers include the UN and the Asian Development Bank.

Source: Financial Action Task Force website, “Who We Are,” and “Members and Observers,” accessed 1/3/2016.

The U.S. Treasury and the FATF

Treasury leads the U.S. delegation to the FATF and participates closely in all 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 October 2015 FATF plenary. 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. It then works to establish consensus with fellow FATF members during deliberations.

Source: Treasury, response to SIGAR data call, 12/30/2015.

The United States continually stresses in meetings with Afghan officials that it will hold the government accountable to its promises to address endemic corruption, including taking action against those responsible for the more than \$900 million stolen from Kabul Bank.⁶¹³ However, while some U.S. funding through the \$800 million New Development Partnership with the Afghan government is tied to anticorruption initiatives, none is explicitly conditioned on resolving the Kabul Bank case.

The U.S. Department of Justice (DOJ) said Afghan authorities have been successful recently in continuing to monitor and arrest low-level Kabul Bank debtors, but not in adhering to the rule of law regarding the Kabul Bank judgment. In August 2015, the Afghan government released convicted ex-Kabul Bank chief executive officer Khalilullah Ferozi from prison, reportedly at behest of high-ranking Afghan government officials, after he had served only a fraction of his 10-year sentence.⁶¹⁴ DOJ and State said Ferozi has returned to prison to serve out his remaining sentence.⁶¹⁵ Ferozi and ex-Kabul Bank Chairman Sherkhan Farnood are two of 36 individuals and companies who were convicted in the nearly \$1 billion theft that brought the bank near collapse in 2010.⁶¹⁶

DOJ was not aware of any new investigations this quarter.⁶¹⁷ According to State, cases referred to Afghanistan's Attorney General's Office (AGO) have not progressed and it remains to be seen whether the AGO has the political will to carry out prosecutions. State added that the AGO's Anti-Corruption Unit does not currently possess the necessary political will to be fully effective.⁶¹⁸

For its part, the AGO said it provided names of Kabul Bank debtors who have not signed a repayment agreement with the government to Afghan authorities, but no arrests were made.⁶¹⁹ The AGO also added Ahmad Fahim Turab to the no-fly list. An employee of the Shaheen Money Exchange, Turab was one of Farnood and Ferozi's 16 aiders and abettors.⁶²⁰ On June 22, 2015, President Ghani set a one-week deadline for debtors to settle their accounts or be referred to the AGO for prosecution and banned from leaving the country.⁶²¹ Last quarter, the AGO listed 14 primary Kabul Bank debtors who failed to settle their obligations on official no-fly lists, although it is believed that they are no longer living in the country.⁶²²

Khalilullah Ferozi and the "Smart City" Project

Ferozi was introduced as a major contributor to a government-backed land development project this quarter. On November 4, 2015, the Afghan government inaugurated a \$900 million "Smart City Township" project in a ceremony that featured Ferozi; President Ghani's legal advisor and head of the Kabul Bank Clearance Committee, Dr. Abdul Ali Mohammadi; Special Representative for Reforms and Good Governance Ahmad Zia Massoud; and Minister of Urban Development Sayed Saadat Mansur Naderi. Ferozi was supposed to be in prison, but instead he was introduced at the ceremony as a shareholder and signed a memorandum of understanding

with Minister Naderi through which he would provide land for the project and the Nabi Zada Construction Company would perform the work.⁶²³ Dr. Mohammadi said this collaboration is part of a plan to enable Kabul Bank debtors to start businesses to help satisfy their debts.⁶²⁴

The collaboration with Ferozi seemed to contradict the intent of President Ghani's October 2014 decree ordering the pursuit and prosecution of all those involved in the Kabul Bank case, as well as the government's September 2015 self-graded assessment that its actions taken in response to Kabul Bank broke the "aura of impunity that had surrounded high level malfeasance."⁶²⁵ The Afghanistan Analysts Network reported palace insiders describing "scenes of stunned disbelief and exasperation when the news broke."⁶²⁶

Afghan officials initially defended the arrangement but, on November 7, 2015, President Ghani declared the memorandum of understanding nonbinding, null, and void; reaffirmed that no government branch outside the judiciary has the authority to amend the court's verdict against Ferozi; and ordered a review on transferring Ferozi's property to the government as compensation for his debts.⁶²⁷ Ferozi is reportedly back in prison.⁶²⁸ On November 18, President Ghani suspended his legal advisor, Dr. Mohammadi, relieving him of all responsibilities, and ordered an investigation into the Kabul Bank loan-recovery process. Mohammadi, the only person held accountable so far, reportedly told parliamentarians that President Ghani and the Kabul Bank Clearance Committee—established by a March 2015 presidential decree to look into and help resolve the Kabul Bank case—knew in advance of the Smart City project plan and its association with Ferozi.⁶²⁹

Cash and Asset Recoveries

The Kabul Bank Receivership (KBR) informed the Justice Department that *actual* recoveries reportedly stand at \$250.9 million as of October 29, 2015, \$4.7 million more than reported last quarter. KBR also reported *total* recoveries—a new category—of \$569.2 million. This figure comprises cash recoveries, forgiven Kabul Bank debts, and assets recovered or seized, as well as the amount still owed by 12 major debtors who signed loan-repayment agreements in 2015, typically to be indemnified within three to five years. KBR calculated the outstanding loan portfolio at \$417.8 million. DOJ is unaware of any Afghan government rationale for the methodology it uses to calculate recoveries—actual or total—from Kabul Bank debtors.⁶³⁰ However, the methodology may be contained in the monthly KBR activity and cost reports, which include the status and financial details of asset recovery, required by the IMF's Staff Monitored Program.⁶³¹

Farnood and Ferozi Repayments

The Afghan government has been unable to compel full repayment from Farnood and Ferozi.⁶³² Farnood, who also remains in prison, is said to have paid back approximately \$62 million in cash—not quite 11% of his

SIGAR INVESTIGATION

As a result of SIGAR's investigation that uncovered corruption in the award of a nearly \$1 billion, multi-year Afghan Ministry of Defense fuel contract, this quarter the Afghan government requested SIGAR's assistance in helping it recover some of the funds stolen from Kabul Bank. SIGAR agreed to provide support.

\$571.6 million obligation—as well as \$18.2 million in assets. KBR’s estimates of what the two men owe is dramatically lower than the judgment of Afghanistan’s appellate court. According to the KBR, Farnood still owes \$336.8 million.⁶³³ The KBR puts Farnood’s total obligations at \$417 million, or \$155 million lower than the appellate court judgment.⁶³⁴

KBR has reportedly collected approximately \$10.1 million from Ferozi—about 3% of the \$333.8 million court judgment, which includes embezzled amounts, interest, and fines.⁶³⁵ State said Ferozi also pledged \$127 million in collateral assets, which the KBR considers a recovery.⁶³⁶ KBR puts Ferozi’s total obligations at approximately \$137.2 million, or \$197 million lower than the appellate court judgment.

After Kabul Bank’s near-collapse in 2010, the MOF issued an eight-year, \$825 million bond to the central bank to compensate it for the losses it incurred. Repayments by the government, which sometimes include the proceeds of recovered Kabul Bank assets, are to be made quarterly through budget appropriations. Parliament has not consistently authorized these repayments, while payments that were authorized are in arrears. No repayments appear to have been made since 2013.

Source: IMF, Islamic Republic of Afghanistan, *Memorandum of Economic and Financial Policies*, 11/1/2011, p. 9; Treasury, response to SIGAR data calls, 6/25/2015 and 12/30/2015.

Cash and Asset Recovery Challenges

The KBR said its main challenge in recovering cash and assets is inadequate pressure on borrowers to repay their debts, primarily because so many have significant political ties or allies. Integrity Watch Afghanistan, a donor-supported independent civil society organization, blamed the Afghan government for lacking the political will to support the KBR and the AGO in their efforts to collect debts.⁶³⁷ Although President Ghani predicted that his government would “make history” by recovering the public money lost in the scandal, State acknowledged KBR’s continuing challenges, and DOJ said it has seen no evidence this quarter that the Afghan government has overcome any of them.⁶³⁸

U.S. Assistance

Justice Department officials met with the Afghan Attorney General, the director of the AGO’s Anti-Corruption Unit, and the deputy director of the Kabul Bank Receivership this quarter. The Justice Department requests to travel with these and other Afghan justice sector representatives to other meetings were either rejected or cancelled by the U.S. Embassy-Kabul’s Regional Security Officer due to security conditions in Kabul.⁶³⁹

In May 2015, Afghanistan requested legal assistance from DOJ to recover Kabul Bank assets. DOJ said mutual legal assistance agreements play a vital role in criminal prosecutions, allowing the prosecuting country to obtain evidence and information they would otherwise not have a legal or jurisdictional basis to collect.⁶⁴⁰ However, DOJ deemed Afghanistan’s request deficient and identified corrective actions needed before DOJ could assist. DOJ reviewed these actions again this quarter with the director of the AGO’s Anti-Corruption Unit. Neither the U.S. Embassy-Kabul nor DOJ received new or revised diplomatic notes, or other official requests, from the Afghan government about recovering Kabul Bank assets and beginning discussions to request mutual legal assistance.⁶⁴¹

DOJ said Afghanistan’s AGO has a critical need for anti-money-laundering training. DOJ continued to provide that training this quarter, hosting a

one-day anti-money laundering program for 32 prosecutors from the anti-corruption and antiterrorism units at the AGO and several representatives from the High Office of Oversight. DOJ said it is too soon to assess whether the trainees have made or will make use of the training.⁶⁴²

New Kabul Bank

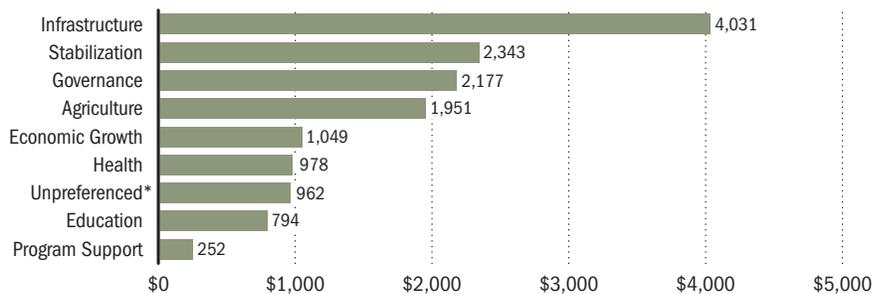
New Kabul Bank (NKB) is a temporary “bridge bank” containing the good assets and deposits from Kabul Bank. NKB operates at a loss, \$65 million over the last six years by one estimate, due in part to its lack of lending portfolio, restrictions on developing lending, and the need to maintain a conservative asset-management strategy prior to its contemplated sale.⁶⁴³ Privatizing NKB, which provides salary payment and direct-deposit services to hundreds of thousands of government employees, has been a long-standing objective of Afghanistan’s central bank and the international community.⁶⁴⁴ Past efforts were unsuccessful.⁶⁴⁵ With IMF assistance, the Afghan government reinitiated efforts to sell NKB and announced a new bid for the bank on December 26, 2015. Responses were due on January 28, 2016. Further details will be provided to qualified investors thereafter.⁶⁴⁶

U.S. ECONOMIC AND DEVELOPMENT SUPPORT

Most assistance from the Economic Support Fund goes toward USAID’s development programs. In September 2015, USAID published an updated Performance Management Plan to guide and measure its development objectives, and articulate its development strategy through 2018. The plan will be reviewed at least annually and updated as necessary.⁶⁴⁷ Figure 3.30 shows USAID assistance by sector.

FIGURE 3.30

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



Note: Numbers rounded. Agriculture programs include Alternative Development. Infrastructure programs include power, roads, extractives, and other programs that built health and education facilities.

* 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, 1/11/2016; SIGAR analysis of World Bank, ARTF, Administrator’s Report on Financial Status, as of December 21, 2015, accessed 1/17/2016.

Development Of Natural Resources

President Ghani listed mining as one of the country's most important economic assets in his September 2015 interview with SIGAR. So far, however, mining has contributed only slightly to the country's GDP.⁶⁴⁸ Actual receipts were only about AFN 613 million (31% of the budget projection) in the first 11 months of FY 1394. Compared to the same time last year, extractives revenue decreased approximately 33.5%.⁶⁴⁹ The need for infrastructure financing, progress on regulatory and legislative frameworks, and an improved security environment make the timing of significant revenues from this sector uncertain.⁶⁵⁰

The majority of mining contracts and tenders are still being reassessed by the Ministry of Mines and Petroleum (MOMP) due to what the minister called a lack of transparency in the award process under the Karzai administration.⁶⁵¹ USAID said the Afghan government is taking a slow, methodical approach to the sector until it feels it has the capacity to manage tenders and contracts, and has instructed the MOMP to proceed cautiously.⁶⁵²

Mining Investment and Development for Afghan Sustainability

USAID's Mining Investment and Development for Afghan Sustainability (MIDAS) program aims to strengthen MOMP and relevant private sector entity capacities to exploit Afghanistan's natural resources, in accordance with international standards.⁶⁵³ In recent months, Minister of Mines and Petroleum Daud Saba has put a hold on new drilling activities. USAID said he modified the types of assistance he wanted from MIDAS. He requested MIDAS be rescoped to help develop legal and institutional frameworks, followed by on-the-job trainings, for the sustainable and efficient development and exploitation of Afghanistan's natural resources.⁶⁵⁴

Also this quarter, MIDAS advisors continued training Afghan Geological Survey staff to prepare, process, and analyze samples for a future granite tender. MIDAS also supported geospatial/geographic-data training, and geophysics training for Geological Survey staff; legal training on mineral-contract reviews and negotiations for MOMP legal advisors; and gender awareness training for extractives sector employees.⁶⁵⁵ MIDAS and USAID's other extractives-assistance programs are listed in Table 3.22.

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.⁶⁵⁶ 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 fuel imports.⁶⁵⁷ The country imports 10,000 tons of oil products a day from Turkmenistan, Uzbekistan, Russia, Pakistan, and Iran, representing roughly one-fourth of all annual Afghan imports, or approximately \$1.5 billion.⁶⁵⁸

SIGAR AUDIT

This quarter, SIGAR published the second of two reports focused on the U.S. efforts to develop Afghanistan's extractive industries. It determined that these programs had mixed success, largely due to challenges in dealing with the Afghan government. The report recommended that the USAID administrator (1) use the results of the assessments done to date to develop a plan with the MOMP and its component organizations addressing the structural reforms needed at the ministry and establish milestones for achieving them; and (2) condition any future on-budget assistance to the MOMP on the ministry achieving the milestones in the agreed-upon plan. For more information, see pp. 18–22.

TABLE 3.22

USAID EXTRACTIVES-ASSISTANCE PROGRAMS				
Project Title	Start Date	End Date	Total Estimated Cost (\$)	Cumulative Disbursements, as of 12/31/2015 (\$)
Sheberghan Gas Generation Activity (SGGA)	12/21/2011	7/31/2016	\$30,440,958	\$23,178,440
Sheberghan Gas Development Project (SGDP)	5/15/2012	8/31/2016	90,000,000	21,895,875
Mining Investment and Development for Afghan Sustainability (MIDAS)	3/31/2013	3/30/2016	50,096,175	24,351,004

Source: USAID, response to SIGAR data call, 1/11/2016.

Sheberghan Programs

The Sheberghan gas fields hold the potential for cheap natural-gas-generated power that could be competitive with imported power from Uzbekistan, according to the World Bank.⁶⁵⁹ 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 \$30.4 million, off-budget Sheberghan Gas Generation Activity (SGGA) for capacity building and technical assistance to the MOMP.⁶⁶⁰

Although the entire Sheberghan program is behind its original 2012 schedule due to a year-long absence of a minister of mines and petroleum, and because the government had to replace almost the entire Afghanistan Petroleum Authority staff, this quarter, USAID said SGDP is keeping to its revised schedule. Turkish Petroleum Corporation, SGDP's drilling contractor, succeeded in drilling one new well and rehabilitating another.⁶⁶¹

SGGA issued and received responses to a request for proposals for evaluating data and reserve estimates for seven Sheberghan gas fields; helped train Afghanistan Petroleum Authority staff on drilling contract payment processes; and briefed the authority's leadership on critical drilling program administrative matter.⁶⁶² In November, SGGA reported that the MOMP continued to demonstrate an inability and unwillingness to make petroleum operation-related decisions. For example, the ministry refused to remove a well from a drilling contract and appointed a committee to study the matter, even though the same study had already been conducted by the Afghanistan Petroleum Authority and USAID had already rescinded funding. The delay in the ministry's decision to cancel a second well also far exceeded commercial industry norms.⁶⁶³

AGRICULTURE

Agriculture continues to be the main source of employment and subsistence for the Afghan population, accounting for about 25% of GDP, employing more than 50% of the labor force, and affecting 75% of Afghans who depend

on agricultural activities for their livelihoods.⁶⁶⁴ USAID believes agriculture can stimulate and sustain Afghan-led economic growth. USAID's agricultural projects focus on wheat, high-value horticultural crops, and livestock, and aim to help farmers improve their output and sales through new technology, management practices, and the cultivation of key high-value crops, while also focusing on improving natural-resource management, and creating or rehabilitating irrigation and drainage systems.⁶⁶⁵

USAID is implementing two projects previously under the auspices of the U.S. Department of Agriculture that are aimed at strengthening the capacity of the Ministry of Agriculture, Irrigation, and Livestock (MAIL): (1) The Afghan Agricultural Extension Program, which has established 268 farmer field schools and trained more than 1,300 government staff; and (2) the Capacity Building and Change Management Program, which has already placed specialists at 14 of MAIL's provincial-level affiliates, conducted monitoring and evaluation training, and helped coordinate between the various donor programs.⁶⁶⁶

Since 2002, USAID has disbursed nearly \$2.0 billion to improve agricultural production, increase access to markets, and develop income alternatives to growing poppy.⁶⁶⁷ Pages 98–103 of this quarterly report discuss USAID's alternative-development programs. A list of all active USAID agriculture programs is found in Table 3.23.



An Afghan family stands in their vineyard, trellised with U.S. aid. (USAID/CHAMP photo)

Agricultural Economic Activity in Regional Economic Zones

Economic activity in southern Afghanistan is dependent on the security situation on the ground. USAID said economic activity in Kandahar is growing, with grapes and pomegranates particularly promising. Wheat is still a major economic activity in Helmand even though security has deteriorated there. USAID agriculture programs are working to improve business ties between Helmand wheat producers and buyers, particularly in Kandahar, a net consumer of wheat. Programs in Zabul are focusing on figs and stone fruits, but in Uruzgan—potentially the least secure of the four provinces—agricultural economic activity is more constrained but projects continue to support orchard and vegetable crops, as well as wheat and livestock.⁶⁶⁸ In FY 2016, USAID programming will focus on almonds in targeted districts in Uruzgan.⁶⁶⁹

Economic activity in the northern economic zone, paralleling Highway 1, particularly in the Mazar-e Sharif area, is increasing, according to USAID. However, the economic zone following the road through Baghlan and Kunduz Provinces to Tajikistan is experiencing a slowdown in economic activity due to the heightened insecurity in the region.⁶⁷⁰

Agricultural Credit Enhancement II

The Agricultural Credit Enhancement (ACE) II project is the technical-assistance/advisory support component of the conditions-based Agricultural

ECONOMIC AND SOCIAL DEVELOPMENT

TABLE 3.23

USAID ACTIVE AGRICULTURE PROGRAMS				
Project Title	Start Date	End Date	Total Estimated Cost (\$)	Cumulative Disbursements, as of 12/31/2015 (\$)
Afghanistan Agriculture Extension Project II (AAEP-II)	10/1/2014	9/30/2017	\$19,814,702	\$6,831,775
Agriculture Credit Enhancement II (ACE II)	6/24/2015	6/23/2018	18,234,849	1,586,787
Capacity Building and Change Management Program II (CBCMP II)	7/10/2014	7/9/2017	19,999,989	9,565,518
Famine Early Warning System Network (FEWSNET) Phase III	12/29/2011	12/28/2016	7,492,739	3,420,553
Strengthening Afghan Agricultural Faculties (SAAF)	3/25/2011	12/31/2016	7,824,209	6,560,129
Mothers and Under-Five Nutrition and Child Health (MUNCH)	12/16/2014	12/31/2016	5,000,000	5,000,000
SERVIR	9/14/2015	9/30/2020	3,600,000	0
Regional Agriculture Development Program (RADP)-South	10/7/2013	10/6/2018	125,075,172	45,241,343
Regional Agriculture Development Program (RADP)-West	8/10/2014	8/9/2019	69,973,376	14,038,692
Regional Agriculture Development Program (RADP)-North	5/21/2014	5/20/2019	78,429,714	13,710,191

Note: Some of the USAID programs listed receive both Alternative Development and Agriculture Development funds. For more information on Alternative Development programs, see Table 3.12 on p. 99 of this report.

Source: USAID, response to SIGAR data call, 1/11/2016.

Development Fund (ADF) that was transitioned to MAIL in December 2014. The USAID-ADF grant to the MAIL extends agriculture-related credit access to small- and medium-sized farms and agribusinesses in all regional economic zones, particularly to those who add value to agricultural products such as distributors, producers, processors, and exporters.⁶⁷¹

ACE II support was modified in November 2015 to help the ADF achieve operational sustainability—operating income that is sufficient to cover operational expenses—within three years. An activity manager was hired to help monitor the ACE II program.⁶⁷² ACE II will continue its other support to ADF by encouraging other financial intermediaries—banks, farm stores, leasing companies, and food processors—to enter into agriculture-related finance.⁶⁷³

This quarter, USAID reported that with ACE help, ADF has cumulatively provided around \$67 million: \$21.8 million in loans to farmers in the north, \$15 million in the central region, \$14.1 million in the east, \$4.1 million in the south, and \$13 million in the west.⁶⁷⁴

ESSENTIAL SERVICES AND DEVELOPMENT

Since 2002, the United States has provided reconstruction funds to increase the electricity supply, 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 these essential services.

Power Supply

Afghanistan has one of the lowest rates of electrification in the world, with an estimated 25–33% of Afghans connected to the power grid.⁶⁷⁵ Most parts of urban areas like Kabul, Herat, Kandahar, and Mazar-e Sharif have 24-hour power, although power outages are common, but only 10% of the rural population have access to grid-connected power.⁶⁷⁶

Afghanistan imports approximately 81% of its total electricity.⁶⁷⁷ Electricity imports are expected to rise in the near term, according to the World Bank, which also noted that limited access to electricity is one of Afghanistan’s biggest constraints to private-sector development.⁶⁷⁸ Afghanistan will need regional cooperation to meet its energy demands.⁶⁷⁹

Regional Energy Initiatives

On December 13, 2015, Turkmenistan, Afghanistan, Pakistan, and Indian leaders attended a ground-breaking ceremony for the development of the Galkynysh gas field that will eventually feed the \$9 billion, 1,127-mile natural gas Turkmenistan-Afghanistan-Pakistan-India (TAPI) pipeline.⁶⁸⁰ The pipeline, as shown in Figure 3.31, will transport up to 33 billion cubic meters of natural gas per year from Turkmenistan to these other countries. Afghanistan will collect a transit fee from those countries for the gas passing

FIGURE 3.31

PROPOSED TURKMENISTAN-AFGHANISTAN-PAKISTAN-INDIA (TAPI) PIPELINE



Source: U.S. Energy Information Administration, *Overview of Oil and Natural Gas in the Caspian Sea Region*, 8/26/2013, p. 24; Council on Foreign Relations, *Building The New Silk Road*, 5/25/2015, p. 3.

through its territory.⁶⁸¹ The Minister of Mines told parliament that a 7,000 member security force will guard the pipeline during construction.⁶⁸²

Afghanistan, through the Afghanistan-Tajikistan-Kyrgyzstan-Pakistan, Central Asia-South Asia Electricity Transmission and Trade project (CASA-1000) will receive up to 300 MW of generation capacity from Tajikistan and Kyrgyzstan, and will collect transit-fee revenue from electricity delivered to Pakistan.⁶⁸³ CASA-1000 is behind schedule. All main project agreements have been signed, procurement for major infrastructure is advancing, and a feasibility study is complete. However, construction contracts were not signed by a June 30, 2015, deadline, and a revised target date was set for April 2016. Construction is reportedly to begin in May 2016 with electricity distribution starting in 2018.⁶⁸⁴

Another regional energy initiative involving Afghanistan is the Turkmenistan-Uzbekistan-Tajikistan-Afghanistan-Pakistan (TUTAP) transmission line that will enable power to be dispatched from Turkmenistan to Pakistan through Afghanistan.⁶⁸⁵ This quarter, the Afghan government proposed pausing TUTAP to review the proposed route to better benefit the country's central provinces.⁶⁸⁶ TUTAP is financed by the ADB and the ADB-administered Afghanistan Infrastructure Trust Fund, to which USAID contributes. Work is scheduled to be completed in 2020. Even with CASA-1000- and TUTAP-generated power, the Afghan government said it will still face an energy deficit.⁶⁸⁷

U.S. Power Sector Assistance

Since 2002, USAID obligated more than \$2.7 billion to build generators, substations, and transmission lines, and provide technical assistance in the sector.⁶⁸⁸ USAID believes that economic expansion and increased employment depends on maintaining and improving Afghanistan's electrical infrastructure. It is helping Afghanistan's national electric utility, Da Afghanistan Breshna Sherkat (DABS), to increase electricity supply and revenue generation by improving sustainability, management, and commercial viability.⁶⁸⁹ For its part, DOD has provided approximately \$292 million for power 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.⁶⁹⁰

Afghanistan's two primary power systems are the **Northeast Power System (NEPS)** and the **Southeast Power System (SEPS)**. USAID projects to connect and increase the electricity supply in both systems include: (1) the Power Transmission Expansion and Connectivity (PTEC) project to construct a transmission line connecting Kabul with Kandahar and build the capacity of DABS to sustain energy-infrastructure investments; (2) the Sheberghan Gas Development Project to attract private investment to develop gas resources in Sheberghan and build power plants; and (3) the now-concluded Kandahar-Helmand Power Project, which was intended

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, p. 107.

to include installation of a third turbine at Kajaki Dam and improving the transmission system connecting Kajaki with Kandahar, but that responsibility was transitioned to DABS in 2013.⁶⁹¹ USAID's active power-infrastructure projects are listed in Table 3.24.

Kandahar-Helmand Power Project

On December 30, 2015, USAID concluded the last subcomponent of the five-year, \$229 million Kandahar-Helmand Power Project. The subcomponent provided technical support to DABS in its efforts to increase long-term, sustainable hydropower from Kajaki Dam to Kandahar and Helmand Provinces by installing a third turbine, known as Unit 2, in the powerhouse.⁶⁹² USAID transferred responsibility for installing, testing, and commissioning the third turbine to DABS, along with a \$75 million commitment, in April 2013.⁶⁹³ As of December 31, 2015, \$38 million has been disbursed.⁶⁹⁴

Turbine-installation efforts were interrupted this quarter. Fighting and security concerns caused Kajaki Dam contractors to be evacuated in September 2015. A limited number returned on November 20 to resume critical activities, but full remobilization awaits authorization from the U.S. ambassador.⁶⁹⁵ DOD said ongoing fighting in Kandahar and Helmand Provinces continued to challenge contractors at Kajaki Dam and SEPS construction sites between Tangi and Sangin. Insurgent activity this quarter continued to cause road closures along Route 611—the road between Sangin and Kajaki—delaying delivery of construction materials and possibly affecting project completion schedules.⁶⁹⁶ Work on the project will continue without USAID support. The turbine-installation completion date was revised to fall 2016, but is subject to change depending on the timeline for full remobilization of staff and possible actions to accelerate work.⁶⁹⁷

Power Transmission Expansion and Connectivity Program

The U.S.-funded PTEC program was designed to strengthen and expand Afghanistan's power-generation, transmission, and distribution systems, including funding the 320-mile transmission line between Kabul and Kandahar to connect NEPS with SEPS.⁶⁹⁸ PTEC's DABS commercialization and capacity-building components aim to increase revenues using utility management software in Kabul, Mazar-e Sharif, Herat, and Jalalabad, while reducing technical and commercial losses through training and support.⁶⁹⁹

Construction has started on the transmission line and substations between Arghandi and Ghazni, the first segment of the NEPS-SEPS connector, which USAID sees as essential for power-sector development. USAID said the contractor is making progress to overcome security-related delays with construction scheduled to be completed in December 2016. To date, \$66.4 million has been disbursed to PTEC contractors for this segment.⁷⁰⁰

USAID is providing \$179.5 million in direct assistance to DABS in support of the second segment of the NEPS-SEPS connector, Ghazni to

TABLE 3.24

USAID ACTIVE POWER-INFRASTRUCTURE PROJECTS				
Project Title	Start Date	End Date	Total Estimated Cost (\$)	Cumulative Disbursements, as of 12/31/2015 (\$)
Power Transmission Expansion and Connectivity	1/1/2013	12/31/2018	\$670,000,000	\$66,354,254
Contributions to the Afghanistan Infrastructure Trust Fund	3/7/2013	3/6/2018	113,670,184	105,000,000
Kajaki Dam Unit 2	4/22/2013	12/31/2015	75,000,000	38,078,735
Public Awareness Campaign to Increase Afghans' Knowledge of Energy Development Programs	2/1/2014	1/31/2016	1,789,224	1,730,435
Utility Executive Exchange	9/30/2007	9/30/2017	698,555	698,555
Afghan Engineering Support Program	11/9/2009	11/8/2016	97,000,000	70,425,219
PEER Grants	7/25/2011	7/24/2016	5,440,647	5,440,647
TBD (Unknown)	8/24/2015	8/24/2017	3,994,902	279,760

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 pp. 148–149 of this report.

Source: USAID, response to SIGAR data call, 1/11/2016.

Kandahar. DABS issued two requests for proposals to construct one transmission line and five substations; bids are being evaluated and signed contracts are scheduled for May 2016. USAID said security will be a major challenge to implementing this project.⁷⁰¹

USAID reported that power generation in Shorandam Industrial Park, one of two industrial parks in Kandahar City that received a combined \$141 million in U.S. fuel subsidies for their diesel generators, dropped to 1.5 MW output, on average, per eight-hour day.⁷⁰²

To help bridge the gap between Kandahar's electric-generation capacity and demand until the NEPS-SEPS transmission line is completed, 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-to-late 2016, may be able to operate at an installed capacity of 10 MW of power; the diesel generators in Kandahar City have a combined average capacity of 8–13 MW.⁷⁰³ USAID reported that DABS accepted a power-purchase agreement and tariff rate ceiling, and the construction of an 11.2-mile overhead transmission line connecting the solar plant to the distribution substation. The MOF transferred 60 acres of land to DABS for this effort.⁷⁰⁴

Afghanistan Infrastructure Fund Power Programs

AIF projects were initiated to support critical counterinsurgency and economic development objectives in Afghanistan. Although DOD's mission has since evolved to advising and assisting Afghan security forces and ministries, as well as counterterrorism operations, it is also focused on completing AIF projects.⁷⁰⁵

ECONOMIC AND SOCIAL DEVELOPMENT

TABLE 3.25

AFGHANISTAN INFRASTRUCTURE FUND POWER PROJECTS, AS OF DECEMBER 9, 2015 (\$ MILLIONS)							
AIF Project	Description	Notified Amount	Obligated	Disbursed	Status		
AIF FY 2011	Kandahar Power Bridging Solution	Provides fuel and O&M for diesel generators in Kandahar City	40.5	39.1	39.1	Complete	
	SEPS - Kajaki Dam-Lashkar Gah	Repair, install transmission lines and rebuild, construct power substations	130.0	66.4	51.1	Terminated due to security cost increase	
	NEPS - SEPS Connector, Arghandi to Ghazni	Design, construct transmission line and substation (first segment of NEPS-SEPS connection) USAID: PTEC	101.0	101.0	45.0	Under construction (transmission line completion extended one year to December 2017; substation, 17 months to June 2018)	
	NEPS - Arghandi to Pul-e Alam	Design, construct transmission line and power substation	93.7	50.3	13.8	* Transmission line under construction (completion and occupancy dates extended 9 and 7 months, respectively to 12/2016); substation design under review	
AIF FY 2012	Kandahar Power Bridging Solution	Provides fuel and O&M for diesel generators in Kandahar City	67.0	64.7	64.7	Complete	
	SEPS - Maiwand to Durai Junction - Phase 2	Design, construct transmission line, rebuild and construct substations	40.0	28.7	8.1	* Under construction (completion and occupancy dates extended to 9 and 10 months respectively, July, August 2016)	
	NEPS - Pul-e Alam to Gardez - Phase 2	Design, construct transmission line and power substation	77.5	69.9	44.2	** Transmission line under construction; substation in design (completion and occupancy dates extended 9 months 10/2016 and 12/2016, respectively)	
	NEPS - Charikar to Gul Bahar and Nejrab - Phase 3	Design, construct transmission lines and power substation	42.5	38.8	18.2	** Transmission line under construction; substation design under review (completion and occupancy dates extended 9 months 10/2016 and 12/2016, respectively)	
AIF FY 2013	Kandahar Power Bridging Solution	Provides fuel and O&M for diesel generators in Kandahar City	37.0	34.0	34.0	Complete	
	NEPS - Charikar to Gul Bahar and Nejrab - Phase 3	Design, construct transmission lines and power substation	33.0	25.2	18.4	Transmission line under construction; substation design under review	
	SEPS Completion - Phase 1	Design, construct, and rehabilitate substations in Tangi, Sangin North and South	15.0	62.9	37.6	Under construction (ongoing delays); security challenges	
		Design, construct transmission lines from Sangin North to Lashkar Gah	60.0			* Design approved; under construction (completion and occupancy dates extended six months to 12/2016)	
NEPS - SEPS Connector, Ghazni to Kandahar	Design, construct transmission line and substations. Final Phase of NEPS-SEPS connector. USAID: PTEC	179.5	179.5	0.0	Bids under evaluation by DABS; expected award: 5/2016		
AIF FY 2014	Kandahar Power Bridging Solution	Provides fuel and O&M for diesel generators in Kandahar City	4.0	3.9	3.7	Complete	
	SEPS Completion - Phase 2	Design, construct transmission line, and install equipment and commission substations	55.0	55.0	0.0	Transferred to USAID; expected award: 5/2016.	
	NEPS - Gardez to Khowst - Phase 4	Design, construct transmission line and substation. DOD's final contribution to NEPS.	130.0	119.0	0.4	Demining complete; security, quality control, work safety, and design schedule plans approved; demining certifications, accident prevention, and activity hazard plans under review	

Note: All AIF power projects are to be sustained by Afghanistan's Ministry of Energy and Water, and Da Afghanistan Breshna Sherkat (DABS), Afghanistan's national electric utility. Notified amount reflects estimated project ceiling cost. Obligations and disbursements are as of 11/30/2015. All other information is as of 12/9/2015.

* Occupancy schedule extensions caused by the Ministry of Energy and Water's longer than expected right-of-way approval process, due in part, to the replacement of key ministry officials.

** Occupancy schedule extensions caused by the relocation of two planned electrical substations to more suitable locations.

Source: DOD, response to SIGAR data call, 12/28/2015.

U.S. Forces-Afghanistan have completed 11 AIF power and road projects so far. This quarter, fighting in Kandahar and Helmand Provinces, as well as bureaucratic delays working with the Ministry of Energy and Water, continue to challenge AIF contractors and project completion schedules. However, DOD remained focused on implementing power projects to complete its portion of the NEPS and SEPS using FY 2011–FY 2014 AIF money as shown in Table 3.25.⁷⁰⁶ No FY 2015 or FY 2016 AIF funds were requested or appropriated, but up to \$50 million from the FY 2016 Afghanistan Security Forces Fund may be used under limited circumstances to help finish existing AIF projects.⁷⁰⁷

Afghanistan's Capacity to Sustain Power Projects

DABS and other government entities will be responsible for sustaining NEPS-SEPS power projects, including operations and maintenance (O&M) costs once they are completed and turned over to the government. SIGAR has raised questions about DABS's capacity and said Afghanistan lacks the resources necessary—financial and otherwise—to pay for O&M.⁷⁰⁸

DOD has notified Congress that increased revenue from an expanded customer base and improved collection capabilities will help DABS provide long-term sustainment of infrastructure.⁷⁰⁹ USAID said DABS's revenues have increased over the last three years, allowing it to pay for more of its operating expenses, although nonrecurring major capital-infrastructure expenses are still mainly funded by donors.⁷¹⁰

A World Bank report cautioned that even though DABS, with donor assistance, has been able to reduce some commercial losses and improve revenue collections, its commercial and technical (distribution) losses “remain significant.” The report added that DABS cannot raise or expect donors to provide the capital necessary to meet Afghanistan's energy infrastructure requirements.⁷¹¹

TRANSPORTATION

Afghanistan's lack of transportation infrastructure hinders internal commerce, foreign trade, and economic growth. The World Bank said Afghanistan's transportation-infrastructure shortcomings constrain the service and agriculture sectors, which have typically been the leading drivers of the economy. It also holds back the mining industry, whose future revenues the Afghan government and international donor community are counting on to offset declining international aid.⁷¹²

This quarter, the Afghan government announced plans to procure a feasibility study on expanding its northern rail network.⁷¹³ Only one completed freight rail line currently exists—a 47-mile (75 km) line from Hairatan, on the border with Uzbekistan, to Mazar-e Sharif.⁷¹⁴ State said developing Afghanistan's railways remains a critical priority, but the security

SIGAR AUDIT

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

TABLE 3.26

USAID ACTIVE ROAD-CONSTRUCTION AND OPERATIONS-AND-MAINTENANCE PROGRAMS				
Project Title	Start Date	End Date	Total Estimated Cost (\$)	Cumulative Disbursements, as of 12/31/2015 (\$)
Technical Assistance to Ministry of Public Works	8/3/2014	8/2/2017	\$25,486,058	\$9,884,674
Gardez to Khowst Road, Phase IV	6/26/2014	12/31/2015	32,960,265	31,988,789
Salang Tunnel Maintenance	4/1/2013	3/30/2016	3,533,350	3,036,653
Engineering, Quality Assurance, and Logistical Support (EQUALS)	4/18/2011	4/17/2016	126,307,645	115,189,627
Support for USAID's Construction of Health and Education Facilities Program	1/19/2008	12/31/2015	57,160,749	56,465,885
Emergency Road O&M	12/1/2015	11/30/2016	5,000,000	778,000

Source: USAID, response to SIGAR data call, 1/11/2016; USAID, response to SIGAR vetting, 1/14/2016.

environment is a major obstacle to investors. Turkmenistan has made significant progress on their portion of the rail link between it, Afghanistan, and Tajikistan. Since Afghanistan has not yet begun constructing its portion, international financial institutions have put funding on hold.⁷¹⁵

Meanwhile, the United States continued its efforts to develop the capacity of the Ministry of Public Works in the areas of road construction, operations, and maintenance.⁷¹⁶

Roads

The United States has provided approximately \$2.1 billion cumulatively for road construction and O&M, and will spend up to \$5 million this year for additional O&M.⁷¹⁷ Yet the World Bank has said 85% of Afghan roads are in poor shape and a majority cannot be used by motor vehicles.⁷¹⁸ Afghanistan does not currently have sufficient funding and technical capacity to maintain its roads and highways, according to USAID. Afghanistan is estimated to spend \$17 million annually for O&M, leaving a projected \$100 million annual shortfall.⁷¹⁹ USAID's active road construction and O&M programs are listed in Table 3.26.

Afghanistan Infrastructure Fund Road Projects

DOD has obligated \$62.3 million and disbursed \$56.2 million for five road projects under the AIF, as of November 30, 2015. Some of these projects had multiple phases, three of which—Saracha Bridge, Parwan to Bamiyan Road, and the Ghulam Khan Transportation Corridor—were completed this quarter, as shown in Table 3.27.⁷²⁰

Gardez-Khowst Road Rehabilitation Phase IV

The final phase of USAID's only active road construction project—a \$233 million, 63-mile, asphalt-paved highway—concluded on December 31, 2015.⁷²¹ The Gardez-Khowst road gives Khowst and Paktiya Provinces access to major trading routes to Pakistan, to Kabul, and to the Ring Road

SIGAR AUDIT

An ongoing SIGAR audit is reviewing U.S. efforts to sustain roads and strengthen the Afghan government's ability to perform road maintenance.

TABLE 3.27

AFGHANISTAN INFRASTRUCTURE FUND ROAD PROJECTS, AS OF DECEMBER 9, 2015 (\$ MILLIONS)							
AIF Project	Description		Notified Amount	Obligated	Disbursed	Status	
AIF FY 2011	Lashkar Gah to Nawar Road	Design, construct 22.5 km road	\$22.0	\$20.5	\$20.5	Complete	
	RC-East Border Transportation Corridor	Saracha Bridge	Design, construct 0.16 km bridge over Chaparhar River, along Hwy 7 in Nangahar Province	8.0	6.8	6.2	Construction complete
Ghulam Khan Corridor		Design, construct 24.1 km road, four bridges, culverts, switchback repairs in Khowst Province	27.6	12.7	12.3*	Complete	
AIF FY 2012	Parwan to Bamyan Road - Section 6	Section 6.1	Design, construct 7 km road of Salang bypass in Bamyan Province	3.0	3.0	3.0	Complete
		Section 6.2	Design, construct 11 km road of Salang bypass in Parwan Province	7.0	7.0	7.0	Complete
	Dahla Dam Phase 2 - Site Preparation (Route Bear Road)	Realign 4.7 km road along NW shore of Dahla Dam	11.2	7.2	7.2	Complete	
AIF FY 2013	Ghulam Khan Corridor - Phase 2	Design, construct remaining 7 km road to Khowst city and one bridge to complete Ghulam Khan Transportation Corridor	10.0	5.1	0.0	Submittals approved: demining, community relations, quality control, area use, security plan, geo-tech investigation; submittal under review: baseline schedule	

Note: Notified amount reflects estimated project ceiling cost. Obligations and disbursements are as of 11/30/2015. All other information is as of 12/9/2015.
 * The contract amount for the Ghulam Khan Transportation Corridor increased \$310,000 to repair a causeway section that was damaged by flooding.

Source: DOD, response to SIGAR data call, 12/28/2015.

connecting Kabul, Kandahar, and Herat. It includes bridges, causeways, drainage structures, excavation, “river training” structures to control flow and sedimentation, and asphalt pavement.⁷²²

Salang Tunnel Maintenance

Built in 1962 by the Soviet Union, the Salang Corridor is the only road route between Kabul and northern Afghanistan. It includes the 1.6 mile Salang Tunnel, 21 snow-discharge tunnels (to protect against avalanches and heavy snow), and 52 miles of paved road. It is heavily trafficked and is in “atrocious condition with poor driving surfaces, drainage, lighting, and ventilation.” USAID said the corridor is a strategic-priority access route for the retrograde of material from Afghanistan, and “keeping it passable is vital to the security of Afghanistan and U.S. operations.” Therefore, USAID assistance focuses on stop-gap measures until a viable alternative road route between Kabul and northern Afghanistan can be found; on responses to crisis situations—avalanches, landslides, and structural failures that block the Salang Corridor; and on capacity building to help the Ministry of Public Works operate and maintain the corridor.⁷²³

In October 2015, the Salang Highway Repair and Maintenance (Salang Tunnel Maintenance) program conducted road repairs—asphalt excavation, surfacing, binding, and coating—and constructed a new retaining wall.⁷²⁴ USAID's Engineering, Quality Assurance, and Logistical Support also conducted 26 quality and work-progress-monitoring site inspections, and worked with the contractor to ensure project specifications were met, and identify and address any deficiencies.⁷²⁵

ECONOMIC GROWTH

This quarter the World Bank ranked Afghanistan 177th of 189 countries in its *Doing Business 2016* report on regulatory quality and efficiency—a six-place improvement from 2015. While Afghanistan ranks high in starting a business (34th), increased registration and publication fees made it more costly to do so. Afghanistan is nearly last in dealing with construction permits (185), getting electricity (156), registering property (184), trading across borders (174), and enforcing contracts (172). It is considered the worst country in protecting minority investors, partly a reflection of the country's corporate-governance rules and the weakness of its legal institutions.⁷²⁶

President Ghani has stressed the need for accountability in carrying out the difficult economic reforms needed for Afghanistan to build a competitive, export-oriented economy, with access to neighboring markets.⁷²⁷ USAID, which is assisting in this effort, has disbursed more than \$1 billion cumulatively for economic growth programs in Afghanistan.⁷²⁸ Active programs can be found in Table 3.28.

Afghanistan Workforce Development Program

USAID's four-year, \$62.6 million Afghanistan Workforce Development Program (AWDP) aims to increase economic opportunities for 25,000 Afghans (target ratio: 75% men, 25% women) through vocational education and training, business-management training programs, and job-placement services. AWDP also seeks to mitigate high unemployment and address the scarcity of technically skilled Afghan labor. The goal of the program, through on- and off-budget assistance, is to facilitate job creation, develop a skilled and semiskilled workforce, increase self-employment, and promote economic recovery in Afghanistan.⁷²⁹

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.⁷³⁰ As of December 31, 2015, more than 26,000 Afghans had been trained and more than 17,000 either placed in jobs or promoted to mid-career/semi-professional jobs. Training areas ranged from project and financial management to construction, information technology, and

marketing. So far, USAID said 36% of those trained, placed, or promoted were women, exceeding the program's target of 25%. The AWDP disbursed approximately \$29.5 million.⁷³¹

Financial Access for Investing in the Development of Afghanistan

USAID's \$108.3 million, 66-month Financial Access for Investing in the Development of Afghanistan (FAIDA) program aims to promote an inclusive, diverse, and sustainable financial sector that generates jobs and provides a range of services for micro, small, and medium enterprises. FAIDA helps Afghan partners build capacity to deliver financial services, develop a legal framework and market infrastructure, provide technical assistance to mobile network operators for mobile-money services, and assist Afghan women entrepreneurs with business-development training so they can gain access to financing and opportunities for economic and professional growth.⁷³²

TABLE 3.28

USAID ACTIVE ECONOMIC-GROWTH PROGRAMS				
Project Title	Start Date	End Date	Total Estimated Cost (\$)	Cumulative Disbursements, as of 12/31/2015 (\$)
Financial Access for Investing in the Development of Afghanistan (FAIDA)	2/7/2011	8/5/2016	\$108,258,374	\$98,727,006
Afghanistan Trade and Revenue Project (ATAR)	11/7/2013	11/6/2017	77,754,267	37,997,112
Afghanistan Public Financial Management (APFM)	7/27/2015	7/26/2018	22,130,033	1,021,316
Afghan Women's Leadership in the Economy (AWLE)	7/1/2015	6/30/2020	71,571,543	1,906,692
Turquoise Mountain Smithsonian Exhibition	3/9/2015	12/31/2016	535,055	92,918
IFC PIO Grant - Support of Business Environment Reform	10/15/2010	10/30/2017	4,030,000	4,030,000
AIB Guarantee Agreement	9/27/2012	9/27/2020	2,000,000	190,400
DCA with FINCA OXUS and 1st Microfinance Banks	9/25/2014	9/24/2020	1,953,875	0
Commercial Law Development Program	3/1/2014	9/30/2019	10,000,000	3,434,220
Afghanistan Workforce Development Program (AWDP) On-Budget	9/18/2013	4/3/2016	30,000,000	1,321,456
Afghanistan Workforce Development Program (AWDP) Off-Budget	4/5/2012	4/4/2016	32,647,898	26,219,241
E-Government Resource Center II	8/28/2013	6/1/2016	3,900,000	405,000
Mobile-izing Saving Study	N/A	N/A	50,022	50,022
Assistance in Building Afghanistan by Developing Enterprise (ABADE)	10/16/2012	10/16/2016	104,997,656	61,522,734
Strengthening the Revenue Collection Capacity of GIROA	11/30/2014	12/30/2018	4,000,000	4,000,000
Regional Water Management	N/A	N/A	3,750,000	0
Rebranding Afghanistan: Creating Jobs, Changing Perceptions, Empowering Women	11/2/2015	11/1/2018	4,800,000	0
Afghanistan Investment Climate Program	3/27/2015	3/26/2020	13,300,000	10,074

Source: USAID, response to SIGAR data call, 1/11/2016.

A recent FAIDA evaluation report found mixed progress and results similar to a 2014 USAID Office of the Inspector General audit of the program. Namely, while FAIDA had some achievements, it has not necessarily resulted in the intended outcome of a more sustainable, diverse, and inclusive financial sector. FAIDA only claimed direct credit for creating 1,134 full-time equivalent jobs in four years, judging its interventions in this area as neither effective nor efficient. Even this figure is suspect because the FAIDA-assisted organizations differ in how they calculate full-time jobs.⁷³³

Additionally, FAIDA trained and provided technical and monetary assistance to financial-sector organizations, but most recipients require continuing engagement and donor support.⁷³⁴ Twenty-seven percent of loans by volume went to female-owned businesses, but they represented only 7% of loans by amount, showing little improvement from what existed before programming began. USAID said this accurately reflects the reality of gender segregation in Afghanistan, which will take time to improve.

FAIDA spent millions on mobile-money products that were never developed because market demand was too small.⁷³⁵ For example, a donor pilot program to pay police salaries via mobile money was terminated for lack of use. However, the mobile-money products may yet prove useful. After taking office, President Ghani reestablished mobile-money pilot programs for government salaries, essentially creating market demand for these services.⁷³⁶ He declared his intent to expand its use nationwide at the London donor conference in December 2014.⁷³⁷ USAID is supporting the government's effort.⁷³⁸

EDUCATION

Following a June 2015 SIGAR letter to USAID requesting information about the reliability of Afghan-provided data that USAID uses to oversee and fund education programs in Afghanistan, President Ghani ordered an investigation into allegations of corruption within the Ministry of Education (MOE).⁷³⁹ In August 2015, provincial teams were assigned to collect more reliable figures for 6,000 schools across all 34 provinces. Field work began September 1; data collection was scheduled to be completed by September 20.⁷⁴⁰

On January 2, 2016, Tolo News reported the following alleged results of the investigation:⁷⁴¹

- Millions of dollars have been embezzled.
- Data on nonexistent “ghost” schools provided by MOE departments to investigators were inconsistent and underreported.
- Thousands of “ghost” teachers were included in the official rolls.
- “Ghost” training seminars were conducted in some provinces.
- Houses were rented for schools at great expense.

- Discrepancies existed in student education, registration, and attendance records.
- More than 1,000 MOE projects reported as completed were not.
- Several advisors had received \$15,000/month salaries.
- Between 2013 and 2015, 340 people were paid an average \$98,000 per year (\$100 million total).

On January 4, 2016, USAID attended a meeting with President Ghani to discuss the investigation's preliminary findings. USAID said President Ghani outlined specific organizational and management reforms, such as introducing a national electronic payment system and a national public corruption council to minimize fraud and corruption. The final investigation report had not been made public as this report went to press.⁷⁴²

Ministry of Education Data

According to the Education Management Information System (EMIS), Afghanistan reportedly has 15,030 general education (government) schools, including 639 inactive schools, with 8.6 million students enrolled.⁷⁴³ The number of enrolled students is the sum of present and absent students.⁷⁴⁴ The MOE counts students who have been absent for up to three years as enrolled because it says they might return to school.⁷⁴⁵

The United Nations Children's Fund (UNICEF) reported that 42.7% (about 4.2 million) of Afghanistan's primary-school-age children are not enrolled in school or had left before completing their studies.

Source: UNICEF, *Educate All Girls and Boys in South Asia*, 8/2015.

Challenges within Afghanistan's Education System

Minister Balkhi told parliament in May 2015 that more than half of all teachers do not have the necessary skill sets, the general-education curriculum is insufficient, students do not have timely access to textbooks, and educational services are unbalanced. He also confirmed that some nonexistent schools receive funding in insecure areas and that EMIS data on the number of functioning schools are imprecise.⁷⁴⁶ USAID said barriers to collecting information on the number of open and closed schools (temporarily or permanently), and teacher and student attendance, cause inaccuracies in the EMIS data.⁷⁴⁷

In June 2015, the Independent Joint Anti-Corruption Monitoring and Evaluation Committee reported that efforts to improve teaching quality were being subverted by a recruitment system that is highly vulnerable to corruption, and that Afghan students' educations were being "significantly undermined by bribery and nepotism." Moreover, it said that "ghost" teachers have been a long-standing problem, and in most cases student attendance sheets are not filled out or are frequently forged.⁷⁴⁸

Minister of Education Balkhi pledged to improve data quality and the MOE started its own assessment, hiring a third-party monitoring firm to verify a sample of EMIS data.⁷⁴⁹ The report was to be shared with donors in December 2015, but no additional information was available when this report went to press.⁷⁵⁰ USAID is working with, and sees progress in, the MOE's monitoring efforts.⁷⁵¹

State said that in recent meetings, Minister Balkhi reemphasized his commitment to increasing transparency within the MOE, rooting out corruption, and curtailing the misuse of funds. Afghan law allows teacher salaries to be paid for 12 months during temporary school closures. Minister Balkhi advised Parliament that it should revisit this policy, suggesting that salaries either be immediately stopped the moment a school closes, or that salaries be reduced 50% for the duration of the closure. He is also exploring the possibility of paying teachers' salaries via mobile device in order to better track payments.⁷⁵²

USAID Programs

USAID aims to improve equitable access to quality education in Afghanistan—through community-based classes in remote regions—as well as provide relevant, in-demand technical skills to better prepare Afghans for employment. Its programs focus on early-grade reading, raising literacy rates through training and coaching teachers and educators, as well as providing textbooks and other learning material.⁷⁵³ USAID had disbursed more than \$794 million for education programs in Afghanistan, as of December 31, 2015.⁷⁵⁴

USAID's priority education programs are aligned with Afghanistan's objectives to increase quality education, improve workforce development, and strengthen the quality of higher education. The programs are:

- **Basic Education, Learning, and Training (BELT):** an overarching basic education program that aims to improve education access and quality, BELT encompasses a number of activities, including a new national early-grade reading program. A 20-month national reading assessment of 2nd and 4th grade students was awarded on July 27, 2015. Additionally, 1.2 million textbooks and other reading materials were distributed nationwide in FY 2015, covering the entire primary school student population.⁷⁵⁵
- **American University of Afghanistan (AUAF):** in FY 2015, 4,578 students were enrolled (2,882 male and 1,696 female) in U.S.-supported degree programs. AUAF also reached 40% female enrollment for the first time during the fall 2015 semester. USAID reported that 371 undergraduate and 385 graduate degrees have been issued, as of August 2015.⁷⁵⁶
- **Afghanistan University Support and Workforce Development Program (USWDP):** strengthens the ability of the Ministry of Higher Education (MOHE) and 11 public universities to deliver market-relevant education services. This quarter, USWDP supported a partnership agreement with Ball State University to start new MBA/BBA degrees at Kabul University; letters of agreement were signed for MBA and marketing associate degree programs at Nangarhar University, and an accounting associate degree program at Balkh University; degree policy

TABLE 3.29

USAID ACTIVE EDUCATION PROGRAMS				
Project Title	Start Date	End Date	Total Estimated Cost (\$)	Cumulative Disbursements, as of 12/31/2015 (\$)
Afghanistan's Global Partnership for Education	10/11/2012	3/31/2016	\$3,108,580	\$1,922,955
Support to American University of Afghanistan	8/1/2013	7/31/2018	40,000,000	18,374,246
Strengthening Education in Afghanistan (SEA II)	5/19/2014	5/18/2019	29,835,920	6,221,775
PROMOTE Scholarships	3/4/2015	3/3/2020	1,247,522	1,247,522
Assessment of Learning Outcomes and Social Effects in Community-Based Education	1/1/2014	12/31/2017	7,262,016	1,520,431
Afghanistan University Support and Workforce Development Program	1/1/2014	12/31/2018	91,927,769	21,511,702
Increasing Access to Basic Education and Gender Equality	9/17/2014	12/31/2019	77,402,457	54,027,000
Basic Education, Learning, and Training (BELT) Textbooks	11/16/2011	12/31/2015	26,996,813	24,970,742
Early Grade Reading Survey	7/27/2015	3/27/2017	12,487,469	590,293
BELT/All Children Reading and Improved Access	7/27/2015	3/27/2017	427,585	202,124

Source: USAID, response to SIGAR data call, 1/11/2016; USAID, OED, response to SIGAR vetting, 7/12/2015.

documents for several universities were either in progress or completed; and trainings/workshops took place at several targeted universities.⁷⁵⁷

- **Community Based Education:** provides access to basic, primary education (grades 1–6) in 13 provinces, where no formal or boys-only schooling exists, or where other constraints prevent children from attending formal classrooms. As of December 2015, 903 community-based classes and 71 accelerated learning centers have been established providing access to more than 45,800 boys and girls.⁷⁵⁸
- **Education Quality Improvement Project (EQUIP) II:** USAID funds teacher training through World Bank-administered EQUIP II. More than 84,000 teachers have been trained with U.S. government assistance.⁷⁵⁹

A full list of USAID's active education programs can be found in Table 3.29.

HEALTH

Afghanistan has registered improvements in its health indicators since 2002, though it remains below average among low-income countries. Afghanistan's public health is beset by many challenges—tuberculosis, polio, poor maternal health, and one of the world's highest levels of child malnutrition, according to the World Bank.⁷⁶⁰

Insecurity for aid and development workers is also a strain on effective health delivery services to the population, according to the Agency Coordinating Body for Afghan Relief & Development—an advocacy organization working in Afghanistan comprising 135 national and international

A monitoring report of textbooks distributed by the MOE in Badghis, Farah, Ghor, and Herat provinces through the USAID-funded BELT program found: 67% of visited schools received textbooks the MOE reported sending. Schools in Ghor fared the worst with only 35% of visited schools receiving textbooks, compared to 93% in Badghis, 88% in Farah, and 84% in Herat. Most schools reported textbook shortages, incomplete orders, and not receiving books for certain grades and subjects. Challenges to monitoring included school principal/administrator absenteeism, inaccurate records, lack of infrastructure (making certain schools difficult to locate), access to remote areas, and security.

Source: USAID, *Final Report, Textbook Distribution Verification of the Basic Education, Literacy, and Technical-Vocational Education and Training Program, Short-Term Objective Monitoring in Regional Platform-West*, 8/2015.

SIGAR AUDIT

An ongoing SIGAR audit is focusing 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.

BPHS: provides primary health-care services—such as immunizations and prenatal care—at small and rural health clinics and forms the core of health service delivery for all primary care facilities in Afghanistan.

EPHS: outlines the medical services each type of hospital in the Afghan health-care system should provide in terms of general services, staff, equipment, diagnostic services, and medications while promoting a health referral system that integrates the BPHS with hospitals.

Source: SIGAR, *Health Services in Afghanistan: Two New USAID-Funded Hospitals May Not be Sustainable and Existing Hospitals are Facing Shortages in Some Key Medical Positions*, Audit Report 13-9, 4/2013, p. 1.

nongovernmental organizations. The agency said Afghanistan has more major attacks on aid workers than all other countries except Somalia and Syria.⁷⁶¹

USAID Funding and Health Programs

U.S. health-sector programs aim to preserve and enhance gains made since 2002. USAID assistance to the Ministry of Public Health (MOPH) includes capacity-building, training, and quality-assurance activities to strengthen the ministry's management and control over health-care delivery across Afghanistan.⁷⁶²

U.S. on- and off-budget assistance to Afghanistan's health sector totaled nearly \$1 billion, as of December 31, 2015.⁷⁶³ On-budget assistance to the MOPH provides basic health care and essential hospital services. Off-budget assistance includes activities to strengthen health systems, engage the private sector, reduce child and maternal deaths, reduce tuberculosis-related deaths, reduce child undernutrition, improve the use of modern family-planning methods, and eliminate polio.⁷⁶⁴

USAID believes that the MOPH's ability to deliver quality health care through the **Basic Package of Health Services (BPHS)** and **Essential Package of Hospital Services (EPHS)**—the cornerstone of health service delivery in Afghanistan—is critical to improve health outcomes. Between 2015 and 2018, USAID will aim to further improve health services, outcomes, and access for women, infants, and children.⁷⁶⁵ USAID's active health programs have a total estimated cost of \$525 million, and are listed in Table 3.30.

USAID's five-year, \$40 million Health Sector Resiliency (HSR) Project began in September 2015. HSR will assist the MOPH to strengthen its governance, finance, and human-resource capacities during this transition period of declining international military and donor assistance. HSR will act as a technical advisor to the ministry as it considers and implements critical sector-wide reforms to make Afghanistan's health system more efficient, sustainable and self-reliant.⁷⁶⁶

Polio

Afghanistan is one of two nations in the world that still has incidence of wild (occurring in nature as distinct from human-borne) polio virus.⁷⁶⁷ As of December 5, 2015, 17 new cases were reported in Afghanistan, a decrease from 28 from the same period last year.⁷⁶⁸ The Global Polio Eradication Initiative (GPEI), a public and private-funded effort supported, in part, by USAID and the World Health Organization, stated that in May 2015 “500,000 children under the age of five [in Afghanistan] remain unvaccinated.”⁷⁶⁹

A report from the Independent Monitoring Board of the GPEI found that 62% of children in the southern areas of Afghanistan are said to be unavailable when vaccination teams call. For another 17%, the parents refuse the vaccination, and 5% of the time the vaccination team did not show up. The

TABLE 3.30

USAID ACTIVE HEALTH PROGRAMS				
Project Title	Start Date	End Date	Total Estimated Cost (\$)	Cumulative Disbursements, as of 12/31/2015 (\$)
Strengthening Pharmaceutical System	8/28/2011	7/10/2017	\$34,399,936	\$23,955,510
Challenge Tuberculosis	1/1/2015	12/31/2020	15,000,000	2,546,790
Partnership Contracts for Health (PCH)	7/20/2008	12/31/2015	259,663,247	233,127,964
Weekly Iron Folic Acid Supplementation	11/7/2014	12/31/2017	5,610,012	5,408,826
Disease Early Warning System (DEWS Plus)	9/30/1996	9/30/2022	32,728,000	16,287,035
Family Planning and Assessment	5/16/2015	5/15/2016	634,833	634,833
Health Sector Resiliency (HRS)	9/28/2015	9/27/2020	40,000,000	386,740
Demographic and Health Surveys	9/9/2013	9/8/2018	5,453,731	1,000,000
Leadership Management and Governance (LMG)	9/25/2012	12/31/2015	38,341,106	37,674,506
Regional Fortification in the Central Asian Republics and Afghanistan	9/29/2014	9/29/2016	9,722,000	9,722,000
Enhance Community Access, Use of Zinc, ORS for Management of Childhood Diarrhea	7/21/2015	7/7/2020	15,002,610	4,400,000
Helping Mother and Children Thrive (HEMAYAT)	1/7/2015	1/6/2020	60,000,000	5,618,825
Basic Package for Health Service (BPHS)	9/17/2015	12/31/2017	8,000,000	0

Note: The Regional Fortification in the Central Asian Republics and Afghanistan project aims to increase iron, zinc, folic acid, and vitamin A nutrient intake by 20% through distribution of fortified wheat and edible oil.

Source: USAID, response to SIGAR data call, 1/11/2016; Global Alliance for Improved Nutrition, "Regional Fortification in the Central Asian Republics," accessed 1/15/2016.

Monitoring Board stated that Afghanistan's "security situation cannot be used as an excuse for poor performance—where access is available, it is too often being let down by poor supplementary immunization activity quality."⁷⁷⁰ The World Health Organization agreed, reporting "operational deficits in accessible areas."⁷⁷¹ USAID works closely with the GPEI by providing disease surveillance, financial support and technical leadership.⁷⁷²

Tuberculosis

Afghanistan is one of 22 countries with the highest burden (incidence, prevalence, and mortality) of tuberculosis in the world.⁷⁷³ While tuberculosis treatment has improved, the World Bank said the incidence of new cases has remained constant in Afghanistan for the last 20 years.⁷⁷⁴ Every year, an estimated 14,000 Afghans die from this disease.⁷⁷⁵

USAID's, six-year, \$15 million Challenge Tuberculosis program plans to:⁷⁷⁶

- strengthen leadership and management for tuberculosis control
- increase tuberculosis notification
- strengthen health systems to minimize the gap in tuberculosis notification

SIGAR SPECIAL PROJECTS

SIGAR presented its findings this quarter after conducting 32 site inspections of USAID-supported health facilities in Kabul Province. SIGAR found substantial inaccuracies in the geospatial coordinates USAID provided and observed that not all had access to electricity and running water. This is the second in a series of health-facility inspections SIGAR is conducting in provinces throughout Afghanistan. In October 2015, SIGAR released its findings of 23 site inspections in Herat Province. For more information, see Section 2, pp. 32–33.

USAID is funding the Afghanistan Demographic and Health Survey, a nationally representative survey designed to provide health and demographic information to help the Afghan government develop modern health and social programs. Survey results will be compiled according to international standards and be comparable to results collected in other countries. Weather and security-related issues in certain target communities have delayed data collection and completion timelines.

Source: USAID, OHN, response to SIGAR data calls, 9/23/2015 and 12/28/2015; USAID, OSSD, response to SIGAR data call, 6/25/2015; USAID, response to SIGAR vetting, 4/12/2015 and 1/14/2016.

- implement tuberculosis infection control to reduce the risk of transmission in health care facilities
- strengthen monitoring, evaluation, and operational research

USAID has obligated approximately \$11.1 million for tuberculosis-related programs in Afghanistan, as of December 31, 2015.⁷⁷⁷

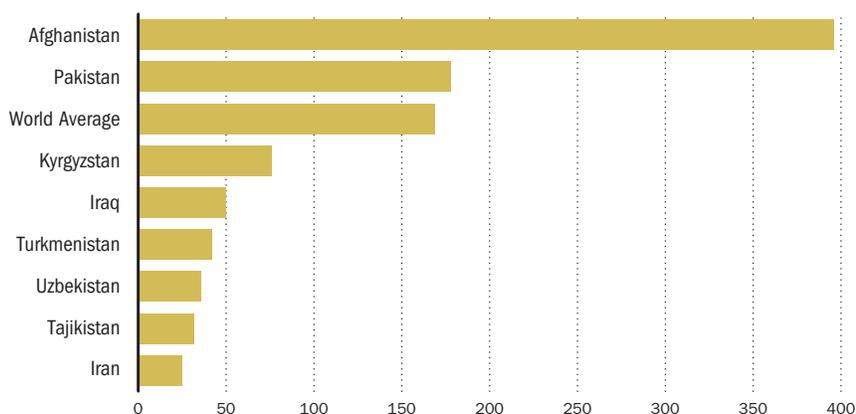
Maternal Health

USAID has obligated \$317.9 million for maternal-health and family-planning programs in Afghanistan, as of December 31, 2015.⁷⁷⁸ USAID's most recent project, Helping Mothers and Children Thrive (HEMAYAT), aims to increase access to and utilization of family planning and maternal health services through BPHS and also strengthen referral systems to hospitals through EPHS. This past year, HEMAYAT hosted a national workshop for improved family planning and birth spacing services, and held a series of trainings for project staff on family planning requirements.⁷⁷⁹

The World Bank's estimate of Afghanistan's Maternal Mortality Ratio (MMR), the number of women who die per 100,000 live births, remains significantly higher than the world's average as well as its neighboring countries, as shown in Figure 3.32. Afghanistan's MMR was estimated between 1,600 and 2,200 in 2003. MMR estimates still vary. The 2010 Afghanistan Mortality Survey reported MMR at 327, which differed considerably from a multinational donor report that reported MMR at 584. That same multidonor report lists MMR at 396 for 2015.⁷⁸⁰

FIGURE 3.32

MATERNAL MORTALITY RATIO PER COUNTRY PER 100,000 LIVE BIRTHS, 2015



Source: The World Bank, "Maternal Mortality Ratio," online country data, <http://data.worldbank.org/indicator/SH.STA.MMRT>, accessed 1/4/2016.

Childhood Undernutrition

According to the UN's 2013 National Nutrition Survey, 40.9% of children under five in Afghanistan suffer from moderate to severe stunting.⁷⁸¹ The National Risk and Vulnerability Assessment of Afghanistan also reported that in 2012, 30.1% of all Afghans lacked **food security**. This number is up from 28.2% in 2007.⁷⁸²

USAID's Weekly Iron Folic Acid Supplementation (WIFS) Project addresses the growing prevalence of iron deficiency (one form of undernutrition) among adolescents, particularly girls between the ages of 10 and 19. WIFS provides weekly iron folic acid supplements, information on how to improve dietary intake, and screening for anemia. WIFS will be implemented via schools throughout rural and urban Afghanistan. The program is also intended to reach out-of-school girls through a network of community health volunteers or a peer-to-peer approach.⁷⁸³ USAID has obligated \$124.1 million in nutrition-related projects as of December 31, 2015.⁷⁸⁴

Additionally, President Ghani's Jobs for Peace program plans to provide food vouchers and health packets to supplement nutrition for stunted or malnourished children. Delivery for this program would be through the existing, trained community health workers and BPHS clinics.⁷⁸⁵ For more information on the Jobs for Peace Program, see pages 121–123 in this report.

Food security: when all people at all times have sufficient access to nutritious food for a healthy and active life. Households in Afghanistan meet the threshold for food security at a minimum of 2,100 calories per person per day.

Source: Government of Afghanistan, "National Risk and Vulnerability Assessment 2011–2012," 7/26/2014, p. 211.

